



October 2008

Dear Clients, Friends and Colleagues,

Three years ago, we founded LRG Capital Group to take advantage of a void created on Wall Street after a period of unprecedented consolidation in our industry. We saw an opportunity to build a business on the premise of relationship- focused guidance and financing in the technology, life sciences, hospitality, real estate and entertainment sectors. Today this foundation is a springboard for new opportunities. LRG Capital Group has expanded beyond our San Francisco Bay Area headquarters with offices in New York and numerous international affiliates.

We are again seeing unprecedented change in the industry, as storied companies have fallen victim to a credit crisis that was years in the making. We are dismayed to see some of our friends and colleagues fall victim to the current economic downturn, but are confident that the restructuring happening in the industry today will only strengthen the position of the firm and our clients. We plan to cautiously grow the business during this downturn as more companies seek alternatives to traditional lending and capital-raising in this challenging environment.

For the time being, our clients continue to press ahead with transactions. Navigating through these volatile times will require discipline, experience and a knowledge of history to understand that rough economic periods are a time for financially sound companies to emerge and lead as the economy begins to recover. We view our clients as partners in developing and executing strategies to maximize shareholder wealth. As this downturn begins to produce good values over a variety of industries and investments, our understanding of industry dynamics and trends will enable us to rapidly identify and evaluate financing, transactional and other strategic opportunities.

Thank you for your continued support of LRG Capital Group. Please visit our website www.lrgcapital.com for more information

Our October update for the firm:

LRG Capital Funds (formerly the BayStar Capital Funds):

[LRG Capital Real Estate Partners I Fund Acquires California Office Building and Apartment Complex](#)

[LRG Capital Real Estate Partners I Fund Purchases Apartment Complex](#)

[BayStar III Fund Investment VirtualScopics \(Nasdaq: VSCP\) Announces Directors will be Taking Greater Ownership](#)

[BayStar III Fund Investment VirtualScopics Announces Preliminary Record Third Quarter 2008](#)

LRG Capital Group:

[LRG Capital Announces Additional Investment in Om Records](#)

[LRG Capital Report Provides Commentary on Current Financial Crisis. This week's title: Welcome to Socialism](#)

[LRG Capital Real Estate Partners I Fund Acquires California Office Building](#)

LRG Capital Real Estate Ventures is pleased to announce that the LRG Capital Real Estate Partners I Fund has acquired 505 A San Marin Drive, a commercial office building in Novato, California just minutes away from US Highway 101. The purchase was completed at the price of \$220 per square foot. The highly visible, well-maintained building has a classic California redwood and cedar exterior, a corner location and hill views. The three-story structure comprises 19,577 square feet of elevator served offices, ample parking spaces and manicured grounds. The property is occupied by a solid mix of professional and medical tenants.

The LRG Capital Real Estate Partners I Fund primarily makes direct, intermediate term equity investments in commercial properties located in or near California's premier cities and, to a lesser extent, development and rehabilitation projects for office, retail, multi-family, industrial and mixed-use properties. The Fund is co-managed by Evan Kraus, Executive Vice President of LRG Capital Group, Lawrence Goldfarb, CEO of LRG Capital Group, Geoffrey Koblick, a seasoned real estate investor who has been active in California commercial real estate for over 23 years, and Richard Hall, a respected commercial real estate manager and investor since 1999.

LRG Capital Real Estate Partners I Fund Purchases Apartment Complex

LRG Capital Real Estate Ventures is pleased to announce that the LRG Capital Real Estate Partners I Fund has acquired 220 Canal Street, an apartment complex in San Rafael, California approximately 30 minutes from San Francisco. The 2 and 3 story walk-up complex is located on a 1.60 acre lot and consists of 43 units and 56 parking spaces. The well-maintained, 100% leased property borders the San Rafael canal and includes gated entry, landscaped grounds, pool and patio area, and 14 boat docks. "The exceptional quality of this property and the strength of the supply-constrained submarket where it is located should bring strong initial return and provide stable cash flow that will benefit investors," said Lawrence Goldfarb, CEO and founder of LRG Capital Group.

The 220 Canal Street apartment complex joins other commercial and mixed-use properties in the LRG Capital Real Estate Partners I Fund's portfolio including 384 Bel Marin Keys Blvd, Novato, California, 505 A San Marin Drive, San Rafael, California and 125 E. Sir Francis Drake Boulevard, Larkspur, California.

BayStar III Fund Investment VirtualScopics (Nasdaq: VSCP) Announced Directors will be Taking Greater Ownership

BayStar III Fund Investment VirtualScopics, Inc. (NASDAQ: VSCP), a leading provider of quantitative imaging for clinical trials, announced that certain management, directors, affiliates and high net worth individuals have purchased the entire original holdings of two of the Company's early stockholders, approximating 12% of the Company's common stock outstanding. Directors of the Company that purchased a portion of the shares included Loeb Investors Company 147, an affiliate of Loeb Partners Corporation.

BayStar III Fund Investment VirtualScopics (Nasdaq: VSCP) Announced Preliminary Record Third Quarter 2008

BayStar III Fund Investment VirtualScopics, Inc. (NASDAQ: VSCP), announced on October 16 the preliminary revenue for the third quarter that ended September 30, 2008 were approximately \$1.8 million, representing over a 32% increase over the comparable period in 2007. The company also announced other highlights during the third quarter including initial contract awards from two of the leading pharmaceutical/biotechnology companies, bringing the total to 12 of the top 15 pharmaceutical/biotechnology companies under contract or award.

LRG Capital Announces an Additional Investment in Om Records

LRG Capital Group has announced a second investment in San Francisco based Om Records (www.om-records.com). Om Records will utilize the proceeds from the investment for the development of its new online initiatives (including a web & mobile-based lifestyle portal), additional content delivery platforms, and further development of its growing merchandise and events business divisions.

"Om Records has clearly demonstrated that it understands the dynamics of today's entertainment and media markets and can monetize the Om Records brand," said Lawrence 'Larry' Goldfarb, CEO of LRG Capital Group. "The company is cash flow positive, well capitalized and has a robust and profitable pipeline in its licensing, digital sales and publishing divisions."

"We are excited to have the continued support of LRG Capital Group as we profitably grow revenues and expand the reach of the Om Records brand," said Christopher Smith, Om Records' CEO. "We are projecting solid growth and sustained profitability for the 2nd quarter of 2008 and beyond."

Om Records achieved significant growth in digital sales, licensing, consulting services and overall net income the first two quarters of 2008. Gross Sales were up by 7% with a 10% pre-tax margin.

LRG Capital Report Provides Commentary on Current Financial Crisis

To visit the LRG Capital Report, please click [here](#) or visit www.lrgcapitalreport.com. This week's post is titled: ***Welcome to Socialism***

All of our partnerships are driving new investment opportunities and strong strategic and financial co-investors to the firm. Our success is closely associated with your continued support and investments.

For more information, visit www.lrgcapital.com or contact Alexis Banducci at: abanducci@lrgcap.com or 415.834.4664

**This document should not be considered a solicitation for investment into any fund managed by LRG Capital Group, LLC (LRG Capital), Admiral Capital Management, LLC (Admiral), or Signature Group (Signature), including but not limited to, the BayStar Capital III Fund, LRG Capital Real Estate Partners I Fund, LRG Capital/Admiral Flagship Fund, and the LRG Capital/Signature Momentum Fund. Interested and qualified investors should refer to the appropriate offering memorandum for more complete information, including risks, management fees and expenses. Investments in hedge or private equity funds are investments that entail substantial risk and are not intended as a complete investment program. The LRG Capital funds are designed only for sophisticated investors who are able to bear the economic risk of losing all of their investment. Opinions expressed in this newsletter are current opinions as of the date appearing in this material only. All performance information shown is net of an annual management fee and an annual performance fee payable to LRG Capital or an affiliate. All performance reflects the reinvestment of dividends (if any) and other investment income. Past performance is not necessarily indicative of future results.*