



FENWICK & WEST LLP



Trends in Terms of Venture Financings in the San Francisco Bay Area

Third Quarter 2005

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Background

We analyzed the terms of venture financings for 100 technology companies headquartered in the San Francisco Bay Area that reported raising money in the third quarter of 2005.

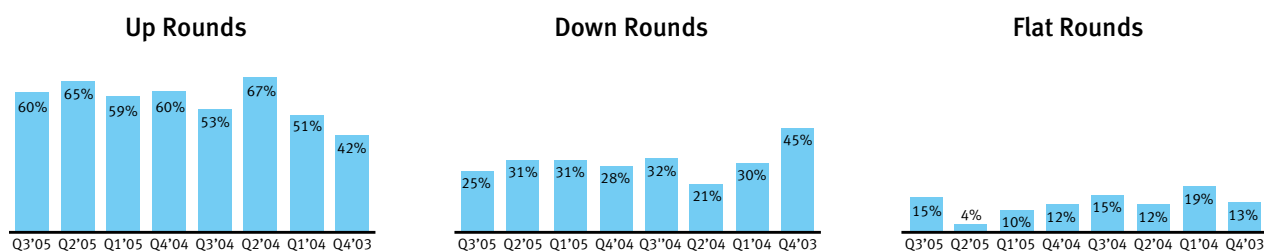
Overview

The results of the 3Q05 survey showed a continuation of the positive trend in the venture environment. The highlights of the quarter were as follows:

- Up rounds exceeded down rounds for the seventh quarter in a row, and by a significant majority of 60% vs. 25% (with 15% flat).
- The Fenwick & West Venture Capital Barometer™ showed a 38% average price increase for companies receiving venture capital in 3Q05 compared to such companies' previous financing round. Although the amount of the increase was slightly less than 2Q05, it was the second highest over the past seven quarters.
- The amount invested by venture capitalists in the U.S. in 3Q05 continued strong at approximately \$5.5 billion according to industry publications. Although such amount was a 7% decrease from 2Q05 it was the second highest amount in the past five quarters.
- M&A activity continued to be solid with approximately \$6.0 billion paid for venture-backed companies in 3Q05 according to industry publications. Although this was a 20% reduction from the very strong 2Q05 and 1Q05 M&A performances in dollar terms, the aggregate number of deals decreased only slightly from the previous quarters.
- IPO activity increased to 16 venture-backed IPOs in 3Q05, which was higher than 1Q05 and 2Q05 combined, but the total of 29 IPOs in 2005 through the third quarter is significantly behind the 67 total venture-backed IPOs in 2004.
- Nasdaq was up 4.6% in 3Q05, and is up an additional 4.2% in 4Q05 to date.

Price Change

The direction of price changes for companies receiving financing this quarter, compared to their previous round, were as follows:



The percentage of down rounds by series were as follows:

Series	Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
B	16%	12%	19%	24%	12%	16%	29%	31%
C	35%	32%	36%	25%	32%	25%	30%	34%
D	33%	37%	30%	28%	52%	18%	21%	75%
E and higher	23%	60%	62%	42%	42%	29%	38%	62%

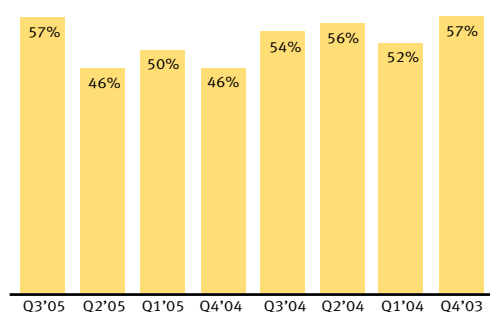
The Fenwick & West Venture Capital Barometer™ (Magnitude of Price Change)—Set forth below is (i) for up rounds, the average per share percentage increase over the previous round, (ii) for down rounds, the average per share percentage decrease over the previous round, and (iii) the overall average per share percentage change from the previous round for all rounds taken together. Such information is broken down by series for Q3'05 and is provided on an aggregate basis for comparison purposes for the prior five quarters. In calculating the “net result” for all rounds, “flat rounds” are included. For purposes of these calculations, all financings are considered equal, and accordingly we have not weighted the results for the amount raised in a financing.

Q3'05 Percent Change	Series B	Series C	Series D	Series E and higher	Combined total for all Series for Q3'05	Combined total for all Series for Q2'05	Combined total for all Series for Q1'05	Combined total for all Series for Q4'04	Combined total for all Series for Q3'04	Combined total for all Series for Q2'04
Up Rounds	+108%	+79%	+48%	+96%	+88%	+83%	+66%	+84%	+66%	+58%
Down Rounds	-67%	-57%	-56%	-61%	-60%	-43%	-49%	-54%	-59%	-48%
Net Result	+52%	+28%	+3%	+60%	+38%	+41%	+24%	+36%	+17%	+28%

Financing Round—The financings broke down according to the following rounds:

Series	Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
A	18%	15%	24%	18%	14%	17%	16%	16%
B	31%	26%	29%	24%	29%	28%	27%	27%
C	23%	27%	16%	28%	20%	25%	21%	30%
D	15%	21%	22%	18%	20%	15%	15%	15%
E and higher	13%	11%	9%	12%	17%	15%	21%	12%

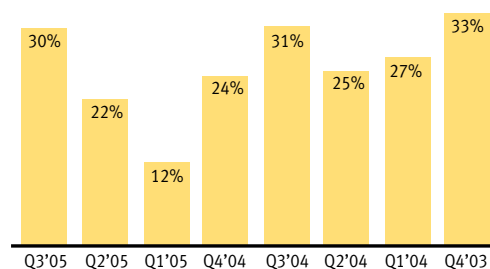
Liquidation Preference—Senior liquidation preferences were used in the following percentages of financings:



The percentage of senior liquidation preference by series was as follows:

Series	Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
B	42%	25%	38%	32%	33%	45%	47%	38%
C	48%	40%	57%	39%	59%	50%	44%	59%
D	87%	68%	55%	72%	61%	59%	58%	62%
E and higher	77%	70%	62%	50%	74%	82%	62%	85%

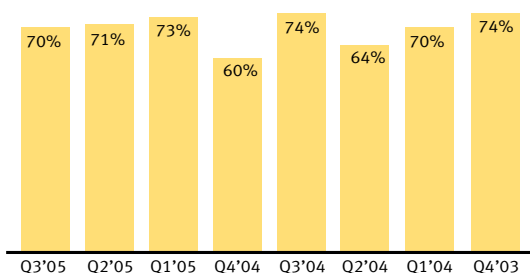
Multiple Liquidation Preferences—The percentage of senior liquidation preferences that were multiple preferences were as follows:



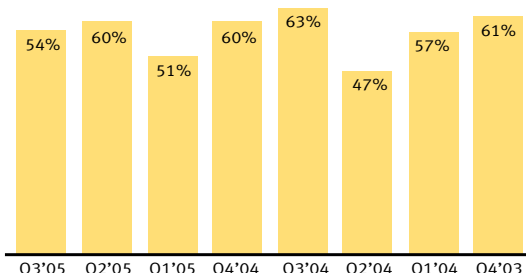
Of the senior liquidation preferences, the ranges of the multiples broke down as follows:

Range of multiples	Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
>1x - 2x	93%	88%	100%	89%	75%	84%	60%	76%
>2x - 3x	7%	0%	0%	0%	6%	8%	27%	18%
> 3x	0%	12%	0%	11%	19%	8%	13%	6%

Participation in Liquidation—The percentages of financings that provided for participation were as follows:



Of the financings that had participation, the percentages that were not capped were as follows:



Cumulative Dividends—Cumulative dividends were provided in the following percentages of financings:

Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
3%	4%	9%	9%	9%	6%	6%	7%

Antidilution Provisions—The uses of antidilution provisions in the financings were as follows:

Type of Provision	Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
Ratchet	7%	8%	9%	9%	14%	9%	5%	9%
Weighted Average	92%	88%	87%	85%	85%	87%	93%	89%
None	1%	4%	4%	6%	1%	4%	2%	2%

Pay-to-Play Provisions—The use of pay-to-play provisions in the financings was as follows:

Percentages of financings having pay-to-play provisions.

Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
8%	16%	17%	12%	16%	20%	17%	20%

Redemption—The percentages of financings providing for mandatory redemption or redemption at the option of the venture capitalist were as follows:

Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
32%	29%	30%	28%	30%	28%	27%	32%

Corporate Reorganizations—The percentages of post-Series A financings involving a corporate reorganization were as follows:

Q3'05	Q2'05	Q1'05	Q4'04	Q3'04	Q2'04	Q1'04	Q4'03
17%	15%	13%	8%	20%	12%	17%	11%

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West. To be placed on an email list for future editions of this survey please go to www.fenwick.com/vctrends.htm. The contents of this report are not intended, and should not be considered, as legal advice or opinion. Information on aggregate dollar venture investment and M&A activity was obtained from publications by the Dow Jones VentureSource Survey and/or the Pricewaterhouse Coopers/Thomson Venture Economics/National Venture Capital Association Moneytree™ Survey.