



Trends in Terms of Venture Financings In the San Francisco Bay Area (First Quarter 2007)

- **Background** – We analyzed the terms of venture financings for 117 companies headquartered in the San Francisco Bay Area that reported raising money in the first quarter of 2007.
- **Overview**

The results of the 1Q07 survey showed a continuation of the strong positive trend in venture valuations. The highlights of the quarter were as follows:

- Up rounds exceeded down rounds for the thirteenth quarter in a row (79% up vs. 9% down, with 12% flat). This was the largest ratio of up rounds to down rounds since we started the survey in early 2002.
- The Fenwick & West Venture Capital Barometer showed a 75% average price increase for companies receiving venture capital in 1Q07 compared to such companies' previous financing round. This was the largest increase since the survey began. This increase was driven in part by eleven 1Q07 financings in which the purchase price of the stock sold in the financing was at least three times higher than the prior round. Of these eleven financings, most were in Web 2.0 and related fields.
- The non price terms of financings in 1Q07 were also company favorable, with the use of senior liquidation preference and participating liquidation preference at the lowest levels since the survey began.

Other U.S. venture industry related results for the quarter include the following:

- The amount invested by venture capitalists in the U.S. in 1Q07 was approximately \$7 billion in 584 transactions, compared to \$6.3 billion raised in 598 transactions in 4Q06. The amount invested this quarter was the second highest amount of venture investment in a quarter since 4Q01. Venture investment in healthcare hit \$2.9 billion, the highest investment level on record for that industry. ¹
- Investments in internet and cleantech companies also increased significantly. ²
- Acquisitions of venture-backed companies in the U.S. in 1Q07 was very strong, with 95 transactions totaling \$9.4 billion compared to 79 transactions totaling \$7.5 billion in 4Q06. Acquisition activity in 1Q07 was the highest amount in dollar terms since 4Q00. The median acquisition amount, at \$105 million, was very strong, and approximately equal with the internet bubble year of 2000. ¹

- IPOs of venture-backed companies declined on a transaction basis but were flat in dollar terms compared to 4Q06, with 13 IPOs raising \$1.2 million in 1Q07 compared to 18 IPOs raising \$1.2 million in 4Q06. Seven of the 13 IPOs were IT, the most since 3Q04, five were healthcare and one was retail. ¹
- Nasdaq was flat in 1Q07, but is up 5.6% in 2Q07 to date.

- **Financing Round** – The financings broke down according to the following rounds:

Series	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
A	18%	22%	23%	14%	11%	22%	18%	15%
B	38%	31%	31%	34%	40%	35%	31%	26%
C	20%	23%	24%	28%	17%	17%	23%	27%
D	12%	11%	17%	16%	15%	11%	15%	21%
E and higher	12%	13%	5%	8%	17%	15%	13%	11%

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

Price Change	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
Down	9%	22%	24%	25%	15%	19%	25%	31%
Flat	12%	11%	9%	6%	11%	12%	15%	4%
Up	79%	67%	67%	69%	74%	69%	60%	65%

The percentage of down rounds by series were as follows:

Series	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
B	7%	6%	13%	16%	12%	10%	16%	12%
C	4%	15%	24%	32%	12%	5%	35%	32%
D	0%	42%	38%	14%	27%	46%	33%	37%
E and higher	36%	53%	33%	57%	12%	35%	23%	60%

- **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 Q1'07 and is provided on an aggregate basis for comparison purposes for the prior four 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 the results are not weighted for the amount raised in a financing.

Q1'07

Percent Change	Series B	Series C	Series D	Series E and higher	Combined total for all Series for Q1'07	Combined total for all Series for Q4'06	Combined total for all Series for Q3'06	Combined total for all Series for Q2'06	Combined total for all Series for Q1'06
Up rounds	+142%	+77%	+44%	+36%	+100%	+100%	+86%	+69%	+95%
Down rounds	-35%	-19%	N/A%	-59%	-47%	-49%	-35%	-57%	-49%
Net result	+120%	+60%	+34%	0%	+75%	+69%	+49%	+34%	+64%

- **Liquidation Preference** – Senior liquidation preferences were used in the following percentages of financings:

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
36%	40%	42%	50%	40%	41%	57%	46%

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

Series	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
B	30%	23%	30%	35%	29%	22%	42%	25%
C	25%	38%	41%	76%	47%	40%	48%	40%
D	50%	58%	57%	36%	60%	69%	87%	68%
E and higher	64%	67%	67%	57%	41%	65%	77%	70%

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

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
14%	14%	26%	16%	14%	24%	30%	22%

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

Range of multiples	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
>1x- 2x	100%	40%	90%	83%	80%	67%	93%	88%
>2x – 3x	0%	60%	10%	0%	20%	33%	7%	0%
> 3x	0%	0%	0%	17%	0%	0%	0%	12%

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

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
59%	73%	64%	71%	65%	64%	70%	71%

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

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
52%	64%	58%	64%	55%	50%	54%	60%

- **Cumulative Dividends** – Cumulative dividends were provided for in the following percentages of financings:

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
8%	4%	7%	8%	3%	4%	3%	4%

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

Type of Provision	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
Ratchet	5%	4%	4%	2%	4%	9%	7%	8%
Weighted Average	94%	95%	95%	97%	92%	85%	92%	88%
None	0%	1%	1%	1%	4%	6%	1%	4%

- **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.

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
8%	10%	10%	16%	11%	16%	8%	16%

The pay-to-play provisions provided for conversion of non-participating investors' preferred stock into common stock or shadow preferred stock, in the percentages set forth below:

- Common Stock.

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
89%	73%	50%	86%	73%	89%	88%	87%

- Shadow Preferred Stock.

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
11%	27%	50%	14%	27%	11%	12%	13%

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

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
26%	22%	29%	33%	27%	31%	32%	29%

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

Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05
9%	6%	5%	12%	9%	11%	17%	15%

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 our [VC Survey sign up page](#). The contents of this report are not intended, and should not be considered, as legal advice or opinion.

¹ Information in this paragraph obtained from Dow Jones VentureSource.

² Information in this paragraph obtained from PwC/NVCA MoneyTree™ Report based on data from Thomson Financial.