



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

- **Background** – We analyzed the terms of venture financings for 126 companies headquartered in the San Francisco Bay Area that reported raising money in the second quarter of 2007.

- **Overview**

The results of the 2Q07 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 14th quarter in a row (81% up vs. 11% down, with 8% flat). The ratio of up rounds to down rounds was tied with 1Q07 for the highest ratio since our survey began in 2002.
- The Fenwick & West Venture Capital Barometer™ showed a 74% average price increase for companies receiving venture capital in 2Q07 compared to such companies' previous financing round. This was the second largest increase since our survey began (1Q07 had a 75% increase). This increase was driven in part by 12 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 financings, seven were in Web 2.0 and related fields.

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

- The amount invested by venture capitalists in the U.S. in 2Q07 was approximately \$7.4 billion in 717 transactions, compared to \$7 billion raised in 584 transactions in 1Q07. The amount invested this quarter was the highest amount of venture investment in a quarter since 4Q01¹.
- Venture investment in health care continued to be strong with \$2.4 billion of total investment, of which \$1 billion went to medical device companies, the highest total on record for that segment of the health care industry. Information technology investment also continued to be strong with \$4.1 billion invested, with information service companies (which includes Web 2.0 companies) receiving close to \$1 billion, a substantial increase for that industry segment.¹
- IPOs of venture-backed companies increased to 22 companies raising \$2.7 billion in 2Q07, compared to 13 IPOs raising \$1.2 billion in 1Q07. The amount raised in venture-backed IPOs in 2Q07 was the highest amount raised since the third quarter of 2000 and

the \$3.9 billion raised in venture-backed IPOs in 1Q07 and 2Q07 surpassed the total amount raised through such activity in all of 2006. ¹

- Acquisitions of venture-backed companies in 2Q07 declined noticeably, with 81 transactions totaling \$7.6 billion, compared to 98 transactions totaling \$9.6 billion in 1Q07. The median acquisition amount was \$55.8 million, which was also a noticeable decline from 1Q07 but above the average for 2006.
- Nasdaq was up 7.5% in 2Q07, and is generally flat in 3Q07 to date.
- **Financing Round** – The financings broke down according to the following rounds:

Series	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
A	14%	18%	22%	23%	14%	11%	22%	18%
B	34%	38%	31%	31%	34%	40%	35%	31%
C	25%	20%	23%	24%	28%	17%	17%	23%
D	18%	12%	11%	17%	16%	15%	11%	15%
E and higher	9%	12%	13%	5%	8%	17%	15%	13%

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

Price Change	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
Down	11%	9%	22%	24%	25%	15%	19%	25%
Flat	8%	12%	11%	9%	6%	11%	12%	15%
Up	81%	79%	67%	67%	69%	74%	69%	60%

The percentage of down rounds by series were as follows:

Series	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
B	5%	7%	6%	13%	16%	12%	10%	16%
C	10%	4%	15%	24%	32%	12%	5%	35%
D	17%	0%	42%	38%	14%	27%	46%	33%
E and higher	27%	36%	53%	33%	57%	12%	35%	23%

- **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 Q2'07 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.

Q2'07

Percent Change	Series B	Series C	Series D	Series E and higher	Combine d total for all Series for Q2'07	Combine d total for all Series for Q1'07	Combine d total for all Series for Q4'06	Combine d total for all Series for Q3'06	Combine d total for all Series for Q2'06
Up rounds	+128%	+95%	+60%	+49%	+99%	+100%	+100%	+86%	+69%
Down rounds	-48%	-50%	-44%	-44%	-46%	-47%	-49%	-35%	-57%
Net result	+108%	+75%	+37%	+19%	+74%	+75%	+69%	+49%	+34%

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

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
51%	36%	40%	42%	50%	40%	41%	57%

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

Series	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
B	47%	30%	23%	30%	35%	29%	22%	42%
C	39%	25%	38%	41%	76%	47%	40%	48%
D	65%	50%	58%	57%	36%	60%	69%	87%
E and higher	74%	64%	67%	67%	57%	41%	65%	77%

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

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
15%	14%	14%	26%	16%	14%	24%	30%

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

Range of multiples	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
>1x- 2x	75%	100%	40%	90%	83%	80%	67%	93%
>2x – 3x	25%	0%	60%	10%	0%	20%	33%	7%
> 3x	0%	0%	0%	0%	17%	0%	0%	0%

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

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
48%	59%	73%	64%	71%	65%	64%	70%

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

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

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

financings:

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
6%	8%	4%	7%	8%	3%	4%	3%

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

Type of Provision	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
Ratchet	5%	5%	4%	4%	2%	4%	9%	7%
Weighted Average	93%	94%	95%	95%	97%	92%	85%	92%
None	2%	0%	1%	1%	1%	4%	6%	1%

- **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.

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

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.

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
77%	89%	73%	50%	86%	73%	89%	88%

- Shadow Preferred Stock.

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
23%	11%	27%	50%	14%	27%	11%	12%

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

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

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

Q2'07	Q1'07	Q4'06	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05
3%	9%	6%	5%	12%	9%	11%	17%

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.

¹ Information in this paragraph obtained from Dow Jones VentureSource.

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