Fenwick
FENWICK & WEST LLP

Trends in Terms of Venture Financings
In Silicon Valley
(Second Quarter 2011)

Background – We analyzed the terms of venture financings for 117 companies headquartered in Silicon Valley that reported raising money in the second quarter of 2011.

Overview of Fenwick & West Results

- Up rounds exceeded down rounds in 2Q11 61% to 25%, with 14% of rounds flat. Although this was a slight decline from 1Q11, when up rounds exceeded down rounds 67% to 16%, with 17% of rounds flat, it was still a very healthy performance. This was the eighth quarter in a row in which up rounds exceeded down rounds.

- The Fenwick & West Venture Capital Barometer showed an average price increase of 71% in 2Q11, up from the 52% increase registered in 1Q11. This was the best barometer result since 2007, and was also the eighth quarter in a row in which the Barometer was positive.

- Interpretive Comment regarding the Barometer. When interpreting the Barometer results please bear in mind that the results reflect the average price increase of companies raising money this quarter compared to their prior round of financing, which was in general 12-18 months prior. Given that venture capitalists (and their investors) generally look for at least a 20% IRR to justify the risk that they are taking, and that by definition we are not taking into account those companies that were unable to raise a new financing (and that likely resulted in a loss to investors), a Barometer increase in the 30-40% range should be considered normal. Our average Barometer reading since 1Q04, when we began calculating the Barometer, through 2Q11, has been 40%. We would expect such amount to be slightly higher than "normal", as the earlier years reflect the recovery from the dotcom bubble bust.

- The results by industry are set forth below. In general, software and internet/digital media industries had the best valuation-related results by a substantial amount in 2Q11, followed by the hardware and cleantech industries, while the life science industry continued to lag.

Overview of Other Industry Data

The second quarter of 2011 was generally a strong quarter for the venture capital industry, with the most notable result being an improved IPO market. The amount invested by venture capitalists in 2Q11 was also solid. Fundraising by venture capitalists showed a significant decline from the very strong 1Q11 results, but was still reasonable in dollar terms. Merger and acquisition activity was somewhat lower, perhaps as participants sought to understand the effect of the stronger IPO market.

However there are some clouds on the horizon, as the Silicon Valley Venture Capital Confidence Index declined for only the second time in 11 quarters, Nasdaq has had a very poor 3Q11 to date, there are reports of a number of IPOs being recently postponed and the world financial environment is undergoing substantial turbulence.

Detailed results from third-party publications are as follows:

- **Venture Capital Investment.** Venture capitalists (including corporation affiliated venture groups) invested $8.0 billion in 776 deals in the U.S. in 2Q11, a 20% increase in dollars over the $6.4 billion invested in 661 deals reported for 1Q11 in April 2011, according to Dow Jones VentureSource ("VentureSource"). VentureSource also reported that $2.9 billion of such amount, or 36%, was invested in Silicon Valley-based companies.

  Similarly, the PwC/NVCA MoneyTree™ Report based on data from Thomson Reuters (the "MoneyTree Report") reported that venture capitalists invested $7.5 billion in 966 deals in 2Q11, a 27% increase in dollars over the $5.9 billion invested in 736 deals reported in April 2011 for 1Q11. The MoneyTree Report noted that investments in internet companies was at its highest quarterly level since 2001.

- **Merger and Acquisition Activity.** Acquisitions of U.S. venture-backed companies in 2Q11 totaled $9.5 billion in 95 deals, a slight decrease from the $9.8 billion in 104 deals reported in April 2011 for 1Q11, according to VentureSource. Of the 2Q11 deals, 8 were private/private transactions, perhaps indicating a growing acquisition ability and interest of later stage private companies.

  Thomson Reuters and the National Venture Capital Association ("Thompson/NVCA") also reported a decrease in M&A transactions, from 109 in 1Q11 (as reported in April 2011) to 79 in 2Q11. Of the 79 reported transactions in 2Q11, 56 were in the IT industry, but the largest was in the pharmaceutical industry where Daiichi Sankyo bought Berkeley-based Plexxikon for $805 million.

- **Initial Public Offerings.** VentureSource reported that 14 venture-backed companies went public in 2Q11, raising $1.7 billion, a noticeable increase from the 11 IPOs raising $700 million reported in 1Q11.

  Thompson/NVCA reported that 22 venture-backed companies went public in the U.S. in 2Q11, raising $5.5 billion, a substantial increase over the 14 IPOs raising $1.4 billion reported in 1Q11. Of the 22 IPOs, 14 were based in the U.S. and 5 in China, and 14 were in the IT industry with 11 of those being internet focused. The largest of the IPOs was Russian-based Yandex raising $1.3 billion.

  At the end of 2Q11 46 U.S. venture-backed companies were in registration to go public, similar to the 45 in registration at the end of 1Q11.

- **Venture Capital Fundraising.** Thompson/NVCA reported that 37 venture funds raised $2.7 billion in 2Q11, a significant decline from the $7.6 billion raised by 42 funds in

1Q11. However, 1Q11 was the highest first quarter for fundraising since 2001, and 2Q11 was 28% higher (in dollars) than 2Q10. Also the first half of 2011 saw 67% more funds raised than the first half of 2Q10, but a 15% decrease in the number of venture funds closing fundings.

VentureSource provided consistent results, reporting that U.S. venture funds raised $8.1 billion in the first half of 2011, a 20% increase in dollars over the first half of 2010. VentureSource noted that only 7 funds raised 77% of the $8.1 billion.

- **Venture Capital Returns.** According to the Cambridge Associates U.S. Venture Capital Index® U.S. venture capital funds achieved an 18.5% return for the 12-month period ending 1Q11, slightly higher than the Nasdaq return of 16% (not including any dividends) during that period. Note that this information is reported with a one-quarter delay.

- **Sentiment.** The Silicon Valley Venture Capital Confidence Index produced by Professor Mark Cannice at the University of San Francisco reported that the confidence level of Silicon Valley venture capitalists was 3.66 on a 5 point scale, a decrease from the 3.91 result reported for 1Q11. Venture capitalists expressed concerns due to macroeconomic trends, high venture valuations, uneven capital availability and life science regulatory constraints.

- **Nasdaq.** Nasdaq increased 1% in 2Q11, but has decreased 9% in 3Q11 through August 15, 2011.

Detailed Fenwick & West Results

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

Series	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
A	19%	18%	13%	20%	18%	24%	23%	17%
B	25%	24%	26%	23%	22%	21%	22%	31%
C	26%	24%	35%	28%	28%	30%	21%	19%
D	15%	20%	14%	9%	20%	11%	17%	16%
E and higher	15%	14%	12%	20%	12%	14%	17%	17%

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

Price Change	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
Down	25%	16%	21%	30%	27%	32%	30%	36%
Flat	14%	17%	12%	18%	18%	19%	23%	23%
Up	61%	67%	67%	52%	55%	49%	47%	41%

The percentage of down rounds by series were as follows:

Series	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
B	17%	10%	12%	20%	14%	23%	24%	19%
C	27%	17%	27%	33%	29%	45%	25%	45%
D	28%	25%	23%	30%	36%	18%	47%	56%
E and higher	33%	12%	17%	38%	33%	27%	26%	39%

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 2Q11 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.

Percent Change	Series B	Series C	Series D	Series E and higher	Combined total for all Series for Q2'11	Combined total for all Series for Q1'11	Combined total for all Series for Q4'10	Combined total for all Series for Q3'10	Combined total for all Series for Q2'10
Up rounds	+198%	+139%	+90%	+37%	+138%	+91%	+104%	+81%	+86%
Down rounds	-53%	-55%	-41%	-53%	-51%	-56%	-45%	-47%	-65%
Net result	+134%	+74%	+39%	-1%	+71%	+52%	+61%	+28%	+30%

Results by Industry for Price Changes and Fenwick & West Venture Capital Barometer™ – The table below sets forth the direction of price changes and Barometer results for companies receiving financing in 2Q11, compared to their previous round, by industry group. Companies receiving Series A financings are excluded as they have no previous rounds to compare.

Industry	Number of Financings	Up Rounds	Down Rounds	Flat Rounds	Barometer
Software	34	71%	20%	9%	+123%
Hardware	12	50%	50%	0%	+35%
Lifescience	24	46%	33%	21%	+6%
Internet/Digital Media	17	76%	6%	8%	+115%
Cleantech	6	67%	17%	16%	+24%
Other	2	0%	50%	50%	-33%
Total - All Industries	95	61%	25%	14%	+71%

Please note that some industries have small sample sizes that reduce the statistical validity of the results.

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

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
37%	43%	28%	41%	40%	38%	41%	49%

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

Series	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
B	31%	24%	12%	32%	32%	23%	24%	38%
C	37%	47%	27%	27%	34%	42%	50%	40%
D	39%	42%	46%	60%	48%	36%	58%	63%
E and higher	44%	71%	42%	62%	53%	53%	37%	67%

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

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
29%	14%	13%	20%	17%	23%	19%	21%

Of the senior liquidation preferences that included a multiple preference, the ranges of the multiples broke down as follows:

Range of multiples	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
>1x – 2x	62%	83%	100%	85%	71%	86%	57%	89%
>2x – 3x	25%	0%	0%	0%	29%	14%	43%	11%
>3x	13%	17%	0%	15%	0%	0%	0%	0%

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

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
38%	43%	45%	53%	35%	48%	51%	53%

Of t he f inancings that had participation, the p ercentages t hat w ere n ot capp ed were as follows:

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
64%	60%	40%	58%	61%	54%	54%	60%

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

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
6%	8%	5%	7%	7%	7%	4%	7%

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

Type of Provision	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
Ratchet	5%	5%	3%	4%	4%	5%	6%	3%
Weighted Average	92%	92%	95%	93%	94%	94%	94%	96%
None	3%	3%	2%	3%	2%	1%	0%	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.

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
14%	5%	7%	15%	16%	7%	10%	15%

Note that anecdotal evidence indicates that companies are increasingly using contractual "pull up" provisions instead of charter based "pay to play" provisions. These two types of provisions have similar economic effect but are implemented differently. The above information includes some, but likely not all, pull up provisions, and accordingly may understate the use of these provisions.

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.

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
100%	83%	100%	81%	100%	86%	80%	93%

- Shadow Preferred Stock.

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
0%	17%	0%	19%	0%	14%	20%	7%

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

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
19%	20%	19%	22%	23%	24%	21%	19%

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

Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
5%	7%	4%	9%	8%	14%	5%	8%

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. The contents of this report are not intended, and should not be considered, as legal advice or opinion.

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