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Trends in Terms of Venture Financings In the San Francisco Bay Area (Third Quarter 2006)

- **Background** – We analyzed the terms of venture financings for 120 technology companies headquartered in the San Francisco Bay Area that reported raising money in the third quarter of 2006.
- **Overview** – The results of the 3Q06 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 in 3Q06 for the eleventh quarter in a row (67% up vs. 24% down, with 9% flat).
 - The Fenwick & West Venture Capital Barometer™ showed a 49% average price increase for Silicon Valley companies receiving venture capital in 3Q06 compared to such companies' previous financing round.

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

- The amount invested by venture capitalists in the U.S. in 3Q06 was approximately \$6.4 billion, effectively flat with \$6.8B in 2Q06 and \$6.3B in 1Q06. If current trends continue 2006 is on track to be the best year for U.S. venture investing since 2001. ¹
- Acquisitions of venture backed companies in the U.S. in 3Q06 was approximately \$6.8 billion in 97 transactions. This is a decline from the two most recent quarters, but overall 2006 is on track to slightly exceed 2005 and to be the best acquisitions year since 2000. ¹
- There were 8 IPOs of venture backed companies in the U.S. in 3Q06, a decline from 16 in 2Q06 and 13 in 1Q06.
- Nasdaq was up 4% in 3Q06 and is up approximately 6% in 4Q06 to date.
- **Financing Round** – The financings broke down according to the following rounds:

Series	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
A	23%	14%	11%	22%	18%	15%	24%	18%
B	31%	34%	40%	35%	31%	26%	29%	24%
C	24%	28%	17%	17%	23%	27%	16%	28%
D	17%	16%	15%	11%	15%	21%	22%	18%
E and higher	5%	8%	17%	15%	13%	11%	9%	12%

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

Price Change	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
Down	24%	25%	15%	19%	25%	31%	31%	28%
Flat	9%	6%	11%	12%	15%	4%	10%	12%
Up	67%	69%	74%	69%	60%	65%	59%	60%

The percentage of down rounds by series were as follows:

Series	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
B	13%	16%	12%	10%	16%	12%	19%	24%
C	24%	32%	12%	5%	35%	32%	36%	25%
D	38%	14%	27%	46%	33%	37%	30%	28%
E and higher	33%	57%	12%	35%	23%	60%	62%	42%

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 Q3'06 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.

Q3'06

Percent Change	Series B	Series C	Series D	Series E and higher	Combined total for all Series for Q3'06	Combined total for all Series for Q2'06	Combined total for all Series for Q1'06	Combined total for all Series for Q4'05	Combined total for all Series for Q3'05	Combined total for all Series for Q2'05
Up rounds	+86%	+76%	+78%	+174%	+86%	+69%	+95%	+81%	+88%	+83%
Down rounds	-44%	-34%	-30%	-27%	-35%	-57%	-49%	-56%	-60%	-43%
Net result	+62%	+41%	+29%	+78%	+49%	+34%	+64%	+45%	+38%	+41%

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

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
42%	50%	40%	41%	57%	46%	50%	46%

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

Series	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
B	30%	35%	29%	22%	42%	25%	38%	32%
C	41%	76%	47%	40%	48%	40%	57%	39%
D	57%	36%	60%	69%	87%	68%	55%	72%
E and higher	67%	57%	41%	65%	77%	70%	62%	50%

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

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
26%	16%	14%	24%	30%	22%	12%	24%

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

Range of multiples	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4'04
>1x- 2x	90%	83%	80%	67%	93%	88%	100%	89%
>2x – 3x	10%	0%	20%	33%	7%	0%	0%	0%
> 3x	0%	17%	0%	0%	0%	12%	0%	11%

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

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
64%	71%	65%	64%	70%	71%	73%	60%

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

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
58%	64%	55%	50%	54%	60%	51%	60%

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

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
7%	8%	3%	4%	3%	4%	9%	9%

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

Type of Provision	Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
Ratchet	4%	2%	4%	9%	7%	8%	9%	9%
Weighted Average	95%	97%	92%	85%	92%	88%	87%	85%
None	1%	1%	4%	6%	1%	4%	4%	6%

- **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.

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
10%	16%	11%	16%	8%	16%	17%	12%

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.

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
50%	86%	73%	89%	88%	87%	93%	75%

- Shadow Preferred Stock.

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
50%	14%	27%	11%	12%	13%	7%	25%

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

29	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
29%	33%	27%	31%	32%	29%	30%	28%

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

Q3'06	Q2'06	Q1'06	Q4'05	Q3'05	Q2'05	Q1'05	Q4 '04
5%	12%	9%	11%	17%	15%	13%	8%

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¹ Information in this paragraph obtained from Dow Jones VentureSource.

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