



FENWICK & WEST LLP
Trends in Terms of Venture Financings
In the San Francisco Bay Area
(Second Quarter 2008)

- **Background** – We analyzed the terms of venture financings for 108 companies headquartered in the San Francisco Bay Area that reported raising money in the second quarter of 2008.
- **Overview**

The results of the 2Q08 survey show that companies raising venture capital in 2Q08 continued to receive higher valuations than in their prior round. The highlights of the quarter are as follows:

- Up rounds exceeded down rounds for the 18th consecutive quarter (68% up vs. 13% down, with 19% flat).
- The Fenwick & West Venture Capital Barometer™ showed a 53% average price increase for companies receiving venture capital in 2Q08 compared to such companies' prior financing round. While such increase is certainly healthy, the average increase for the first half of 2008 was the lowest six month increase since Q2/Q3 of 2006. Companies receiving the largest increases in valuation were primarily Web 2.0 and secondarily Cleantech.

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

- The amount invested in U.S. venture-backed companies in 2Q08 was approximately \$6.9 billion in 622 transactions, compared to \$7.4 billion invested in 657 transactions in 1Q08. The amount invested in 2Q08 was substantial, but at the low end of the range we're seen over the past 2-3 years.¹
- An industry sector analysis shows that the decline in venture investment was primarily in the healthcare and IT sectors, offset in part by increased investments in Web 2.0 and Cleantech companies.¹
- Acquisitions of venture backed companies in 2Q08 decreased noticeably, with 56 transactions totaling \$4.7 billion, compared to 86 transactions totaling \$11.3 billion in 1Q08. M&A activity in 2Q08 was the lowest since 4Q04.¹
- There were no IPOs of venture backed companies in 2Q08, compared to 6 IPOs raising \$0.4 billion in 4Q07.

- Nasdaq was basically flat for 2Q08 but is up approximately 7% in 3Q08 through August 11, 2008.

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

Series	Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
A	15%	17%	16%	13%	14%	18%	22%	23%
B	31%	29%	26%	38%	34%	38%	31%	31%
C	20%	22%	27%	28%	25%	20%	23%	24%
D	19%	13%	16%	12%	18%	12%	11%	17%
E and higher	15%	19%	15%	9%	9%	12%	13%	5%

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

Price Change	Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
Down	13%	19%	22%	14%	11%	9%	22%	24%
Flat	19%	9%	9%	7%	8%	12%	11%	9%
Up	68%	72%	69%	79%	81%	79%	67%	67%

The percentage of down rounds by series were as follows:

Series	Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
B	3%	16%	11%	13%	5%	7%	6%	13%
C	23%	25%	11%	14%	10%	4%	15%	24%
D	14%	29%	47%	8%	17%	0%	42%	38%
E and higher	19%	10%	33%	33%	27%	36%	53%	33%

- 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 Q2'08 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 Q2'08	Combined total for all Series for Q1'08	Combined total for all Series for Q4'07	Combined total for all Series for Q3'07	Combined total for all Series for Q2'07
Up rounds	+119%	+93%	+64%	+45%	+91%	+78%	+91%	+108%	+99%
Down rounds	-11%	-72%	-36%	-63%	-56%	-36%	-36%	-46%	-46%
Net result	+93%	+47%	+37%	+11%	+53%	+49%	+55%	+79%	+74%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
38%	47%	39%	42%	51%	36%	40%	42%

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

Series	Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
B	21%	38%	26%	23%	47%	30%	23%	30%
C	32%	46%	43%	48%	39%	25%	38%	41%
D	62%	36%	53%	69%	65%	50%	58%	57%
E and higher	50%	70%	40%	67%	74%	64%	67%	67%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
11%	17%	15%	21%	15%	14%	14%	26%

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

Range of multiples	Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
>1x- 2x	75%	100%	80%	100%	75%	100%	40%	90%
>2x – 3x	25%	0%	20%	0%	25%	0%	60%	10%
> 3x	0%	0%	0%	0%	0%	0%	0%	0%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
57%	60%	59%	54%	48%	59%	73%	64%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
55%	56%	41%	39%	54%	52%	64%	58%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
6%	5%	4%	4%	6%	8%	4%	7%

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

Type of Provision	Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
Ratchet	1%	2%	3%	6%	5%	5%	4%	4%
Weighted Average	99%	98%	97%	94%	93%	94%	95%	95%
None	0%	0%	0%	0%	2%	0%	1%	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.

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
7%	6%	9%	13%	10%	8%	10%	10%

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.

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
87%	67%	89%	57%	77%	89%	73%	50%

- Shadow Preferred Stock.

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
13%	33%	11%	43%	23%	11%	27%	50%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
29%	20%	21%	26%	22%	26%	22%	29%

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

Q2'08	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06
4%	5%	5%	9%	3%	9%	6%	5%

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.