



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

- **Background** – We analyzed the terms of venture financings for 103 companies headquartered in the San Francisco Bay Area that reported raising money in the fourth quarter of 2007.

- **Overview**

The results of the 4Q07 survey showed continued improvement in venture valuations, although the amount by which valuations increased was lower in 4Q07 than in the prior quarters of 2007. The highlights of the quarter are as follows:

- Up rounds exceeded down rounds for the 16th quarter in a row (69% up vs. 22% down, with 9% flat). For the prior three quarters of 2007 up rounds had, on average, outpaced down rounds 80% to 11%, with 9% flat.
- The Fenwick & West Venture Capital Barometer™ showed a 55% average price increase for companies receiving venture capital in 4Q07, compared to such companies' prior financing round. For the prior three quarters of 2007, the average price increase for companies raising funds compared to their prior round was 75%.

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

- The amount invested by venture capitalists in the U.S. in 4Q07 was approximately \$7.3 billion. Although this amount was approximately 5% less than the amounts invested in 3Q07 and 2Q07, and flat with 1Q07, 2007 was the best year for venture investment since 2001. The total amount invested by venture capitalists in the U.S. in 2007 (\$29.9 billion) was up approximately 8% over 2006.¹
- Acquisitions of venture backed companies in the U.S. increased in 4Q07 with 106 transactions totaling \$16.2 billion, compared to 97 transactions totaling \$11.3 billion in 3Q07. 2007 was the best acquisition year for venture backed companies since 2000, both in terms of aggregate amount paid (\$46.2 billion) as well as median amount paid per transaction (\$98 million).¹

- IPOs of venture backed companies increased in 4Q07, with 26 IPOs raising \$2.0 billion in 4Q07. 2007 was the best IPO year since 2000, with 74 venture backed IPOs raising \$6.7 billion.¹
- VC investment in IT in 2007 was \$14.8 billion, a 2% increase over 2006, with much of the investment in Web based companies. IT M&A activity increased significantly in 2007, raising \$26 billion, a 30% increase over 2006. 34 VC backed IT companies went public in 2007, raising \$3.7 billion.¹
- Healthcare investment had another excellent year in 2007, raising a record \$10 billion in 671 deals, a 17% increase over the \$8.5 billion raised in 662 deals in 2006. Healthcare companies also raised \$11.2 billion in M&A activity in 2007. 31 venture backed healthcare companies went public in 2007, raising \$2.3 billion.¹
- Cleantech companies saw the most significant growth in deal flow and investment in 2007, raising \$2.5 billion (a 67% increase from 2006) in 187 deals.¹
- The San Francisco Bay Area attracted \$9.9 billion in VC investment in 2007, a 3% increase over 2006. Washington State (where Fenwick & West has just opened an office) attracted \$1.4 billion in 2007, a 27% increase over 2006 and the fifth straight year of investment growth.¹
- Nasdaq was up 9.2% for 2007 (although down 1.9% in 4Q07), but is down 14.3% in 1Q08 through February 29.
- **Financing Round** – The financings broke down according to the following rounds:

| Series | Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|
| A | 16% | 13% | 14% | 18% | 22% | 23% | 14% | 11% |
| B | 26% | 38% | 34% | 38% | 31% | 31% | 34% | 40% |
| C | 27% | 28% | 25% | 20% | 23% | 24% | 28% | 17% |
| D | 16% | 12% | 18% | 12% | 11% | 17% | 16% | 15% |
| E and higher | 15% | 9% | 9% | 12% | 13% | 5% | 8% | 17% |

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

| Price Change | Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Down | 22% | 14% | 11% | 9% | 22% | 24% | 25% | 15% |
| Flat | 9% | 7% | 8% | 12% | 11% | 9% | 6% | 11% |
| Up | 69% | 79% | 81% | 79% | 67% | 67% | 69% | 74% |

The percentage of down rounds by series were as follows:

| Series | Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|
| B | 11% | 13% | 5% | 7% | 6% | 13% | 16% | 12% |
| C | 11% | 14% | 10% | 4% | 15% | 24% | 32% | 12% |
| D | 47% | 8% | 17% | 0% | 42% | 38% | 14% | 27% |
| E and higher | 33% | 33% | 27% | 36% | 53% | 33% | 57% | 12% |

| | | | | | | | | |
|--------|--|--|--|--|--|--|--|--|
| higher | | | | | | | | |
|--------|--|--|--|--|--|--|--|--|

- **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 Q4'07 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.

| Percent Change | Series B | Series C | Series D | Series E and higher | Combine d total for all Series for Q4'07 | Combine d total for all Series for Q3'07 | 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 |
|----------------|----------|----------|----------|---------------------|--|--|--|--|--|
| Up rounds | +108% | +98% | +55% | +48% | +91% | +108% | +99% | +100% | +100% |
| Down rounds | -36% | -23% | -38% | -41% | -36% | -46% | -46% | -47% | -49% |
| Net result | +92% | +75% | +5% | +9% | +55% | +79% | +74% | +75% | +69% |

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

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 39% | 42% | 51% | 36% | 40% | 42% | 50% | 40% |

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

| Series | Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|
| B | 26% | 23% | 47% | 30% | 23% | 30% | 35% | 29% |
| C | 43% | 48% | 39% | 25% | 38% | 41% | 76% | 47% |
| D | 53% | 69% | 65% | 50% | 58% | 57% | 36% | 60% |
| E and higher | 40% | 67% | 74% | 64% | 67% | 67% | 57% | 41% |

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

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 15% | 21% | 15% | 14% | 14% | 26% | 16% | 14% |

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

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

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

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 59% | 54% | 48% | 59% | 73% | 64% | 71% | 65% |

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

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 41% | 39% | 54% | 52% | 64% | 58% | 64% | 55% |

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

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

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

| Type of Provision | Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Ratchet | 3% | 6% | 5% | 5% | 4% | 4% | 2% | 4% |
| Weighted Average | 97% | 94% | 93% | 94% | 95% | 95% | 97% | 92% |
| None | 0% | 0% | 2% | 0% | 1% | 1% | 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.

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 9% | 13% | 10% | 8% | 10% | 10% | 16% | 11% |

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.

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 89% | 57% | 77% | 89% | 73% | 50% | 86% | 73% |

- Shadow Preferred Stock.

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 11% | 43% | 23% | 11% | 27% | 50% | 14% | 27% |

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

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 21% | 26% | 22% | 26% | 22% | 29% | 33% | 27% |

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

| Q4'07 | Q3'07 | Q2'07 | Q1'07 | Q4'06 | Q3'06 | Q2'06 | Q1'06 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 5% | 9% | 3% | 9% | 6% | 5% | 12% | 9% |

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.

©2008 Fenwick & West LLP