

Q2 2010—Mixed Signals in Financing Results*

After witnessing improvements in general financing trends in late 2009 and Q1 2010, the second quarter of 2010 produced mixed signals for the venture financing environment. In Q2, we observed fewer up rounds, which represented a reversal of a several quarter trend. Although a majority of Q2 deals were up rounds, the percentage of up rounds decreased to 52% as compared to 61% for Q1 2010. The median pre-money valuation statistics for the quarter were mixed, highlighting the continued challenges in the market. Pre-money valuations for Series A and C rounds increased, while Series B and D+ rounds saw median pre-money valuations decline.

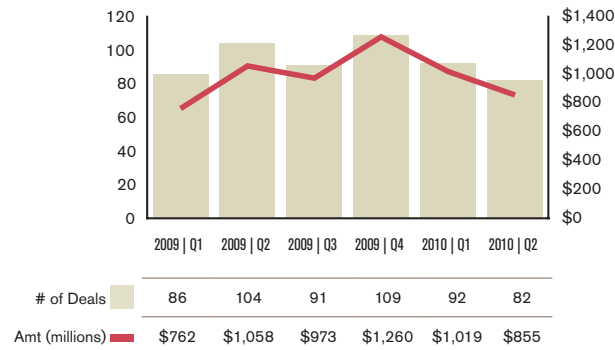
However, second quarter trends in a number of deal terms pointed to increased optimism on the part of investors. In all rounds except Series D+ rounds, liquidation preferences of greater than 1x were far less common than in previous quarters. Additionally, we observed a significant reduction in the percentage of deals with participating preferred provisions.

Deal terms in other areas painted a far from robust investment picture. The percentage of deals with pay to play provisions increased in Q2 to levels not seen since Q3 2009. This increase was especially significant in Series D+ transactions. We also saw an increase in recapitalization transactions from the prior quarter.

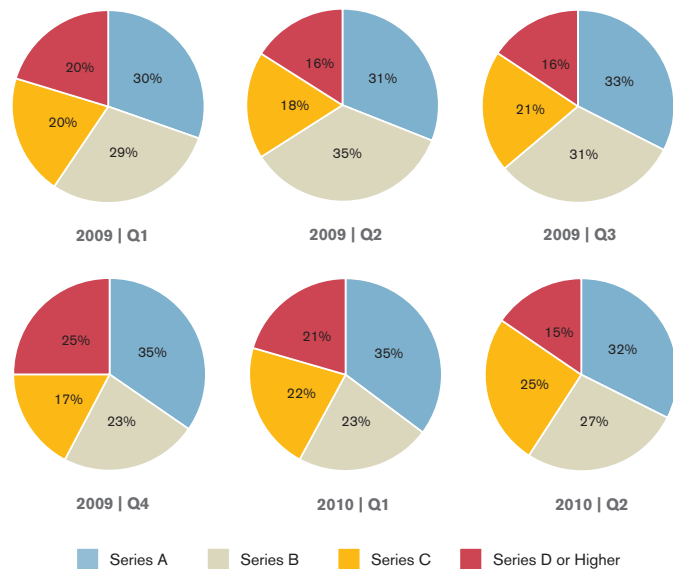
Given the substantial bridge note financing activity over the past two years, we also looked at bridge loan financing terms for the first time to review trends around conversion discounts and warrant coverage.

TRENDS IN FINANCIAL TERMS

AGGREGATE NUMBER OF DEALS/AMOUNT RAISED—By Quarter. Aggregate deal volume and dollars remained at levels generally consistent with prior quarters, although declining from the prior two quarters.

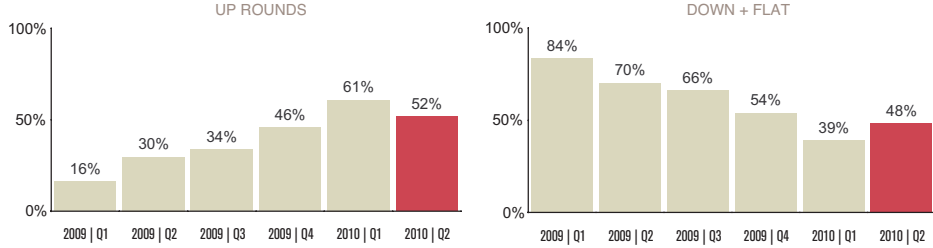


DEAL BREAKDOWN—By Series. There were no significant changes from last quarter in deal breakdown by series. There was a small uptick in Series B and Series C financings and a decrease in Series A and Series D+ deals.

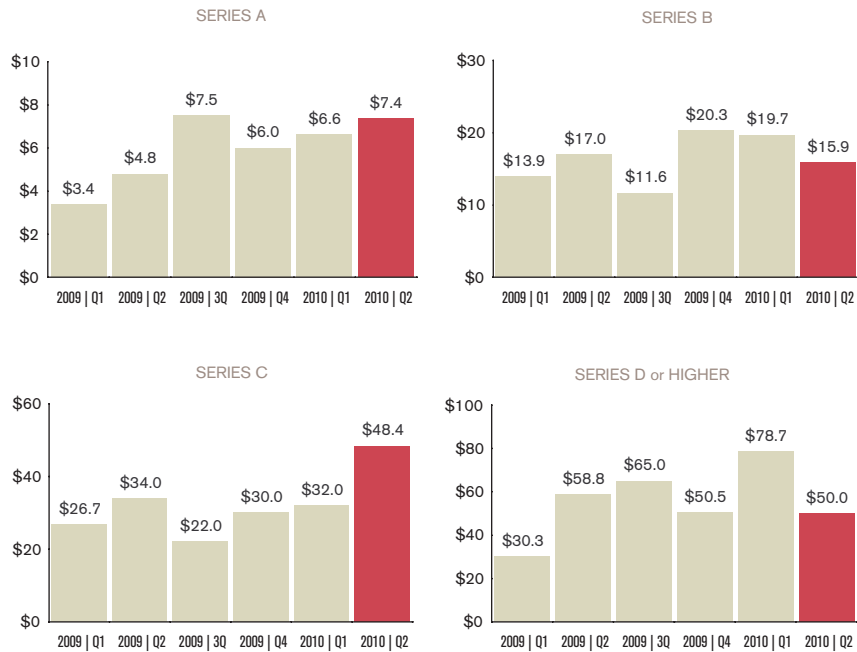


* Analysis based upon 82 completed deals totaling approximately \$855 million in the second quarter of 2010, 92 completed deals totaling approximately \$1 billion in the first quarter of 2010, 109 completed deals totaling \$1.3 billion in the fourth quarter of 2009, 91 completed deals totaling \$973 million in the third quarter of 2009, 104 completed deals totaling \$1.1 billion in the second quarter of 2009, and 86 completed deals totaling \$762 in the first quarter of 2009.

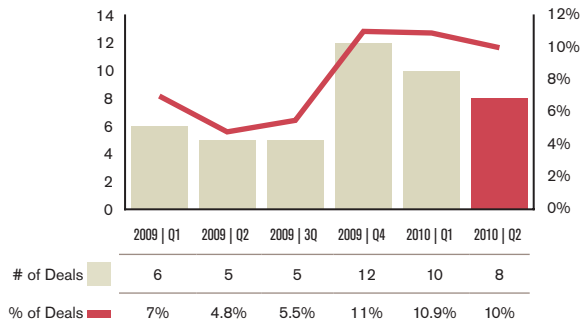
PERCENTAGE OF UP ROUNDS. As noted earlier in the report, the data show an increase in flat/down rounds and a corresponding decrease in up rounds in Q2 2010 as compared to Q1 of this year. However, a majority of Q2 deals were up rounds and the Q2 level of up rounds was still significantly higher than levels seen throughout 2009. This data, together with the median pre-money valuation data, points to the mixed investment climate observed in the market.



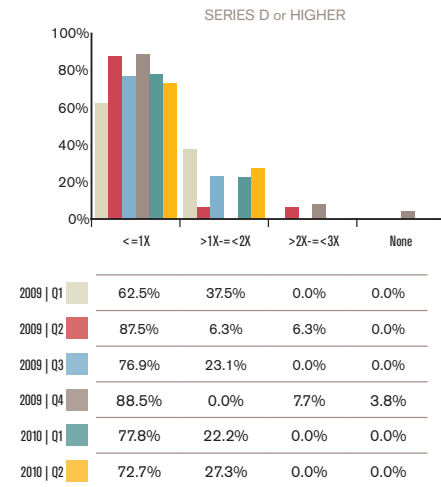
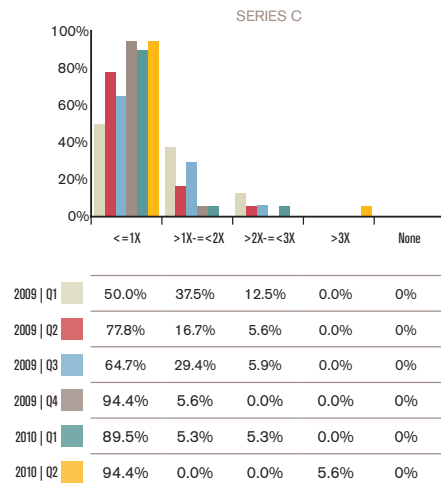
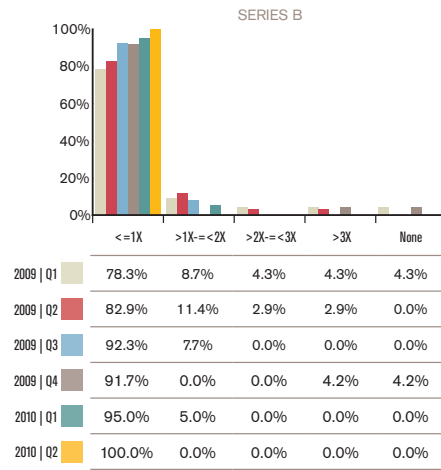
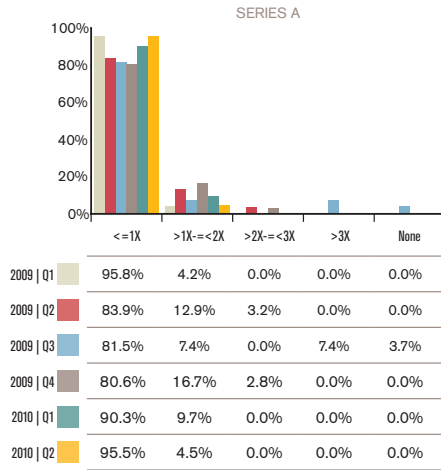
MEDIAN PRE-MONEY VALUATION (millions \$)—By Series. Median pre-money valuations were mixed during Q2 2010 as compared to the prior quarter. Valuations for Series A and C rounds increased, while valuations for Series B and D+ deals decreased. It is worth noting a continued trend in Series A pre-money valuation increases. This trend may in part be due to increases in pre Series A angel and seed financings and entrepreneurs' bootstrapping companies to later stages of development prior to seeking venture funding.



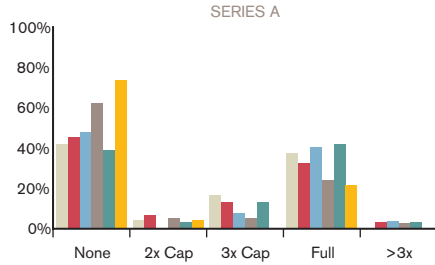
PRE-MONEY VALUATIONS OF MORE THAN \$100 MILLION—By Deal. The data point to a decrease over the past two quarters in the number (and a slight decrease in the percentage) of deals with a pre-money valuation greater than \$100 million.



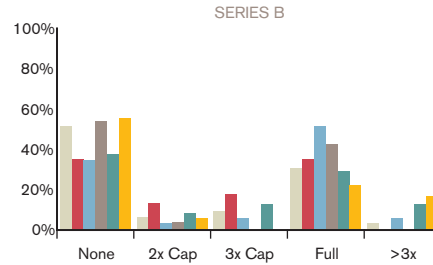
LIQUIDATION PREFERENCE—By Series. The percentage of deals with a liquidation preference of greater than 1x decreased for all deal rounds with the exception of Series D+ transactions. Overall trends here continue to point to a shift back to historical norms of a 1x liquidation preference. The increase in preferences in Series D+ transactions may indicate that investors are seeking to increase their return profiles in later financing rounds given the continued risk profile or greater existing preferences of many later stage companies in the current environment.



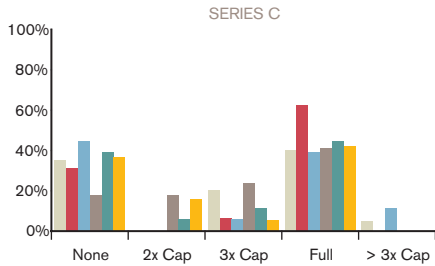
LIQUIDATION PREFERENCE: PARTICIPATION FEATURES—By Series. In Q2 2010, the data show an overall decrease in the percentage of deals with participating preferred provisions. Most notable were decreases from the prior quarter in the number of Series A and B deals with participation features. Note that in Series D+ deals there was a marked increase in fully participating preferred provisions.



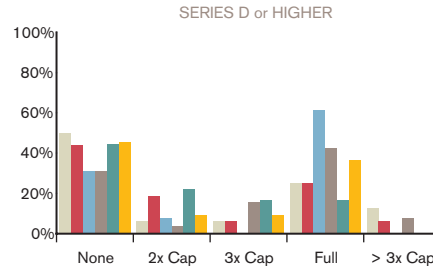
Series	None	2x Cap	3x Cap	Full	>3x
2009 Q1	34.8%	13.0%	17.4%	34.8%	0.0%
2009 Q2	34.3%	2.9%	5.7%	51.4%	5.7%
2009 Q3	53.8%	3.8%	0.0%	42.3%	0.0%
2009 Q4	37.5%	8.3%	12.5%	29.2%	12.5%
2010 Q1	55.0%	5.0%	0.0%	25.0%	15.0%
2010 Q2	68.4%	5.3%	5.3%	15.8%	5.3%



Series	None	2x Cap	3x Cap	Full	>3x
2009 Q1	31.3%	0.0%	6.3%	62.5%	0.0%
2009 Q2	44.4%	0.0%	5.6%	38.9%	11.1%
2009 Q3	17.6%	17.6%	23.5%	41.2%	0.0%
2009 Q4	36.8%	5.3%	15.8%	42.1%	0.0%
2010 Q1	36.8%	15.8%	5.3%	42.1%	0.0%
2010 Q2	44.4%	0.0%	11.1%	33.3%	11.1%



Series	None	2x Cap	3x Cap	Full	>3x
2009 Q1	50.0%	6.3%	6.3%	25.0%	12.5%
2009 Q2	43.8%	18.8%	6.3%	25.0%	6.3%
2009 Q3	30.8%	7.7%	0.0%	61.5%	0.0%
2009 Q4	30.8%	3.8%	15.4%	42.3%	7.7%
2010 Q1	44.4%	22.2%	16.7%	16.7%	0.0%
2010 Q2	45.5%	9.1%	9.1%	36.4%	0.0%

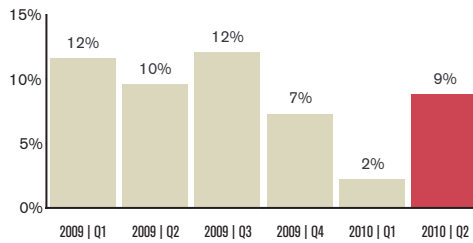


Series	None	2x Cap	3x Cap	Full	>3x
2009 Q1	50.0%	6.3%	6.3%	25.0%	12.5%
2009 Q2	43.8%	18.8%	6.3%	25.0%	6.3%
2009 Q3	30.8%	7.7%	0.0%	61.5%	0.0%
2009 Q4	30.8%	3.8%	15.4%	42.3%	7.7%
2010 Q1	44.4%	22.2%	16.7%	16.7%	0.0%
2010 Q2	45.5%	9.1%	9.1%	36.4%	0.0%

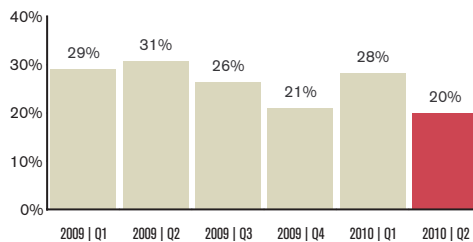
PERCENTAGE OF DEALS WITH PAY-TO-PLAY—By Quarter and Series. The data show an increase in utilization of this provision at a level not seen since Q3 2009. This increase is primarily driven by a substantial increase in the number of Series D+ deals that included pay to play provisions during Q2.



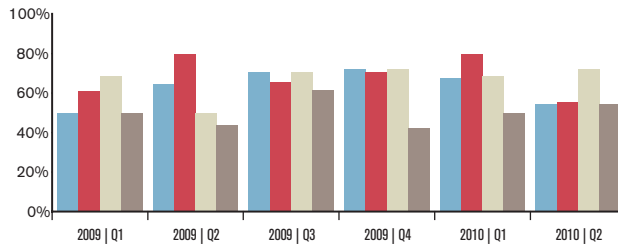
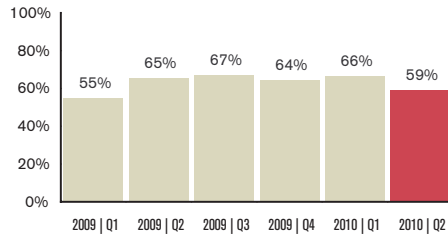
RECAPITALIZATIONS—By Quarter. We observed an increase in recapitalization transactions in Q2 2010 over the prior quarter. This level is trending toward the levels we saw in the first three quarters of 2009, during which there was substantial recapitalization activity.



TRANCHED DEALS—By Quarter. The percentage of deals that were structured in tranches decreased from the prior quarter and reversed the quarterly increase we saw in Q1 2010.

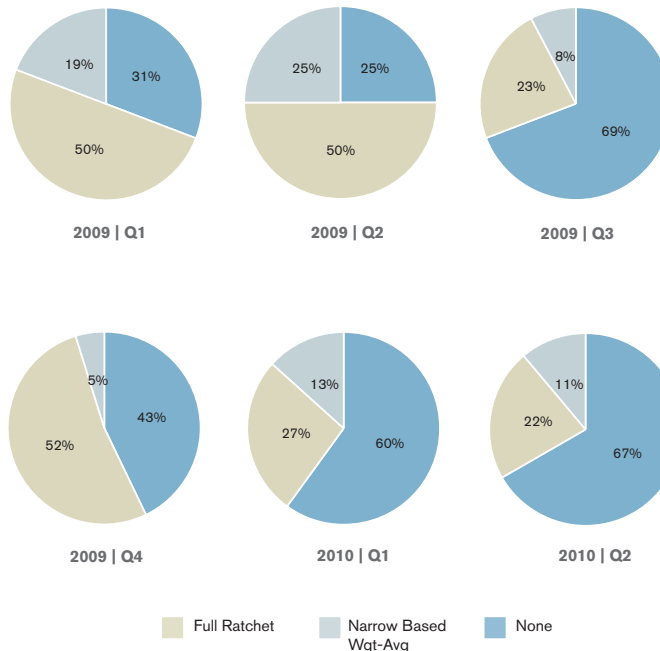


PERCENTAGE OF DEALS WITH DRAG-ALONG—By Quarter and Series. Use of this provision decreased slightly and remained consistent with general levels observed over the prior four quarters.

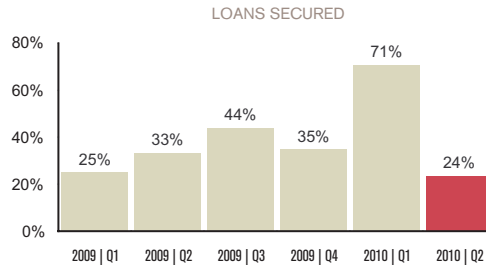
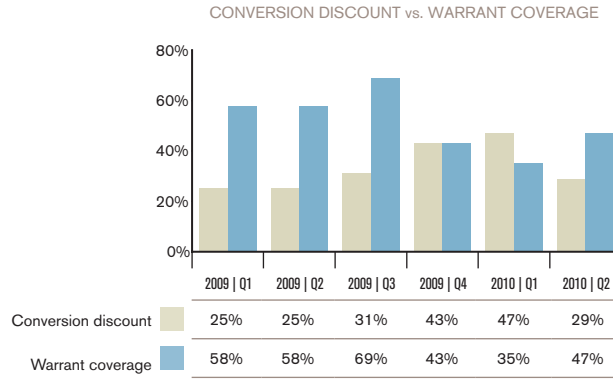


	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2
Series A	50.0%	64.5%	70.4%	72.2%	67.7%	54.5%
Series B	60.9%	80.0%	65.4%	70.8%	80.0%	55.6%
Series C	68.8%	50.0%	70.6%	72.2%	68.4%	72.2%
Series D or Higher	50.0%	43.8%	61.5%	42.3%	50.0%	54.5%

ANTI-DILUTION PROTECTION (Broad Based Removed)—By Quarter. During Q2 2010, approximately 91% of the transactions included broad-based weighted average anti-dilution protection compared to 85% in Q1 2010 and 83% over the last two years. The chart below breaks down the remaining 9% of the transactions.



BRIDGE LOANS. We reviewed bridge loan terms this quarter to determine the utilization of conversion discounts as compared to warrant coverage. We observed a significant increase in the usage of conversion discounts from Q3 2009 through Q1 2010 and a corresponding decrease in the usage of warrant coverage during the same period. The Q2 2010 percentages have reversed the trend as approximately half of bridge note transactions included warrant coverage. In addition, we saw a substantial decrease in Q2 in the percentage of deals that were secured by the Company's assets.



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ABOUT THIS REPORT This quarterly report provides data reflecting Cooley's experience in venture capital financing terms and trends. Information is taken from transactions in which Cooley served as counsel to either the issuing company or investors. For more information regarding this report, please contact the Cooley attorneys listed below.

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