

2010 Venture Financing in Review—A Year of Slow Recovery*

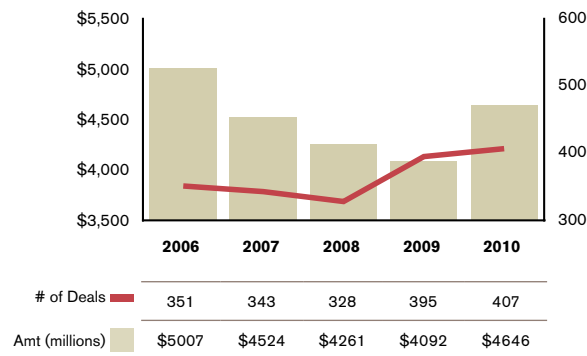
Though far from a return to the heady days of the late 1990's, financing trends in 2010 did see a rebound from the prior year. Deal volume increased from 2009, and aggregate dollars invested surpassed levels seen during the past several years. Also of note was the direction of median pre-money valuations. All series of financings saw an increase in valuations over the prior year, a trend that was especially pronounced in later stage deals. The data also show a sizeable increase in the number and percentage of deals with a pre-money valuation greater than \$100 million, with deal volume reaching a level not seen since 2005. Additionally, the percentage of up rounds had a marked increase over 2009, with a significant uptick seen in the final quarter of the year. As 2010 came to a close, 72% of Q4 financings were up rounds, the highest percentage we have witnessed since 2006. In another signal of recovery, we saw recapitalization transactions decrease to 2007 levels.

During 2010, basic deal terms continued to show signs of slow improvement. Deals including fully participating preferred provisions dropped to just 29%. Additionally, all financing stages, outside of Series D+ deals, had fewer multiple liquidation preference provisions than in the prior year. Also continuing this trend towards company-friendly terms, we saw a decrease in deals with pay-to-play provisions in 2010 to just 10%, also reaching 2007 levels.

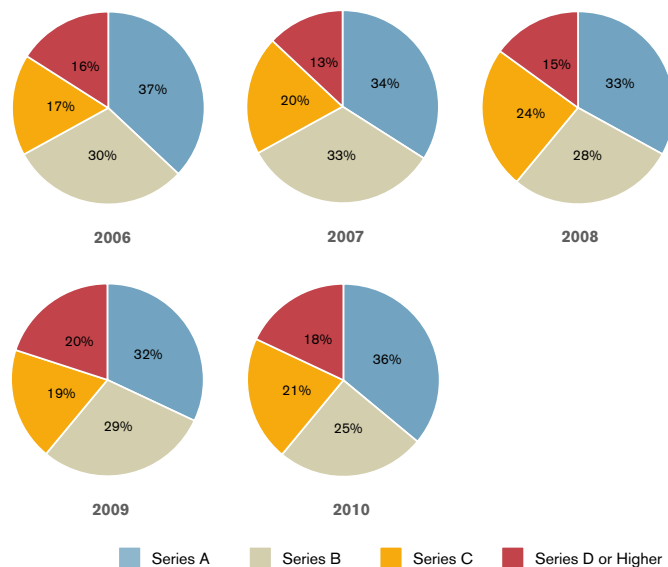
In a signal of recovery, 72% of Q4 financings were up rounds.

TRENDS IN FINANCIAL TERMS

TOTAL DEAL VOLUME AND AGGREGATE DOLLARS RAISED. Overall deal volume and aggregate dollars raised increased over the prior year. In 2010, deal volumes reached a level not seen in the last five years.

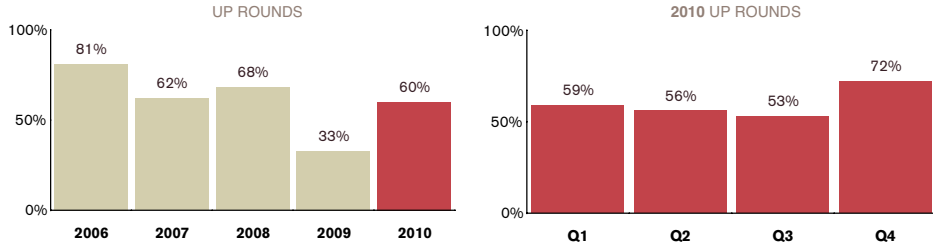


DEAL BREAKDOWN—By Series. 2010 saw an uptick in the percentage of Series A deals reaching a level not seen since 2006. Series B deals decreased year over year. Other deal stages were relatively consistent with prior years.



*Analysis based upon 102 completed deals totaling approximately \$1.4 billion in the fourth quarter of 2010, 103 completed deals totaling approximately \$1.15 billion in the third quarter of 2010, 107 completed deals totaling approximately \$1.06 billion in the second quarter of 2010, and 95 completed deals totaling approximately \$1.06 billion in the first quarter of 2010.

PERCENTAGE OF UP, DOWN AND FLAT ROUNDS. The data show a significant increase in the percentage of up rounds and a corresponding decrease in flat/down rounds in 2010. The level of up rounds was especially strong in Q4.



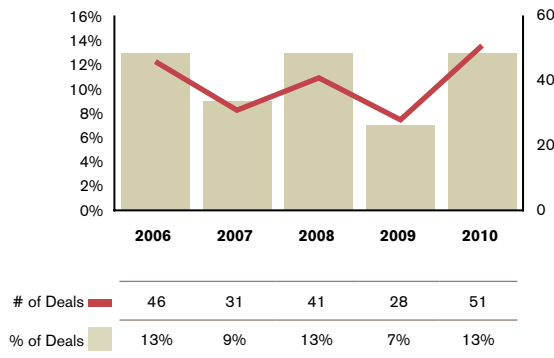
MEDIAN PRE-MONEY VALUATION (millions \$)—By Series. We saw an increase in median pre-money valuations across all deal stages in 2010 as compared to 2009.



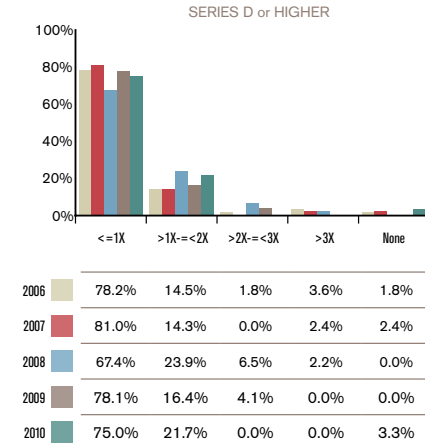
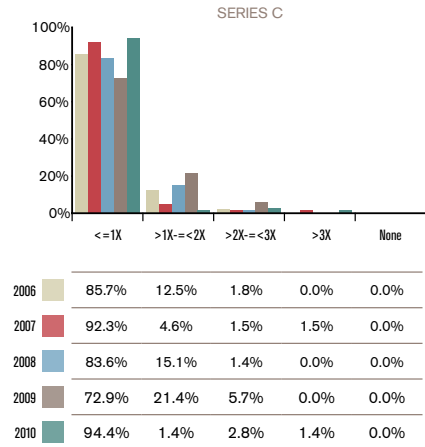
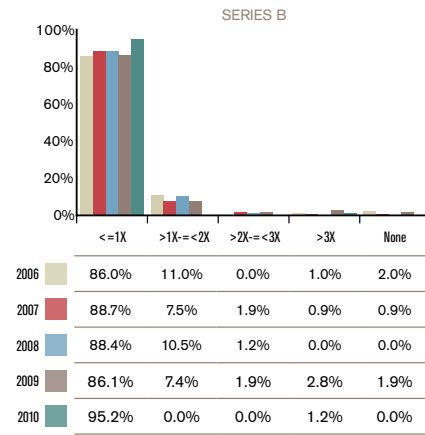
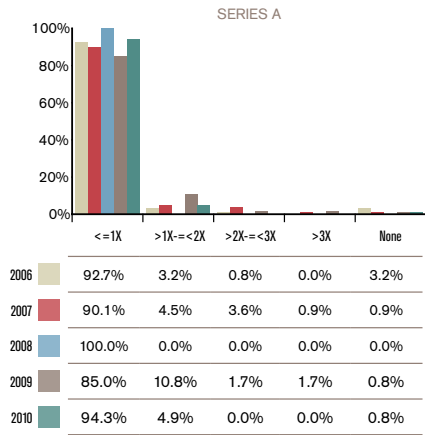
2010 MEDIAN PRE-MONEY VALUATION (millions \$)—By Series. In Q4, we saw median pre-money valuation increases in later stage financings and decreases in valuations for Series A and B deals. Please note that the Q4 Series D+ data includes five deals with median pre-money valuations greater than \$200 million.



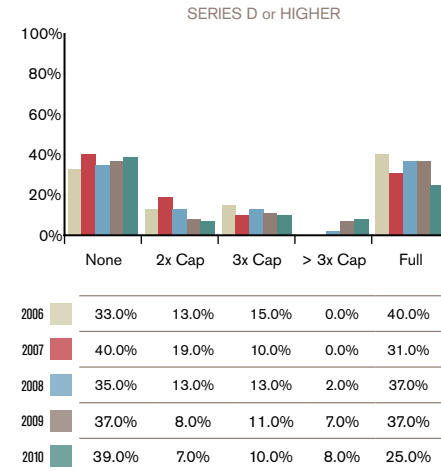
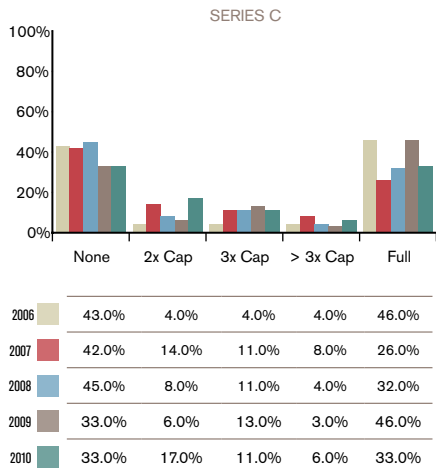
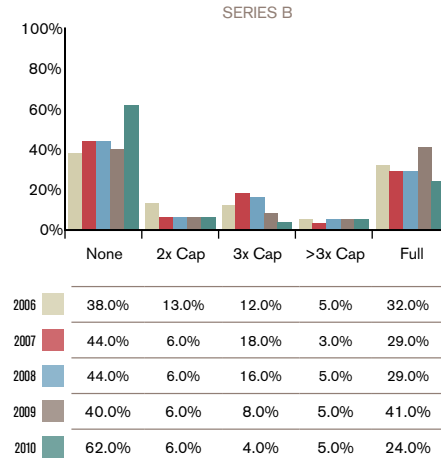
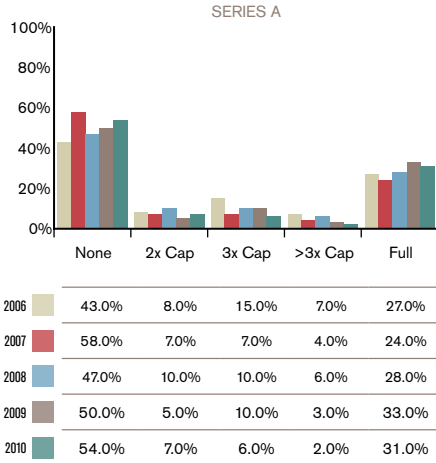
PRE-MONEY VALUATIONS OF MORE THAN \$100 MILLION—By Deal. The data point to a significant increase in both the number and percentage of 2010 deals with a median pre-money valuation greater than \$100 million.



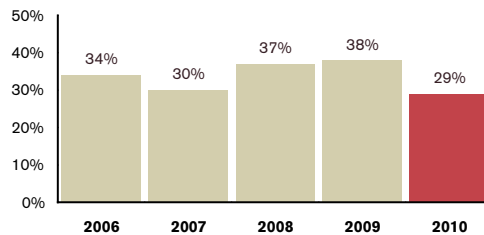
LIQUIDATION PREFERENCE—By Series. In 2010, the percentage of deals with a liquidation preference of greater than 1x decreased in all deal stages other than Series D+.



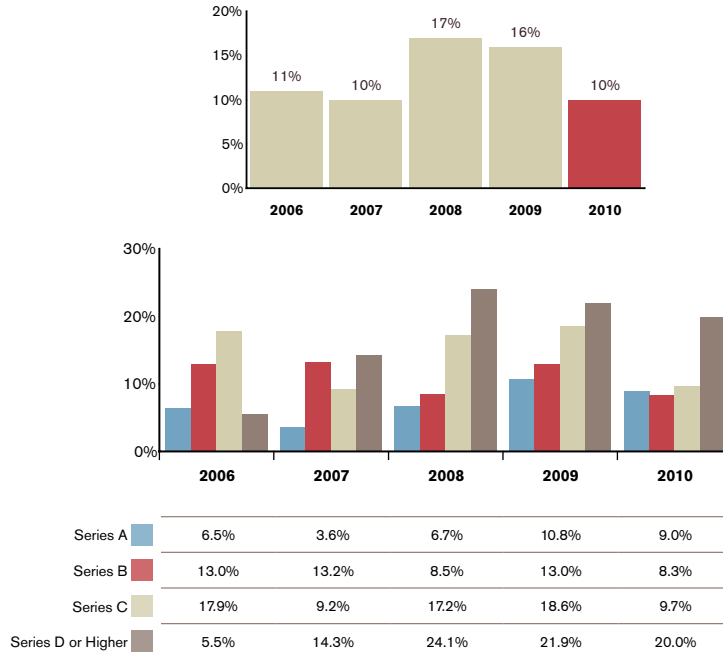
LIQUIDATION PREFERENCE: PARTICIPATION FEATURES—By Series. There was an overall decrease in 2010 in the percentage of deals with fully participating preferred provisions across all series compared to 2009. This decrease was especially significant in Series A and B deals, which reflects the more company favorable terms observed in 2010.



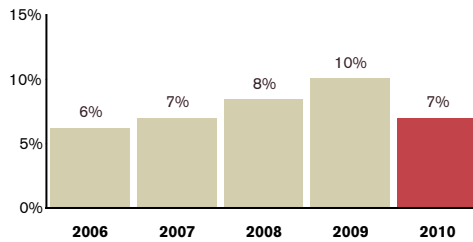
PERCENTAGE OF DEALS WITH FULLY PARTICIPATING PREFERRED—By Year.



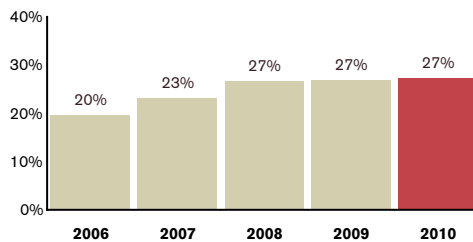
PERCENTAGE OF DEALS WITH PAY-TO-PLAY—By Year and Series. During 2010, there was a sizeable decrease in the utilization of pay-to-play provisions across all series. The largest decreases were observed in Series B and C financings.



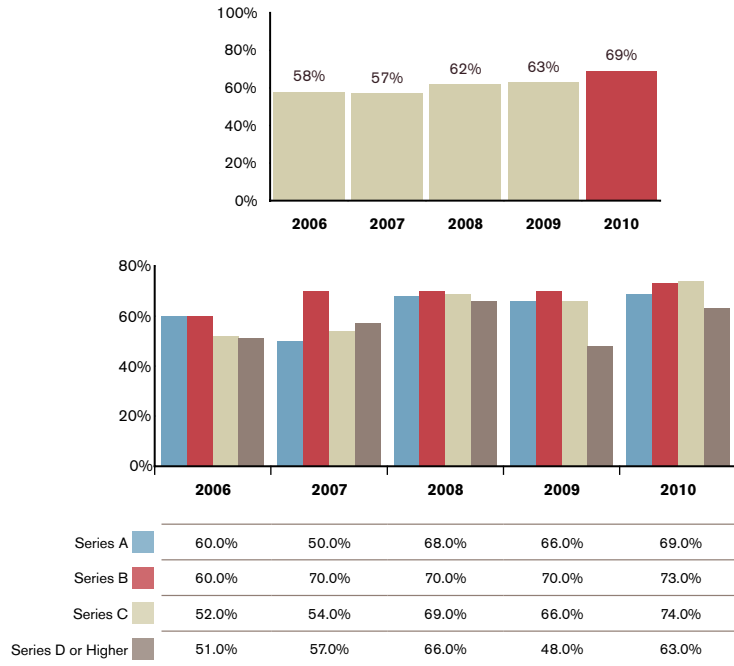
RECAPITALIZATIONS—By Year. We observed a significant drop in recapitalization transactions in 2010 compared to the prior two years. This would indicate more stability in the financing environment as we move into 2011.



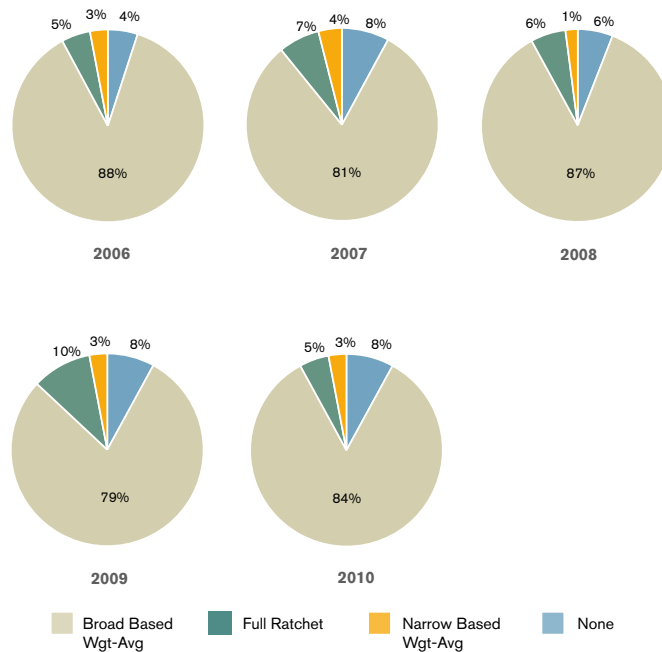
TRANCHED DEALS—By Year. The percentage of deals that were structured in tranches remained relatively flat from prior years.



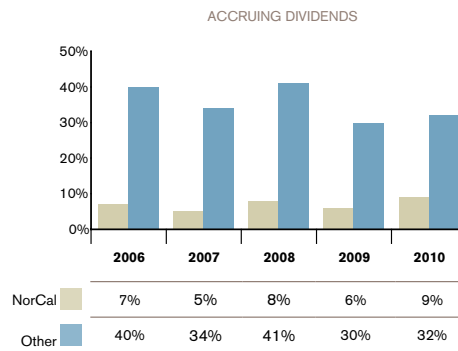
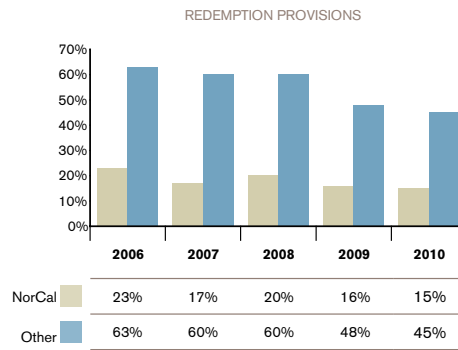
PERCENTAGE OF DEALS WITH DRAG-ALONG—By Year and Series. Utilization of drag-along provisions increased in 2010 across all deal stages. The increase was most pronounced in later stage deals.



ANTI-DILUTION PROTECTION—By Year. During 2010, approximately 84% of the transactions included broad-based weighted average anti-dilution protection compared to 79% in 2009 and 83% over the last two years. The chart below breaks down the percentage of deals with broad-based weighted average, narrow-based weighted average, full ratchet, and no anti-dilution protection. Notably, there was a significant decrease in the utilization of full ratchet provisions during 2010 as compared to 2009—another indication of increased investor optimism.



REDEMPTION PROVISION AND DIVIDEND PROVISION UTILIZATION—By Region.



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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