

Venture Financing in Q3 2009—Slow but Continued Improvement*

In general the third quarter of 2009 showed signs of slow but continued improvement in certain financial terms and metrics while showing deterioration in others. Median pre-money valuations in earlier rounds of financing saw improvements over the first half of 2009 while median pre-money valuations in later rounds declined. During the third quarter of 2009, a higher percentage of deals were up rounds versus down or flat rounds as compared to the prior quarter, and pay-to-play provisions, drag-along provisions and fully participating preferred provisions were utilized during the third quarter at approximately the same frequency as during the second quarter.

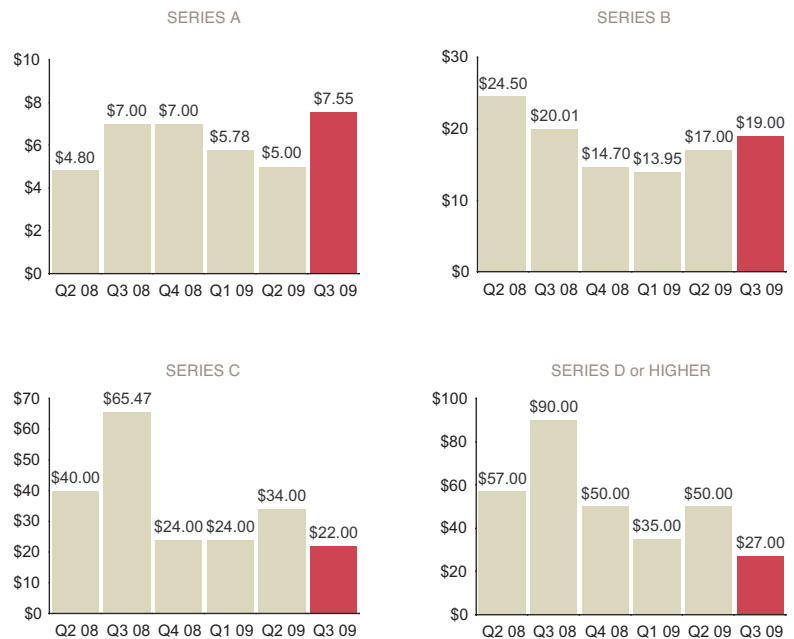
Transaction volumes and valuations during this past quarter and during the first half of this year continue to be significantly below the first three quarters of last year.

Regular readers of these reports will find the data they are accustomed to receiving in the Annex at the end of this report, along with other statistical data collected for the current period.

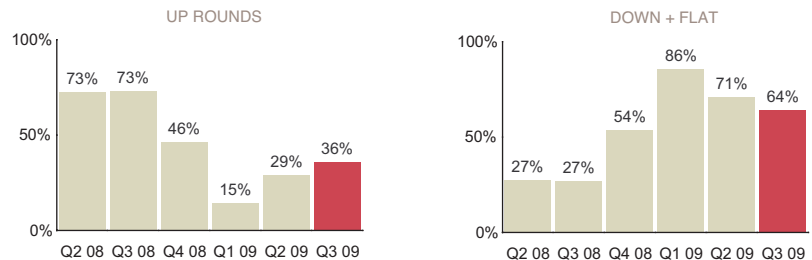
* Analysis based upon 75 completed deals totaling approximately \$845 million in the third quarter of 2009, 98 completed deals totaling approximately \$1 billion in the second quarter of 2009, 80 completed deals totaling approximately \$729 million in the first quarter of 2009, 114 completed deals totaling approximately \$1 billion in the fourth quarter of 2008, 92 completed deals totaling approximately \$1.4 billion in the third quarter of 2008, and 92 completed deals totaling approximately \$1.3 billion in the second quarter of 2008.

TRENDS IN FINANCIAL TERMS

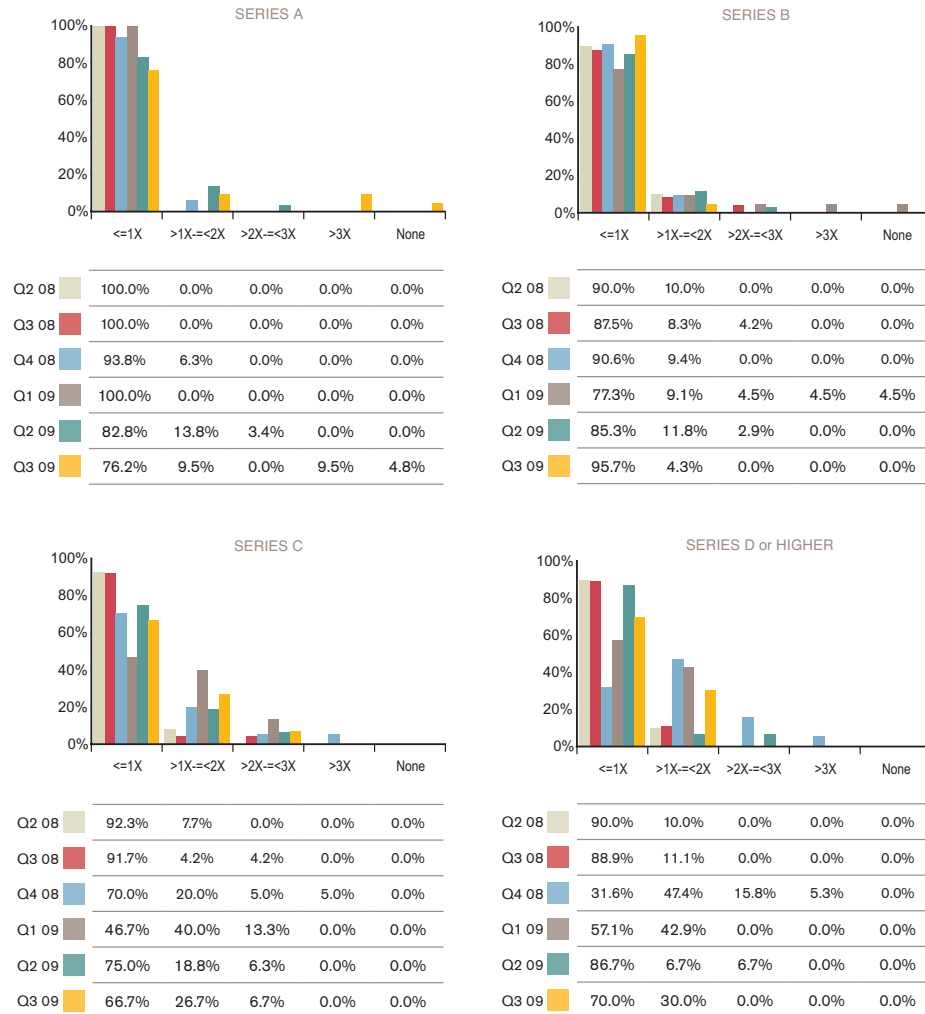
MEDIAN PRE-MONEY VALUATION (millions \$)—By Series. Earlier rounds of financing (Series A & B) saw improvements on the median pre-money valuations, with the greatest improvements observed in Series A, while median pre-money valuations in later rounds (Series C & D) decreased as compared to 2008 and the first half of 2009.



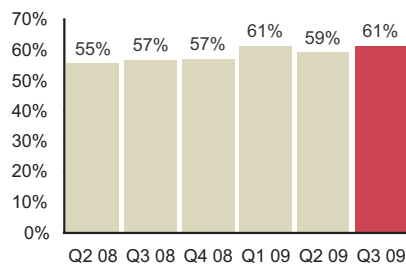
PERCENTAGE OF UP, DOWN, AND FLAT ROUNDS—By Quarter. The upward trend for up rounds of financings detailed in both the First and Second Quarter Venture Financing Reports continues in this report. The percentage of up rounds has not reached 2008 levels, but the upward trend is a positive indicator that companies are increasingly seeing step ups in valuations over prior rounds.



LIQUIDATION PREFERENCE—By Series. Historically we see most transactions retaining a 1x liquidation preference, but with the protracted economic downturn we continue to see a significant percentage of deals with greater than 1x liquidation preferences, particularly in later stage transactions.

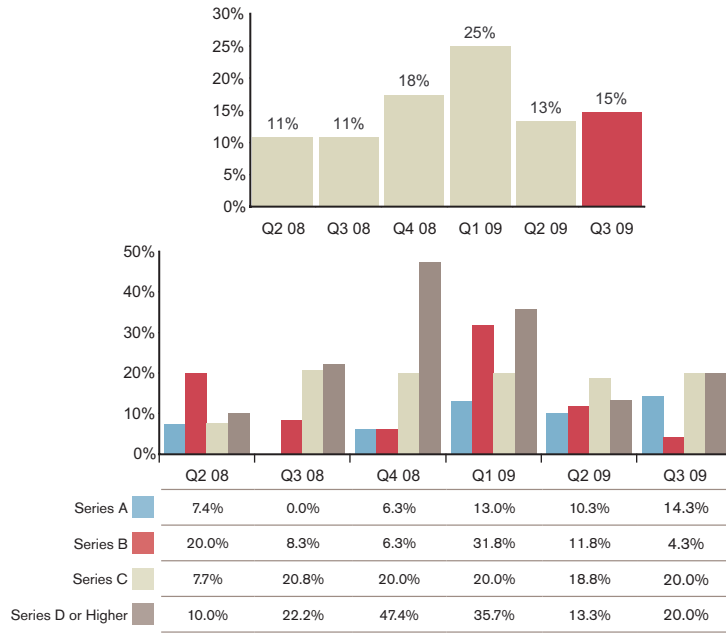


PERCENTAGE OF DEALS WITH FULLY PARTICIPATING PREFERRED—By Quarter. Consistent with 2009 trends, the percentage of deals with fully participating preferred remains higher than during 2008.

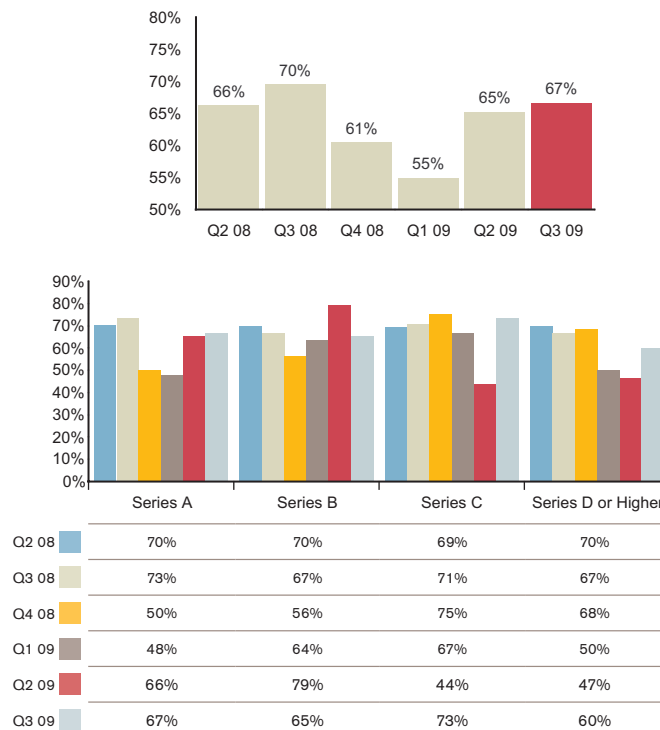


TRENDS IN NON-FINANCIAL TERMS

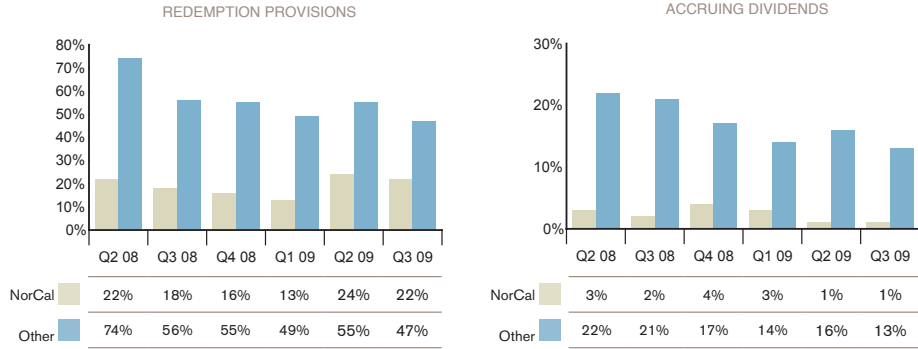
PERCENTAGE OF DEALS WITH PAY-TO-PLAY—By Quarter and Series. Pay-to-play provisions were used extensively in the first quarter of 2009. While still significantly lower in the second and third quarters of 2009, our data for the third quarter compared to the prior quarter shows a slight uptick in deals including such provisions, particularly in Series C and later rounds.



PERCENTAGE OF DEALS WITH DRAG-ALONG—By Quarter and Series. The latter part of 2008 and into the first quarter of 2009 saw a decline in the usage of drag-along provisions. However, continuing the trend we saw in the second quarter, we appear to be returning to early 2008 levels, with increasing use of drag-along provisions.

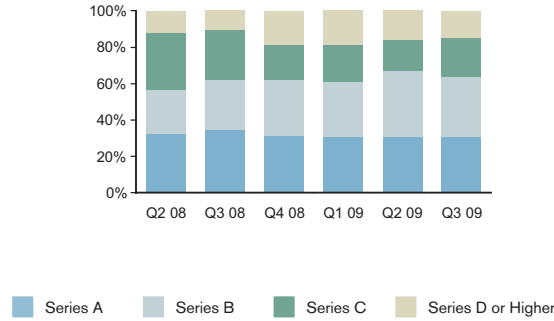


REDEMPTION PROVISION AND DIVIDEND PROVISION UTILIZATION—By Region. In the previous report, we focused our analysis of deals with redemption and dividend provisions by dividing our dataset between Northern California and the rest of our regions, including international. As reported during the last two quarters, redemption provisions and accruing dividend provisions continue to be widely used.



ANNEX

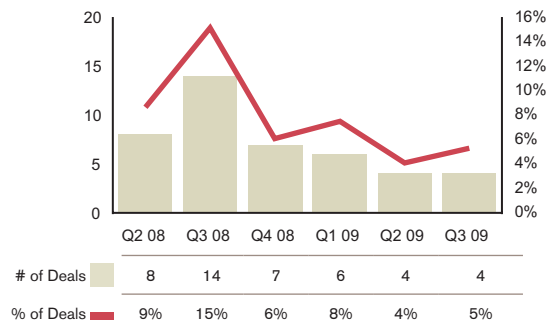
DEAL BREAKDOWN—By Series.



LIQUIDATION PREFERENCE: PARTICIPATION FEATURES—By Series.



PRE-MONEY VALUATIONS OF MORE THAN \$100 MILLION—By Deal.



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ABOUT THIS REPORT This quarterly report provides data from 2008–2009, reflecting Cooley Godward Kronish's experience in venture capital financing terms and trends. Information is taken from transactions in which Cooley Godward Kronish 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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