Cooley LLP

2012 Venture Financing in Review— Deal Volumes Slow as Valuations Stabilize*

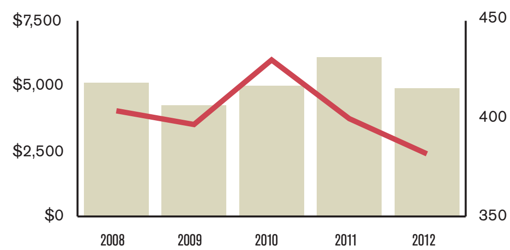
As 2012 came to a close, it marked a year of moderately slowing deal volumes and a decrease in aggregate dollars raised compared to 2011. During 2012, we handled 382 financing transactions. Aggregate dollars raised reached $4.9 billion, a decline from over $6 billion of invested capital seen in 2011. Of note was a disparity in deal volumes and dollars raised between the two halves of the year. The first half of 2012 was on pace to exceed all years since 2007. But the second half of 2012 saw volumes decline markedly. After observing rising valuations throughout 2011, 2012 saw a stabilization of median pre-money valuations across all deal stages, with the exception of Series B deals. Series B median pre-money valuations rose to $30 million, a level not seen since 2007. The data also show a decrease in the number and percentage of 2012 deals with median pre-money valuations greater than $100 million. Of special note was the increase in up rounds through the year and especially during Q4. Up rounds in 2012 reached 75% of all deals, up from 69% in the prior year.

During 2012, basic deals terms continued to point to a company-favorable environment. Deals including fully participating preferred provisions remained relatively flat from the prior year and well below levels seen in 2008-2010. We witnessed a decrease in the number of recapitalization transactions and in the number of tranched deals, both statistics signalling continued investor confidence. Additionally, we saw a decrease in the use of pay-to-play provisions to just 5% of 2012 deals.

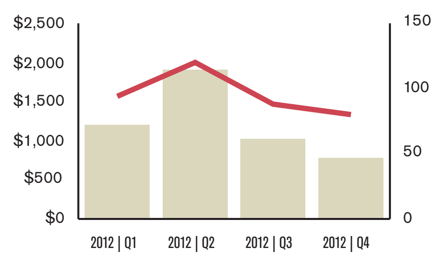
> In a signal of a strong financing environment, 80% of Q4 deals were up rounds.

TRENDS IN FINANCIAL TERMS

TOTAL DEAL VOLUME AND AGGREGATE DOLLARS RAISED. Aggregate dollars raised decreased from the prior year, reaching a level consistent with 2010 volumes.



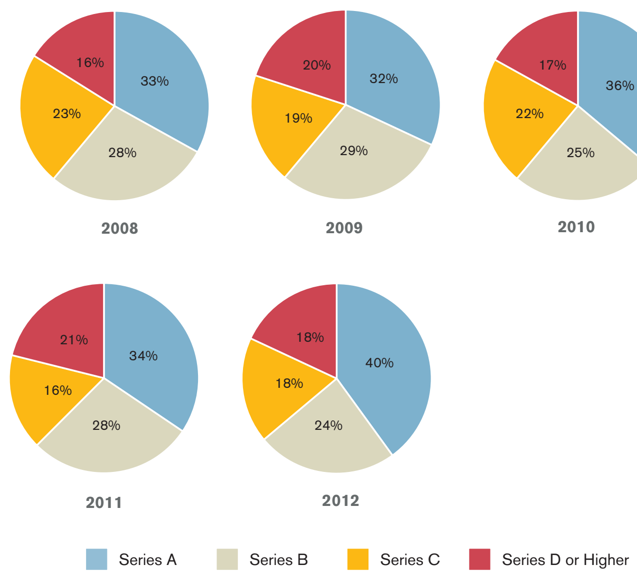
	2008	2009	2010	2011	2012
# of Deals	404	397	430	400	382
Amt (millions)	$5118	$4252	$5012	$6091	$4904



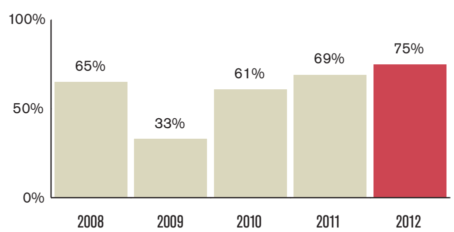
	2012 | Q1	2012 | Q2	2012 | Q3	2012 | Q4
# of Deals	94	120	88	80
Amt (millions)	$1200	$1905	$1020	$778

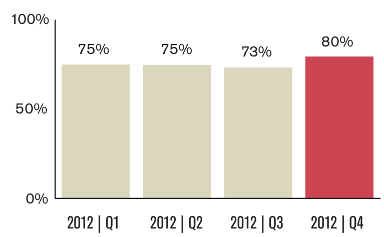
**Quarterly analysis based upon 80 completed deals totaling approximately $778 million in the fourth quarter of 2012, 88 completed deals totaling approximately $1.02 billion in the third quarter of 2012, 120 completed deals totaling approximately $1.9 billion in the second quarter of 2012 and 94 completed deals totaling approximately $1.2 billion in the first quarter of 2012. Year-over-year analysis based upon 382 completed deals totaling approximately $4.9 billion in 2012. 400 completed deals totaling approximately $6.09 billion in 2011, 430 completed deals totaling approximately $5.01 billion in 2010, 397 completed deals totaling approximately $4.25 billion in 2009 and 404 completed deals totaling approximately $5.12 billion in 2008.*

DEAL BREAKDOWN—By Series. 2012 saw an uptick in the number of Series A transactions over the prior year and a decrease in the number of Series B and D+ transactions. The percentage of Series C transactions was relatively flat from the prior year.

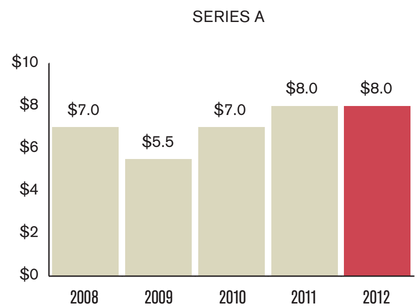


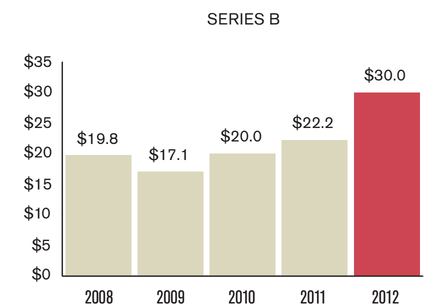
PERCENTAGE OF UP, DOWN AND FLAT ROUNDS. The data show a marked increase in the percentage of up rounds in 2012 compared to the prior year. The level of up rounds was especially strong in Q4, reaching 80% of all deals.

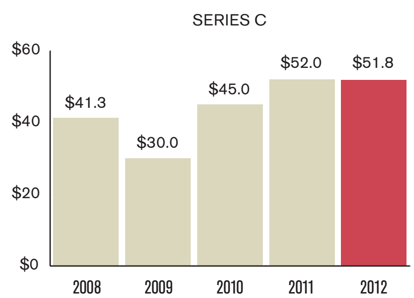


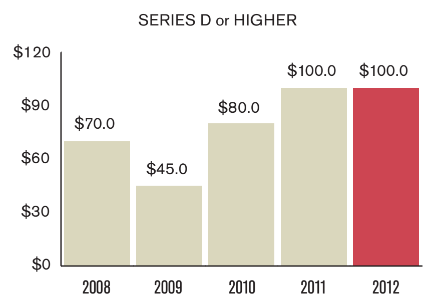


MEDIAN PRE-MONEY VALUATION (millions $)—By Series. We saw median pre-money valuations remain relatively flat from 2011 levels across all deal stages, with the exception of Series B transactions.

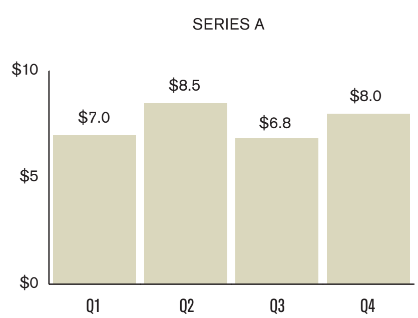


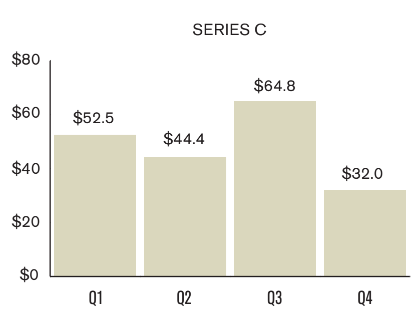


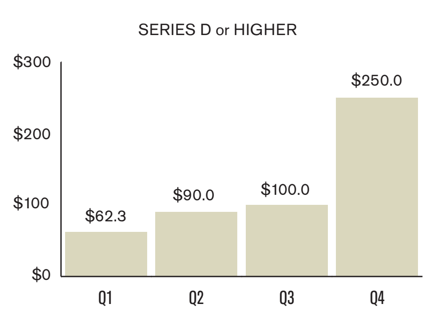




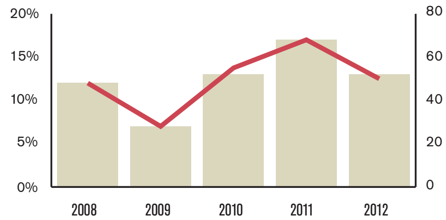
2012 MEDIAN PRE-MONEY VALUATION (millions $)—By Series. In Q4, we saw median pre-money valuation increases in all deal stages other than Series C. The largest uptick was found in Series D+ deals.

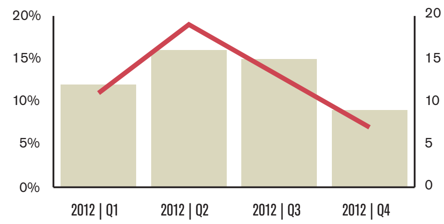






PRE-MONEY VALUATIONS OF MORE THAN $100 MILLION—By Deal. The data point to a decrease in both the number and percentage of 2012 deals with a median pre-money valuation greater than $100 million.

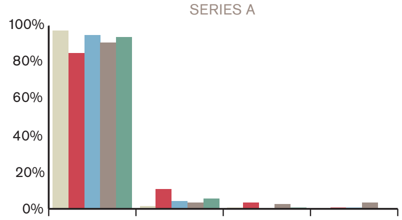




	2008	2009	2010	2011	2012	2012 | Q1	2012 | Q2	2012 | Q3	2012 | Q4
# of Deals	48	28	55	68	50	11	19	13	7
% of Deals	12%	7%	13%	17%	13%	12%	16%	15%	9%

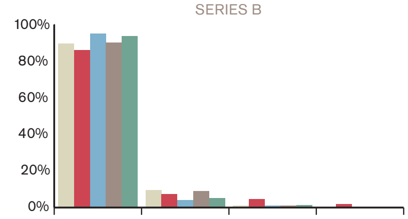
LIQUIDATION PREFERENCE—By Series. In 2012, the percentage of deals with a liquidation preference of 1x or less remained at relatively high levels (between 86% - 94%) for all series of deals.

SERIES A



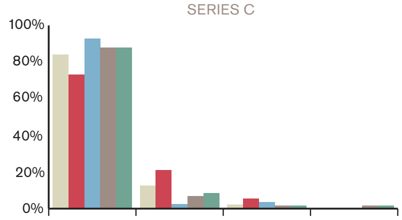
	<=1X	>1X-=<2X	>2X	None
2008	97.5%	1.6%	0.8%	0.0%
2009	85.1%	10.7%	3.3%	0.8%
2010	95.0%	4.3%	0.0%	0.7%
2011	90.9%	3.3%	2.5%	3.3%
2012	93.8%	5.5%	0.8%	0.0%

SERIES B



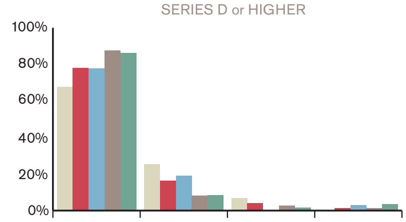
	<=1X	>1X-=<2X	>2X	None
2008	89.6%	9.4%	0.9%	0.0%
2009	86.1%	7.4%	4.6%	1.9%
2010	94.9%	4.0%	1.0%	0.0%
2011	90.0%	9.0%	1.0%	0.0%
2012	93.6%	5.1%	1.3%	0.0%

SERIES C



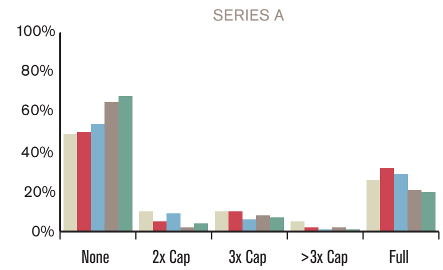
	<=1X	>1X-=<2X	>2X	None
2008	84.1%	12.5%	2.3%	0.0%
2009	73.2%	21.1%	5.6%	0.0%
2010	92.9%	2.4%	3.5%	0.0%
2011	87.9%	6.9%	1.7%	1.7%
2012	87.9%	8.6%	1.7%	1.7%

SERIES D or HIGHER

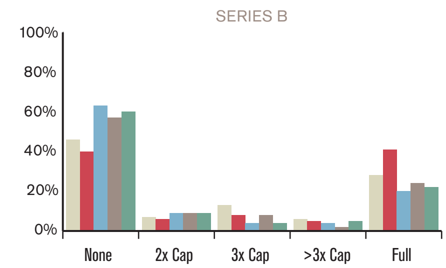


	<=1X	>1X-=<2X	>2X	None
2008	67.8%	25.4%	6.8%	0.0%
2009	78.1%	16.4%	4.1%	1.4%
2010	77.9%	19.1%	0.0%	2.9%
2011	87.7%	8.2%	2.7%	1.4%
2012	86.4%	8.5%	1.7%	3.4%

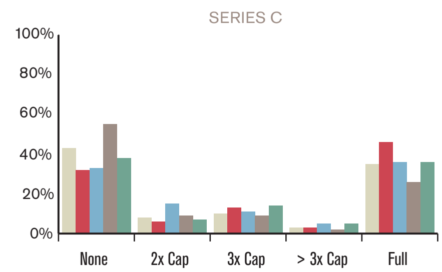
LIQUIDATION PREFERENCE: PARTICIPATION FEATURES—By Series. There was a decrease in 2012 from the prior year in the percentage of deals with fully participating preferred provisions in Series A and B transactions. We saw a corresponding increase in fully participating preferred provisions in later stage transactions during the year.



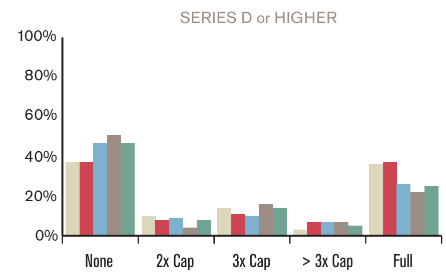
2008	49.0%	10.0%	10.0%	5.0%	26.0%
2009	50.0%	5.0%	10.0%	2.0%	32.0%
2010	54.0%	9.0%	6.0%	1.0%	29.0%
2011	65.0%	2.0%	8.0%	2.0%	21.0%
2012	68.0%	4.0%	7.0%	1.0%	20.0%



2008	46.0%	7.0%	13.0%	6.0%	28.0%
2009	40.0%	6.0%	8.0%	5.0%	41.0%
2010	63.0%	9.0%	4.0%	4.0%	20.0%
2011	57.0%	9.0%	8.0%	2.0%	24.0%
2012	60.0%	9.0%	4.0%	5.0%	22.0%

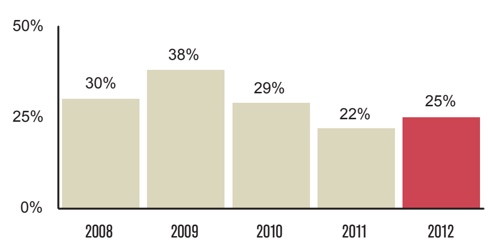


2008	43.0%	8.0%	10.0%	3.0%	35.0%
2009	32.0%	6.0%	13.0%	3.0%	46.0%
2010	33.0%	15.0%	11.0%	5.0%	36.0%
2011	55.0%	9.0%	9.0%	2.0%	26.0%
2012	38.0%	7.0%	14.0%	5.0%	36.0%

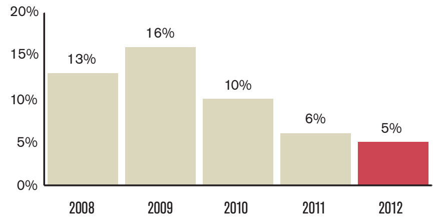


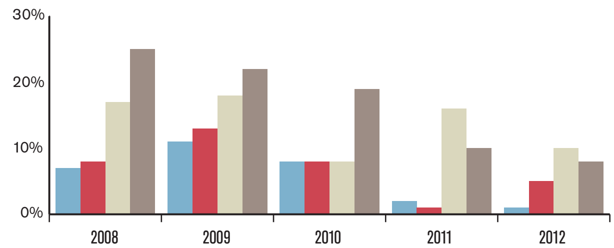
2008	37.0%	10.0%	14.0%	3.0%	36.0%
2009	37.0%	8.0%	11.0%	7.0%	37.0%
2010	47.0%	9.0%	10.0%	7.0%	26.0%
2011	51.0%	4.0%	16.0%	7.0%	22.0%
2012	47.0%	8.0%	14.0%	5.0%	25.0%

PERCENTAGE OF DEALS WITH FULLY PARTICIPATING PREFERRED—By Year.



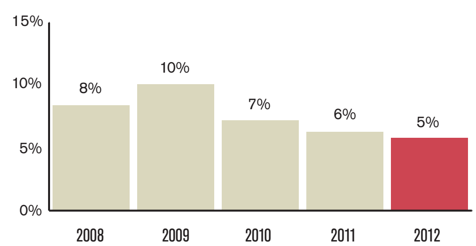
PERCENTAGE OF DEALS WITH PAY-TO-PLAY—By Year and Series. During 2012, there was a decrease in the utilization of pay-to-play provisions across all deal stages other than Series B transactions.



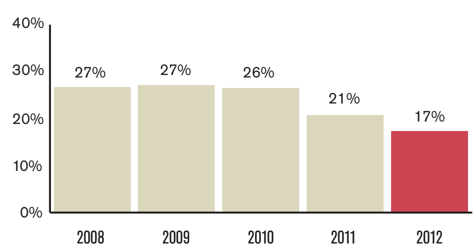


Series A	7%	11%	8%	2%	1%
Series B	8%	13%	8%	1%	5%
Series C	17%	18%	8%	16%	10%
Series D or Higher	25%	22%	19%	10%	8%

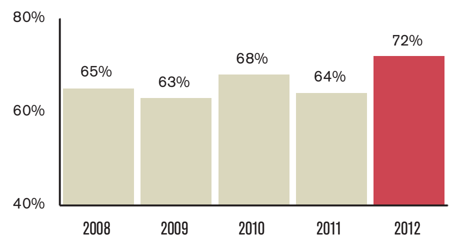
RECAPITALIZATIONS—By Year. We observed a continued trend of fewer recapitalization transactions in 2012. This drop to pre-2007 levels signals in part that the capitalization structures of companies are increasingly aligned with the current market and valuation levels.

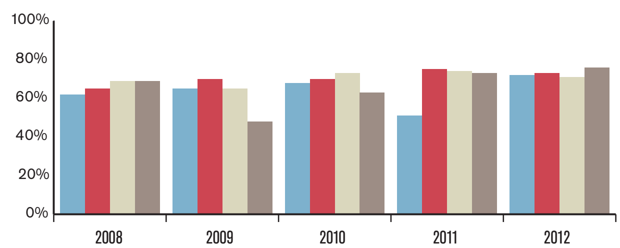


TRANCHED DEALS—By Year. The percentage of deals structured in tranches also decreased from prior years, a signal of investor confidence.



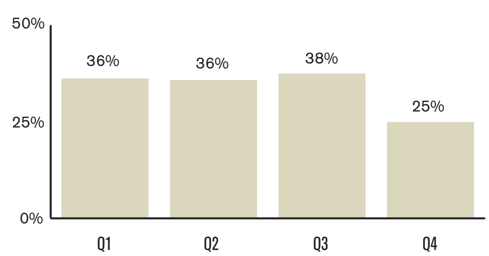
PERCENTAGE OF DEALS WITH DRAG-ALONG—By Year and Series. Utilization of drag-along provisions in 2012 increased to 72% of deals. This rise was most pronounced in Series A transactions.

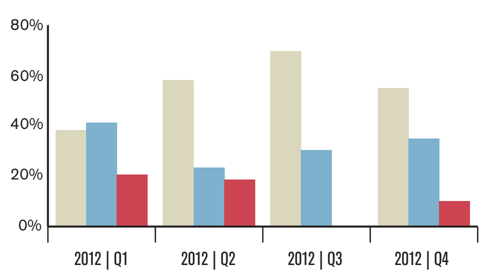




	2008	2009	2010	2011	2012
Series A	62%	65%	68%	51%	72%
Series B	65%	70%	70%	75%	73%
Series C	69%	65%	73%	74%	71%
Series D or Higher	69%	48%	63%	73%	76%

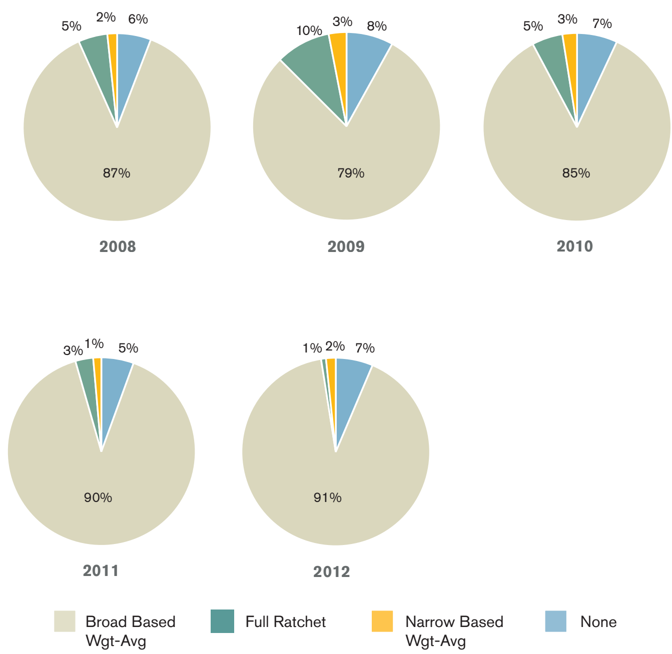
2012 INTERIM BRIDGE FINANCINGS—By Quarter. A significant percentage of 2012 deals were preceded by an interim bridge financing. Of all 2012 deals that had an interim bridge financing, more than 55% of these deals included a conversion discount, while 10% included warrant coverage. 35% of these deals did not include either a conversion discount or warrants.





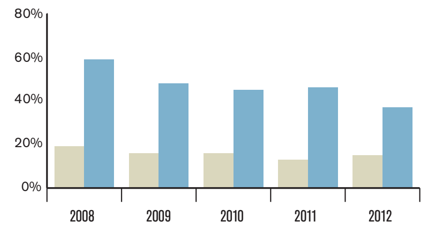
	2012 | Q1	2012 | Q2	2012 | Q3	2012 | Q4
Conversion Discount	38%	58%	70%	55%
None	41%	23%	30%	35%
Warrant Converage	21%	19%	0%	10%

ANTI-DILUTION PROTECTION—By Year. Over the last two years, more than 90% of transactions included broad-based weighted average anti-dilution protection compared to 85% in 2010, 79% in 2009 and 87% in 2008. The chart below breaks out the percentage of deals with broad-based weighted average, narrow-based weighted average, full ratchet and no anti-dilution protection. Notably, we saw another decrease in the utilization of full ratchet provisions from 2011, a further signal of investor confidence.



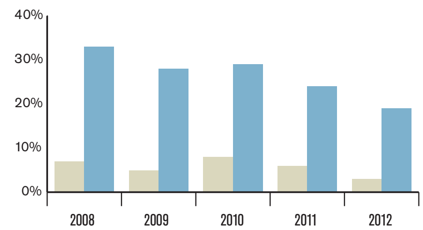
REDEMPTION PROVISION AND DIVIDEND PROVISION UTILIZATION—By Region. We continue to observe a gap in redemption and dividend provisions between the Silicon Valley and other regions.

REDEMPTION PROVISIONS



	2008	2009	2010	2011	2012
NorCal	19%	16%	16%	13%	15%
Other	59%	48%	45%	46%	37%

ACCRUING DIVIDENDS



	2008	2009	2010	2011	2012
NorCal	7%	5%	8%	6%	3%
Other	33%	28%	29%	24%	19%

About The Cooley Venture Financing 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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