WSGR Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

THE ENTREPRENEURS REPORT:
Private Company Financing Trends

Q1 2012

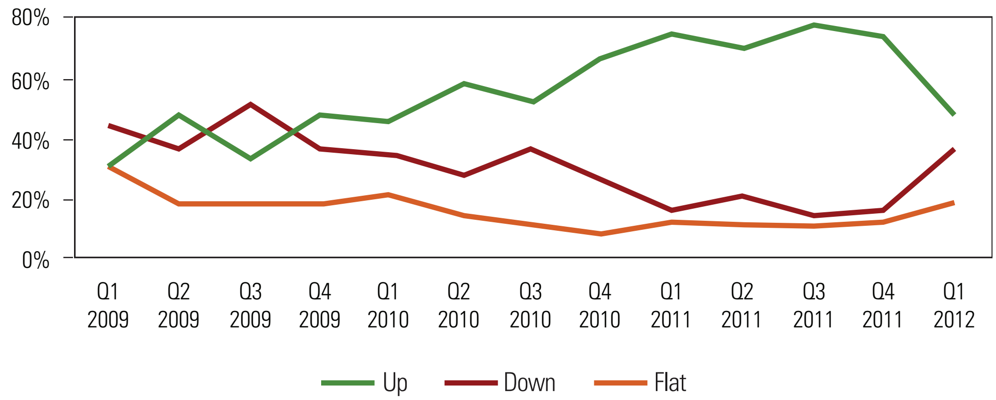
From the WSGR Database: Financing Trends for Q1 2012

The first quarter of 2012 showed a decline in both the number of deals that were funded and the total dollars raised, although valuations and amounts raised remained strong for all but Series B financings. Median amounts raised in Series C and later financings increased significantly from those seen in the fourth quarter of 2011 while maintaining nearly the same median valuation. Series A transactions, not including angel deals, also increased modestly in terms of both amounts raised and valuation.

Series B valuations for software companies were an exception to the general rule and, together with valuations for later-stage financings generally, were higher in the first quarter of 2012 than in the fourth quarter of last year. Valuations for early-stage life sciences companies were up, whereas clean technology saw median valuations decline for all series, despite several deals at high valuations. Price signals in other business sectors were generally mixed. The strength in late-stage financings reflects increased optimism resulting from improving public markets, in particular successful and anticipated initial public offerings.

For purposes of the statistics and charts in this report, our database includes venture financing transactions in which Wilson Sonsini Goodrich & Rosati represented either the company or one or more of the investors. We do not include venture debt or venture leasing transactions.

Up and Down Rounds by Quarter



Up and Down Rounds

Up rounds as a percentage of total financings declined markedly, from 73% in Q4 2011 to 47% in Q1 2012. The proportion of up rounds returned to levels last seen in late 2009 and the first nine months of 2010, before they rose to 70-75% levels for each quarter in 2011. Down rounds as a percentage of the total increased considerably, from 15% of all financings in Q4 2011 to 35% in Q1 2012, while flat rounds also increased, from 12% to 18%. The down rounds were primarily in the clean technology and life sciences industries, two sectors that have been experiencing corrections.

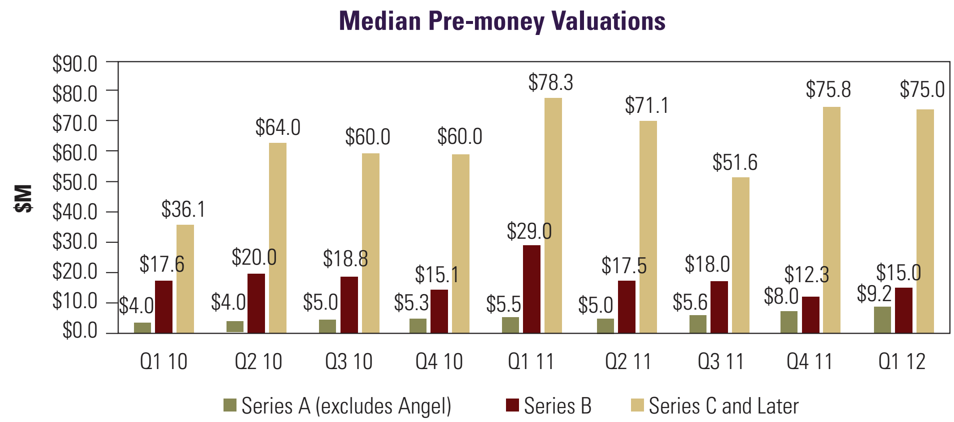
Valuations

Companies that raised money in Series A venture financings in Q1 2012 did so at valuations significantly higher than those in Q3-Q4 2011. The median pre-money valuation for Q1 2012 Series A rounds (other than angel deals) was $9.2 million, compared with $8.0 million in Q4 2011 and $5.6 million in Q3 2011. For companies raising funds in Series B rounds, the median Q1 2012 valuation rose to $15.0 million from $12.3 million in Q4, although both of those figures were lower than the $18.0 million median Series B pre-money valuation in Q3 2011. For companies raising funds in Series C and later rounds, the median pre-money valuation in Q1 2012 essentially stayed flat at $75.0 million, compared with $75.8 million in Q4 2011. Valuations in later-stage transactions showed more stability on average, but diverged by industry, with lower valuations in clean technology and life sciences, but increasing valuations in software as well as media and information services.

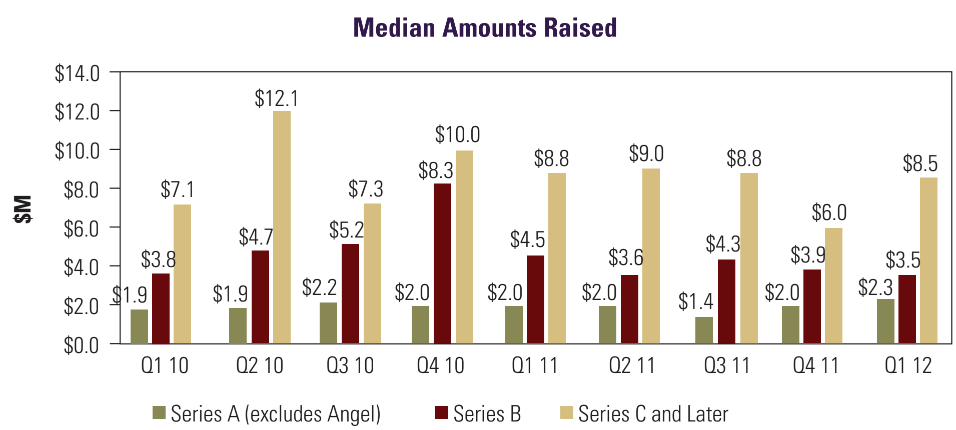
Amounts Raised

From Q4 2011 to Q1 2012, median amounts raised increased slightly for non-angel Series A rounds, decreased slightly for Series B rounds, and increased considerably for Series

(Continued on page 2)



C and later rounds. The median amount raised in non-angel Series A rounds increased slightly, from $2.0 million in Q4 2011 to $2.3 million in Q1 2012. For Series B rounds, the median amount raised fell slightly, from $3.9 million in Q4 2011 to $3.5 million in Q1 2012. For Series C and later rounds, the median amount raised increased considerably, from $6.0 million in Q4 2011 to $8.5 million in Q1 2012.[1]



Deal Terms

Liquidation preferences. The use of senior liquidation preferences decreased markedly from Q4 2011 to Q1 2012, accounting for 58% of Series B and later rounds in Q4 and 45% of such rounds in Q1 2012. The decrease occurred in both up rounds, from 42% to 31%, and down rounds, from 100% to 73%. Conversely, the use of *pari passu* liquidation preferences increased markedly, from 42% of Series B and later rounds in Q4 2011 to 55% in Q1 2012. The increases occurred in both up rounds, from 58% to 69%, and down rounds, from 0% to 27%.

Participation rights. The proportion of deals with non-participating preferred stock decreased from 64% in Q4 2011 to 53% in Q1 2012. The proportion increased slightly in down rounds, from 25% to 27%, but decreased in up rounds, from 68% to 56%.

Among participating preferred stock deals, the percentage of deals with no-cap participating preferred stock increased significantly, from 17% in Q4 2011 to 29% in Q1 2012, and the increase was particularly strong in up rounds, from 5% of such deals in Q4 2011 to 31% in Q1 2012. The percentage of deals with capped participating preferred stock stayed essentially flat at 18% in Q1 2012 compared with 19% in Q4 2011. An increasing number of companies in up-round financings may have been willing to trade higher valuations for participating preferred stock.

Anti-dilution provisions. Broad-based weighted-average anti-dilution protection continues to be overwhelmingly prevalent, and its proportional use increased from 82% of deals in Q4 2011 to 94% in Q1 2012. Meanwhile, the use of narrow-based weighted-average increased from 1% to 2% and full-ratchet anti-dilution protection decreased from 6% to 2%. Interestingly, the use of broad-based weighted-average in Series B and later financings increased notably in up rounds, from 89% in Q4 2011 to 100% in Q1 2012, but decreased in down rounds, from 100% to 82%. Conversely, the use of ratchet anti-dilution decreased in up rounds, from 6% in Q4 2011 to 0% in Q1 2012, but increased in down rounds, from 0% to 9%.

Pay-to-play provisions. The use of pay-to-play provisions stayed essentially flat at 12% of deals in Q1 2012, compared with 13% of deals in Q4 2011. Usage increased in up rounds, from 0% to 6%, and decreased in down rounds, from 50% to 20%. Pay-to-play provisions applied equally to current financings and future financings (used in 6% of deals).

Redemption. The use of redemption provisions increased from 17% of deals in Q4 2011 to 26% in Q1 2012. Investor-option redemption (used in 25% of deals) continued to be far more popular than mandatory redemption (1%).

[1] It is important to note that the median amounts raised are calculated on a quarter-by-quarter basis only, and do not reflect the total amounts raised by a company if funding for a given round occurred in multiple quarters. For example, 23% of the companies that raised funds in Q1 2012 did so as a continuation of financing rounds that had closings in prior quarters. We expect this trend to continue, and anticipate that a significant percentage of companies that closed initial rounds in Q1 will have subsequent closings of the same round of financing in later quarters.

Private Company Financing Trends (WSGR Deals)[1]

	2010 All Rounds[2]	2011 All Rounds[2]	Q4 2011 All Rounds[2]	Q1 2012 All Rounds[2]	2010 Up Rounds[3]	2011 Up Rounds[3]	Q4 2011 Up Rounds[3]	Q1 2012 Up Rounds[3]	2010 Down Rounds[3]	2011 Down Rounds[3]	Q4 2011 Down Rounds[3]	Q1 2012 Down Rounds[3]
Liquidation Preferences - Series B and Later												
Senior	50%	47%	58%	45%	38%	34%	42%	31%	63%	79%	100%	73%
Pari Passu with Other Preferred	48%	51%	42%	55%	59%	64%	58%	69%	34%	18%	0%	27%
Complex	2%	1%	0%	0%	3%	1%	0%	0%	3%	3%	0%	0%
Not Applicable	0%	1%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%
Participating vs. Non-participating												
Participating - Cap	23%	16%	19%	18%	26%	17%	26%	13%	22%	22%	25%	18%
Participating - No Cap	27%	26%	17%	29%	21%	24%	5%	31%	34%	46%	50%	55%
Non-participating	49%	58%	64%	53%	53%	59%	68%	56%	45%	32%	25%	27%
Anti-dilution Provisions												
Weighted Average - Broad	91%	91%	82%	94%	95%	91%	89%	100%	89%	80%	100%	82%
Weighted Average - Narrow	3%	4%	1%	2%	4%	7%	0%	0%	3%	6%	0%	9%
Ratchet	3%	3%	6%	2%	1%	2%	6%	0%	2%	6%	0%	9%
Other (Including Blend)	3%	3%	11%	3%	1%	1%	5%	0%	6%	9%	0%	0%
Pay to Play - Series B and Later												
Applicable to This Financing	9%	6%	0%	6%	3%	1%	0%	0%	17%	20%	0%	10%
Applicable to Future Financings	4%	6%	13%	6%	2%	4%	0%	6%	3%	11%	50%	10%
None	87%	88%	87%	88%	95%	94%	100%	94%	80%	69%	50%	80%
Redemption												
Investor Option	24%	22%	16%	25%	23%	25%	18%	27%	29%	32%	25%	18%
Mandatory	1%	2%	1%	1%	0%	2%	6%	0%	3%	3%	0%	9%
None	74%	76%	83%	73%	77%	73%	76%	73%	68%	65%	75%	73%

[1] We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.
[2] Includes flat rounds and, unless otherwise indicated, Series A rounds.
[3] Note that the All Rounds metrics include flat rounds and, in certain cases, Series A financings as well. Consequently, metrics in the All Rounds column may be outside the ranges bounded by the Up Rounds and Down Rounds columns, which will not include such transactions.

Wilson Sonsini Goodrich & Rosati No. 1 in Q1 2012 Venture Financing Rankings

Dow Jones VentureSource's legal rankings for issuer-side venture financing deals in Q1 2012 placed Wilson Sonsini Goodrich & Rosati ahead of all other firms by the total number of rounds of equity financing raised on behalf of clients.

The firm is credited as legal advisor in 70 rounds of financing,[1] up from 58 rounds in Q1 2011, and ranked first nationally in Q1 2012 issuer-side deals in the following industries: clean technology, communications and networking, energy and utilities, information technology,[2] consumer goods, consumer services, industrial goods and materials, semiconductors, electronics and computer hardware, and software.

---

[1] As VentureSource continues to collect data and update its database, newly reported deals from a given time period may alter previously reported results.

[2] Information technology includes the following subsectors: semiconductors, communications/networking, electronics/computer hardware, and software.

Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

650 Page Mill Road, Palo Alto, California 94304-1050 | Phone 650-493-9300 | Fax 650-493-6811 | www.wsgr.com

Austin Brussels Georgetown, DE Hong Kong New York Palo Alto San Diego San Francisco Seattle Shanghai Washington, DC

For more information on the current venture capital climate, please contact any member of Wilson Sonsini Goodrich & Rosati's entrepreneurial services team. To learn more about WSGR's full suite of services for entrepreneurs and early-stage companies, please visit the "Entrepreneurial Services" section of wsgr.com.

For more information about this report or if you wish to be included on the email subscription list, please contact Eric Little (elittle@wsgr.com). There is no subscription fee.