Silicon Valley Venture Capital Survey
First Quarter 2013

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Background

We analyzed the terms of venture financings for 118 companies headquartered in Silicon Valley that reported raising money in the first quarter of 2013.

Overview of Fenwick & West Results

Although a healthy 68% of Silicon Valley financings in 1Q13 were up rounds, both the average and median percentage change in share price declined noticeably from 4Q12. In short, the up rounds were "up" by less. For example, 43% of up rounds in 4Q12 were up by more than 100%, while only 23% of up rounds in 1Q13 were up by more than 100%. Here are the more detailed results:

- Up rounds exceeded down rounds in 1Q13, 68% to 11%, with 21% of rounds flat. This was a slight decline from 4Q12 when up rounds outpaced down rounds 71% to 8%, with 21% of rounds flat.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase of 57% in 1Q13, a healthy result but a decline from the 85% recorded in 4Q12.
- The median price increase of financings in 1Q13 was 14%, a significant decline from the 41% recorded in 4Q12.
- The results by industry are set forth below. In general the internet/digital media and software industries lead, with hardware and cleantech following, and life science trailing significantly.

Overview of Other Industry Data

Third party reports on the first quarter of 2013 showed weakness in the venture environment.

- The amount of venture investment was the lowest quarterly amount since 3Q10.
- The number of IPOs was the second lowest quarterly amount since 4Q09.
- The number of venture-backed companies acquired was the lowest since 2Q09, and the amount paid in acquisitions was the lowest amount since at least 4Q09.
- Although the dollar amount of VC fundraising was up from 4Q12, the number of funds raising money was the lowest since 3Q03.

There were certainly positive signs as well, with VC sentiment improving, angel investing strong, Nasdaq up and, as mentioned above, venture valuations reasonably healthy, but the overall venture environment is currently tough.

- **Venture Capital Investment**

  Dow Jones VentureSource ("VentureSource") reported that venture capitalists (including corporation affiliated venture groups) invested $6.4 billion in 752 financings in the U.S. in 1Q13, a 3% decline in dollars but a 3% increase in deals from the $6.6 billion invested in 733 financings in 4Q12 (as reported in January 2013). This was the lowest dollar amount invested since 3Q10.

The PWC/NVCA MoneyTree™ Report based on data from Thomson Reuters (the "Money Tree Report") reported $5.9 billion invested in 863 deals in 1Q13, an 8% decline in dollars and an 11% decline in deals from the $6.4 billion invested in 968 deals in 4Q12 (as reported in January 2013).

The MoneyTree Report also reported that despite the overall investment decline, investment in software companies was up 8% to $2.3 billion in 1Q13, while investment in internet companies, life science and cleantech all declined. It also reported that venture capital investment in first time financings was down 20% in 1Q13, with investment in first time life science financings falling to the lowest amount since 3Q96.

- **IPO Activity**

  Dow Jones reported that 9 U.S. venture backed companies went public in 1Q13 and raised $643 million, compared to 8 IPOs raising $1.2 billion in 4Q12.

  Similarly, Thomson Reuters and the NVCA ("Thomson/NVCA") reported 8 IPOs raising $672 million in 1Q13, which was a 52% decline in the amount raised and a flat number of deals from 4Q12.

  This was the second lowest number of IPOs in a quarter since 4Q09. Six of the IPOs were IT and all were for U.S. based companies.

- **Merger & Acquisition Activity**

  Dow Jones reported that acquisitions (including buyouts) of U.S. venture backed companies totaled $4.9 billion in 94 deals in 1Q13, a 47% decline in dollars and a 17% decline in deals from 4Q12 (as reported in January 2013).

  Similarly Thomson/NVCA reported only 77 acquisitions in 1Q13, a 19% decline from the 95 reported in 4Q12 (as reported in January 2013). This was the lowest quarterly number of acquisitions since 2Q09.

- **Venture Capital Fundraising**

  Thomson/NVCA reported that 35 U.S. venture capital funds raised $4.1 billion in 1Q13, a 17% decline in the number of funds but a 25% increase in dollars raised compared to the 42 funds that raised $3.3 billion in 4Q12 (as reported in January 2013).

  This was the lowest number of funds raising money since 3Q03, and the five new funds that raised money was the lowest number since 4Q06. Over half of the total amount raised ($2.2 billion) was raised by just four funds.

  Similarly, Dow Jones reported $4.2 billion raised in 1Q13, the lowest first quarter total since 2009.

  More money was invested in venture backed companies than was raised by venture capitalists for the fifth year in a row. Although 2012 data was incomplete, the excess aggregated $22 billion during the 2008-11 time frame, and while individuals and corporate investment likely made up part of the difference, it was unlikely to have made up a significant amount. (Venture Capital Journal, JoAnne Glasner, January 14, 2013).

  It also appears that more hedge funds and private equity investors are doing later stage "venture" deals, which provides additional capital, but also creates more competition for venture capitalists (VentureWire, Shira Ovide and Pui-Wing Tam, March 7, 2013). The interest of these alternative investors is likely driven by the increased time to IPO, and increased amount being raised prior to IPO, by some of the most promising venture-backed companies. For example, the median time from initial equity to IPO increased to 9.4 years in 1Q13, and the median amount raised increased to $105 million, both the highest amounts in at least eight years (VentureSource).

- **Angels and Accelerators**

  Three of the six largest venture capital investors in 1Q13 (by number of deals) were seed focused funds (500 Startups, Y Combinator, First Round Capital) (VentureSource). For a discussion of trends in seed financing see our 2012 Seed Survey at www.fenwick.com/seedsurvey.

- **Crowd Funding**

  Crowd funding is growing substantially, despite regulatory delays in implementing some of the related provisions of the JOBS Act. Massolution reports that $1.6 billion was raised in North America by crowd funding in 2012, up 81% from 2011. And the recent partnership between AngelList and Second Market (described below) bears watching. There are even indications that seed funds might use crowd funding to raise money for their funds (Venture Wire, Chernova and Kolodny, April 10, 2013).

- **Secondary Markets**

  Although the Facebook IPO put a significant dent in the volume of trading on secondary market exchanges, the industry has been active.

  Nasdaq and SharesPost have recently announced a joint venture, the Nasdaq Private Market, to facilitate the buying and selling of private company shares, and to provide liquidity to early investors, founders and employees.

  And AngelList and Second Market have partnered to facilitate investing in early stage companies, by allowing investors to pool their investment through Second Market, so that they can each invest relatively small amounts of money into companies listed on AngelList.

- **Venture Capital Return**

  Cambridge Associates reported that the value of its venture capital index increased by 1.15% in 4Q12 (1Q13 information has not been publicly released) compared to -3.10% for Nasdaq. For longer time frames, the venture capital index surpassed Nasdaq for the 3 and 5 year period, and 15 years and longer, but trailed for the 1 and 10 year periods.

- **Venture Capital Sentiment**

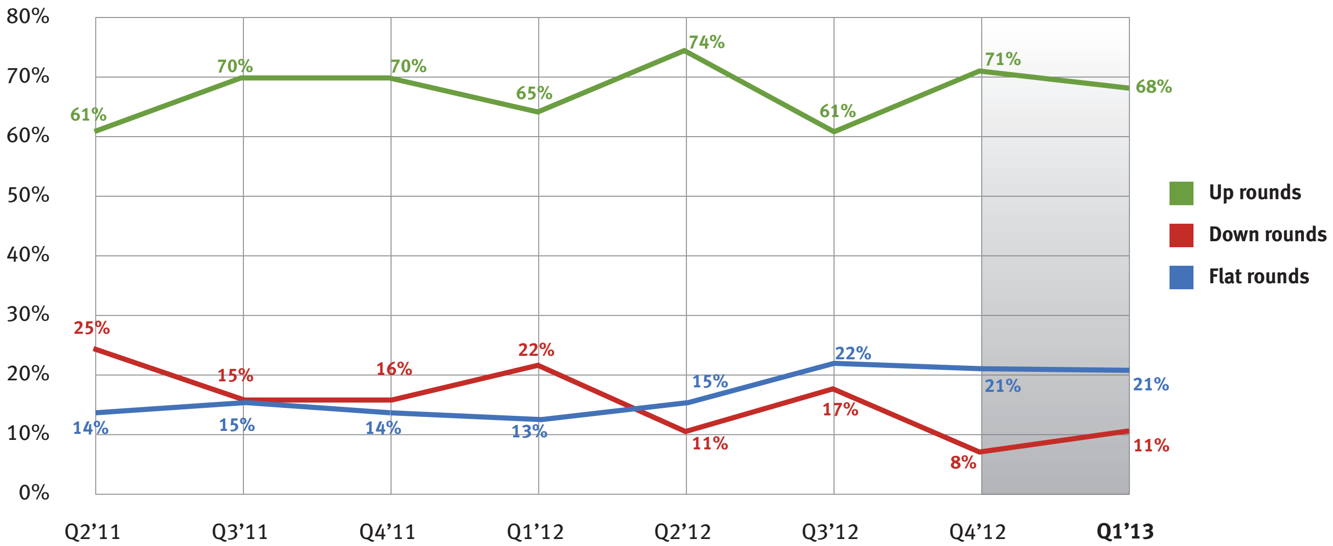
  The Silicon Valley Venture Capitalists Confidence Index® by Professor Mark Cannice at the University of San Francisco reported that the confidence level of Silicon Valley venture capitalists was 3.73 on a 5 point scale in 1Q13, an increase from 3.63 in 4Q12 and the third consecutive quarterly increase in the index. Reasons given for the increase were a stabilizing macro environment, continued easy money, a reduction in "frothiness" in internet/digital media, and the growth of cloud based, web centric software innovations.

- **Nasdaq**

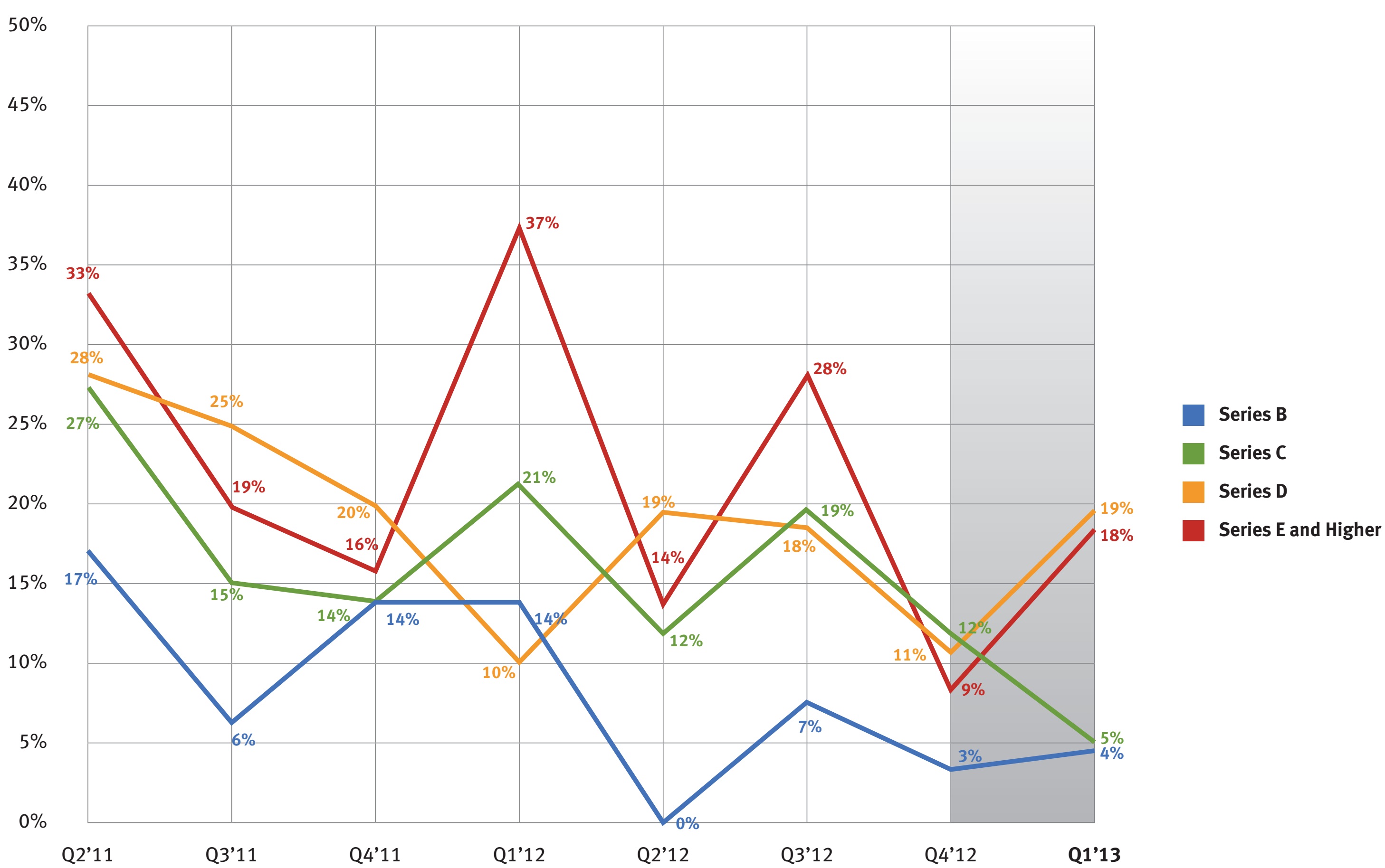
  Nasdaq increased 5.7% in 1Q13, and has increased 5.2% in 2Q13 through May 13, 2013.

Fenwick & West Data on Valuation

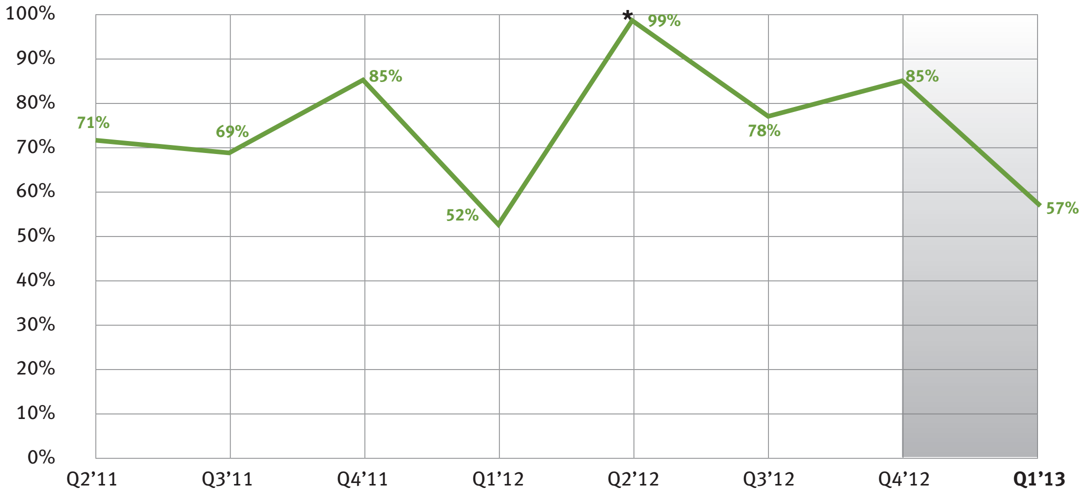
PRICE CHANGE — The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



The percentage of down rounds by series were as follows:

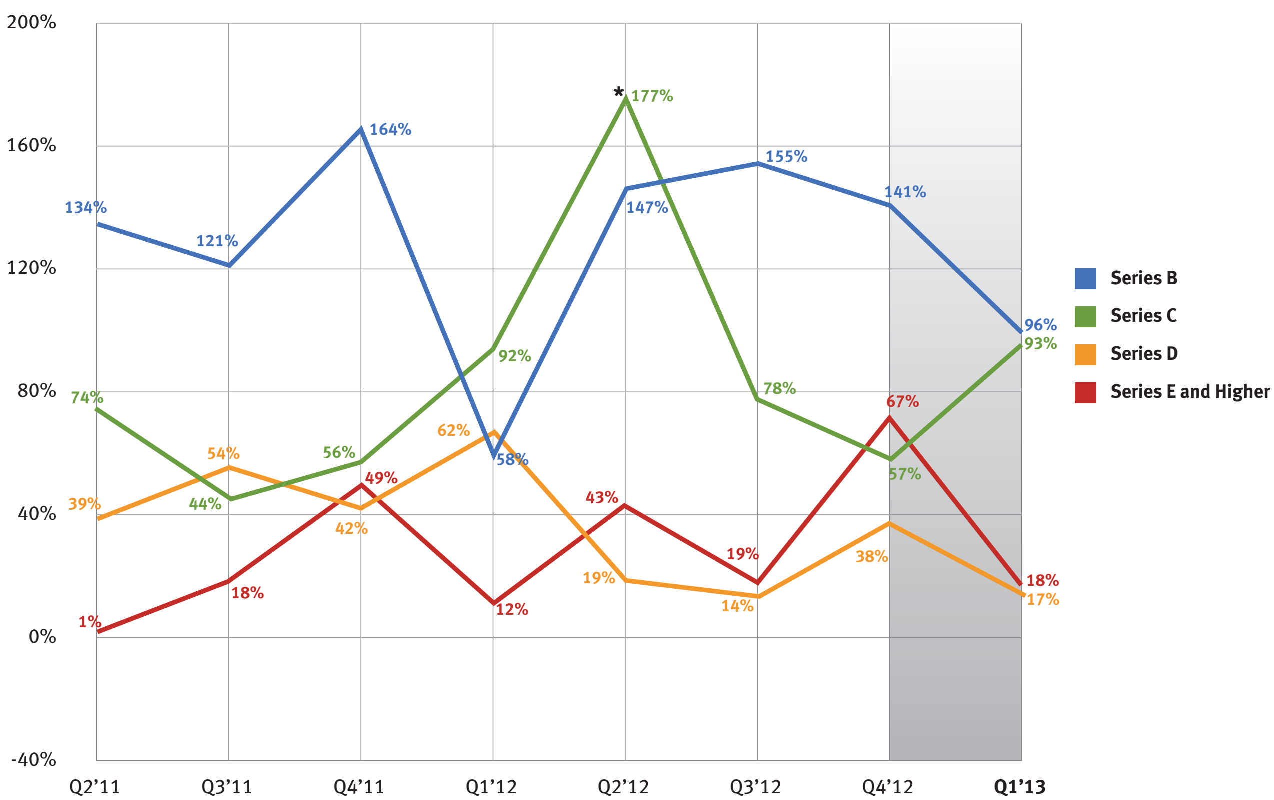


THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (MAGNITUDE OF PRICE CHANGE)—Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the average, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in a financing.



*One software company had a 1460% up round and one internet/digital media company had a 1190% up round in 2Q12. If these were excluded the Barometer result for 2Q12 would have been 70%.

The Barometer results by series are as follows:



*Please note that the two above mentioned software and internet/digital media companies with greater than 10x up rounds in 2Q12 were both Series C rounds. If these were excluded the Barometer result for Series C rounds in 2Q12 would have been 72%.

RESULTS BY INDUSTRY FOR CURRENT QUARTER — The table below sets forth the direction of price changes, Barometer results and number of financings for companies receiving financing in 4Q12, compared to their previous round, by industry group. Companies receiving Series A financings are excluded as they have no previous rounds to compare.

Industry	Up Rounds	Down Rounds	Flat Rounds	Barometer	Number of Financings
Software	74%	10%	16%	+67%	38
Hardware	62%	0%	38%	+38%	13
Life Science	40%	33%	27%	+6%	15
Internet/Digital Media	88%	6%	6%	+103%	17
Cleantech	60%	0%	40%	+51%	5
Other	0%	0%	100%	0%	1
Total all Industries	**68%**	**11%**	**21%**	**57%**	**89**

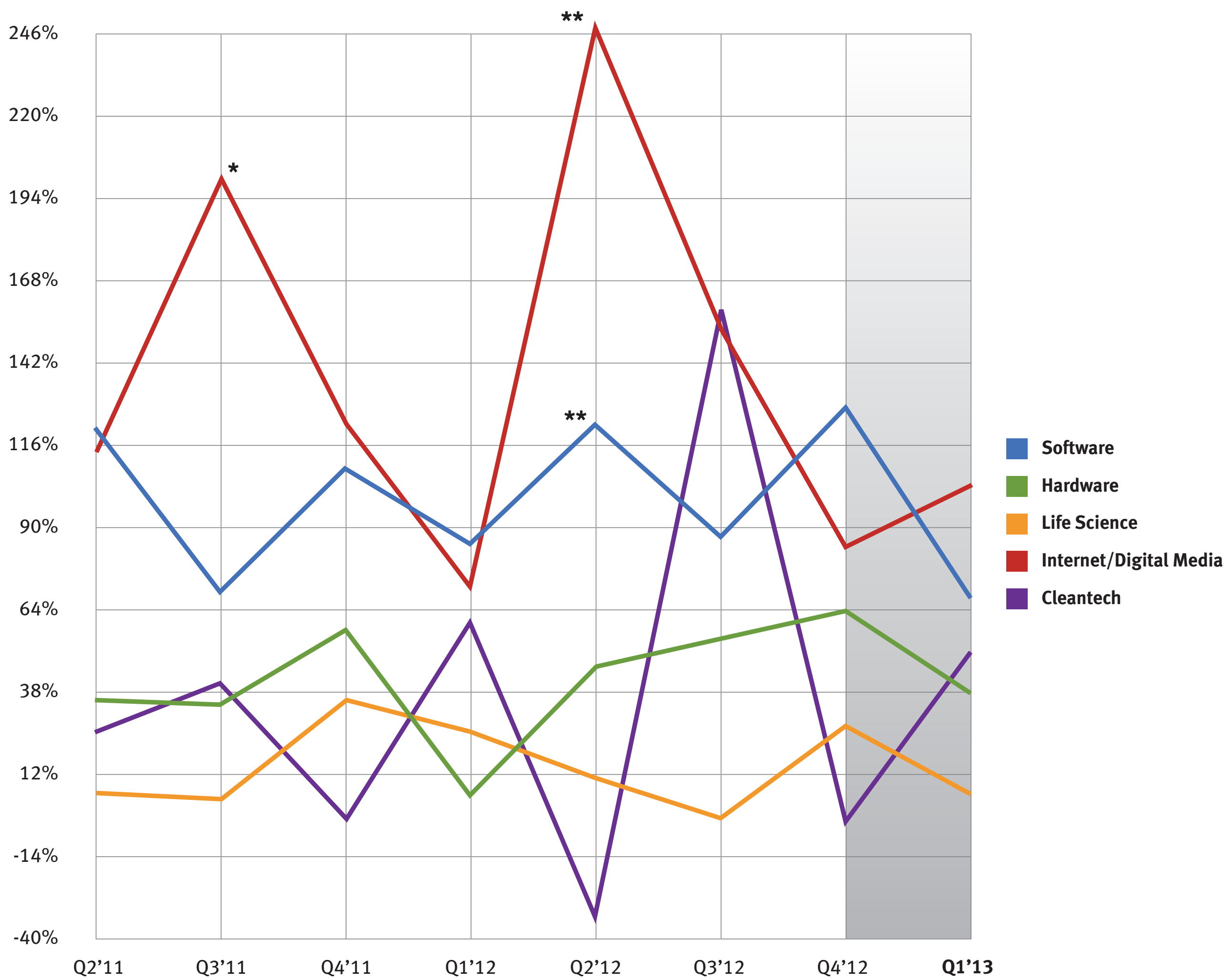
DOWN ROUND RESULTS BY INDUSTRY — The table below sets forth the percentage of "down rounds," by industry groups, for each of the past eight quarters.

Down Rounds	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Software	14%	14%	11%	14%	8%	11%	5%	10%
Hardware	15%	12%	0%	42%	15%	30%	8%	0%
Life Science	31%	22%	33%	24%	6%	21%	10%	33%
Internet/Digital Media	11%	18%	12%	20%	0%	14%	12%	6%
Cleantech	0%	11%	43%	0%	75%	0%	17%	0%
Other	25%	0%	0%	0%	50%	0%	0%	0%
Total all Industries	**16%**	**15%**	**16%**	**22%**	**11%**	**17%**	**8%**	**11%**

BAROMETER RESULTS BY INDUSTRY — The table below sets forth Barometer results by industry group for each of the last eight quarters.

Barometer	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Software	121%	71%	105%	85%	123%**	87%	128%	67%
Hardware	35%	34%	58%	5%	46%	55%	64%	38%
Life Science	6%	4%	36%	26%	11%	-2%	30%	6%
Internet/Digital Media	115%	201%*	122%	72%	248%**	153%	85%	103%
Cleantech	24%	41%	-3%	61%	-33%	158%	-2%	51%
Total all Industries	**71%**	**69%**	**85%**	**52%**	**99%**	**78%**	**85%**	**57%**

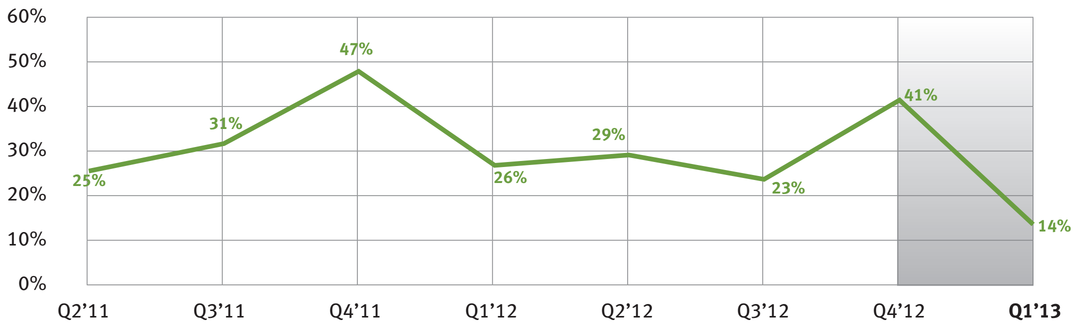
A graphical representation of the above is below.



*One internet/digital media company had a 1500% up round in 3Q11. If this were excluded the Barometer result for the internet/digital media industry in 3Q11 would have been 73%.

**These include the two previously mentioned companies with greater than 10x up rounds in 2Q12. Excluding those two companies, the Barometer result for the software industry would have been 86% and the Barometer result for the internet/digital media industry would have been 176%.

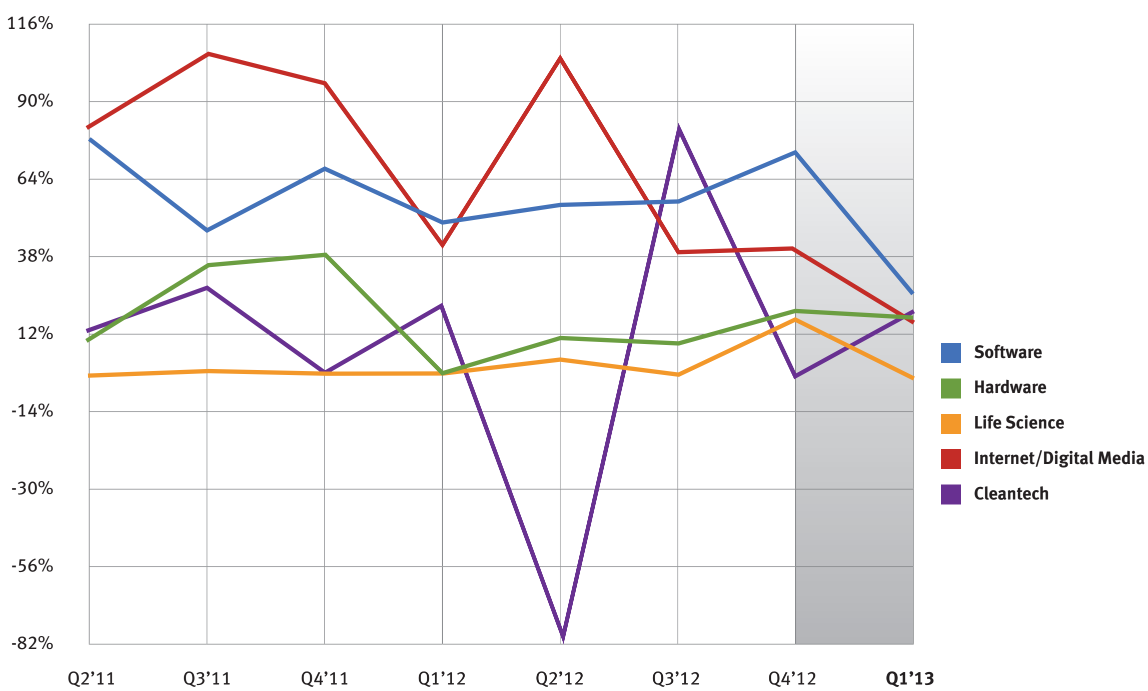
MEDIAN PERCENTAGE PRICE CHANGE — Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in the financing. Please note that this is different than the Barometer, which is based on average percentage price change.



MEDIAN PERCENTAGE PRICE CHANGE RESULTS BY INDUSTRY — The table below sets forth the median percentage price change results by industry group for each of the last eight quarters. Please note that this is different than the Barometer, which is based on average percentage price change.

Barometer	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Software	78%	46%	67%	50%	56%	57%	74%	25%
Hardware	11%	35%	38%	0%	11%	10%	20%	17%
Life Science	0%	1%	0%	0%	5%	0%	17%	0%
Internet/Digital Media	82%	105%	96%	41%	105%	39%	41%	16%
Cleantech	14%	27%	0%	21%	-82%	79%	0%	18%
Total all Industries	**25%**	**31%**	**47%**	**26%**	**29%**	**23%**	**41%**	**14%**

A graphical representation of the above is below.

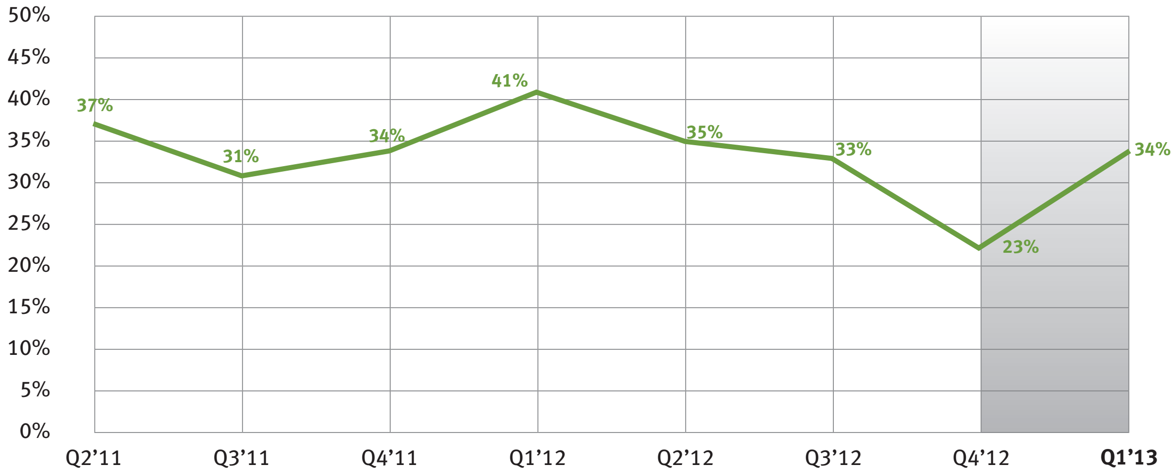


FINANCING ROUND — This quarter's financings broke down by series according to the chart below.

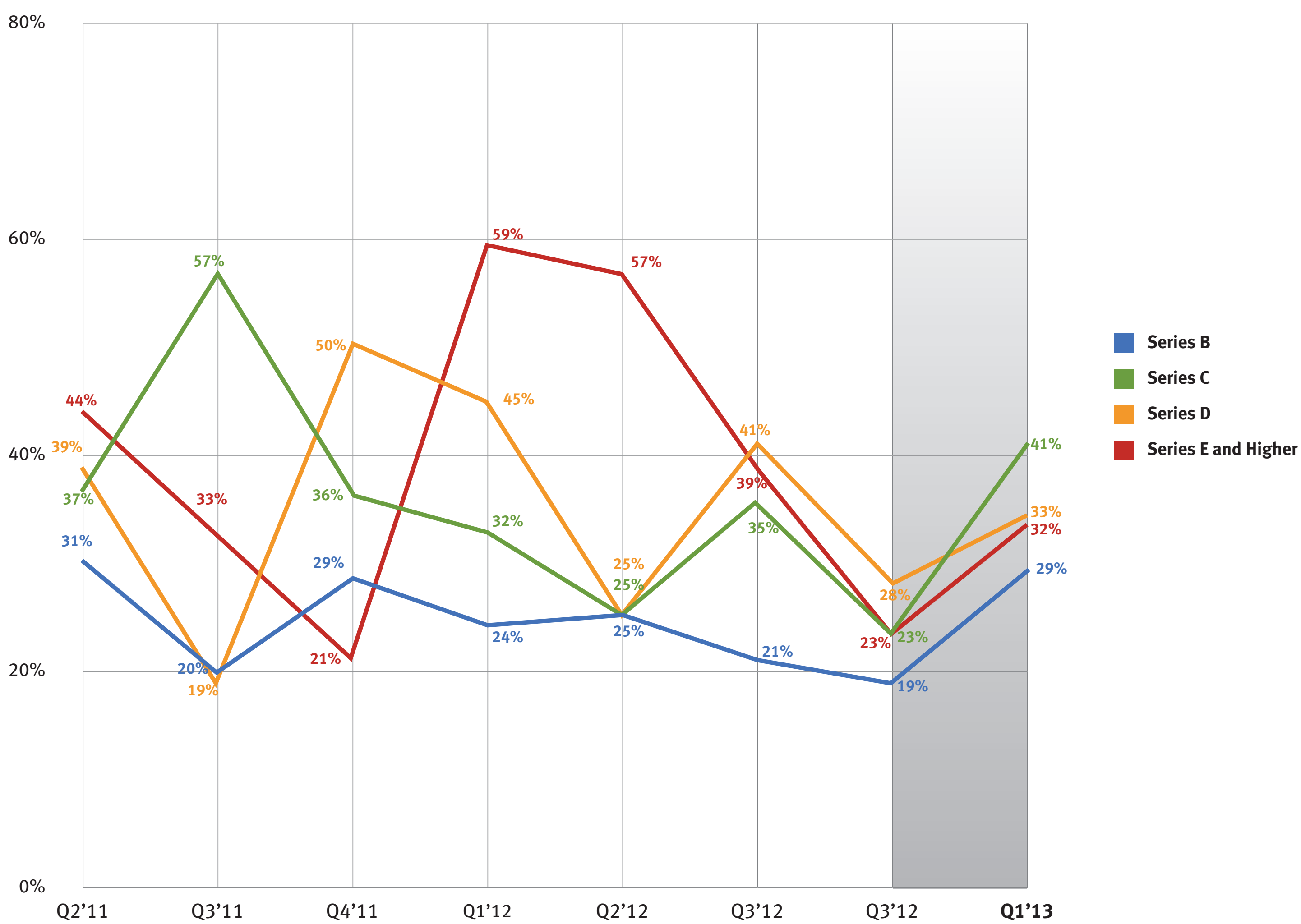
Series	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Series A	19%	18%	24%	24%	24%	24%	12%	25%
Series B	25%	31%	24%	18%	17%	24%	31%	20%
Series C	26%	19%	19%	17%	21%	22%	22%	19%
Series D	15%	14%	17%	17%	14%	15%	16%	18%
Series E and Higher	15%	18%	16%	24%	24%	15%	19%	18%

Fenwick & West Data on Legal Terms

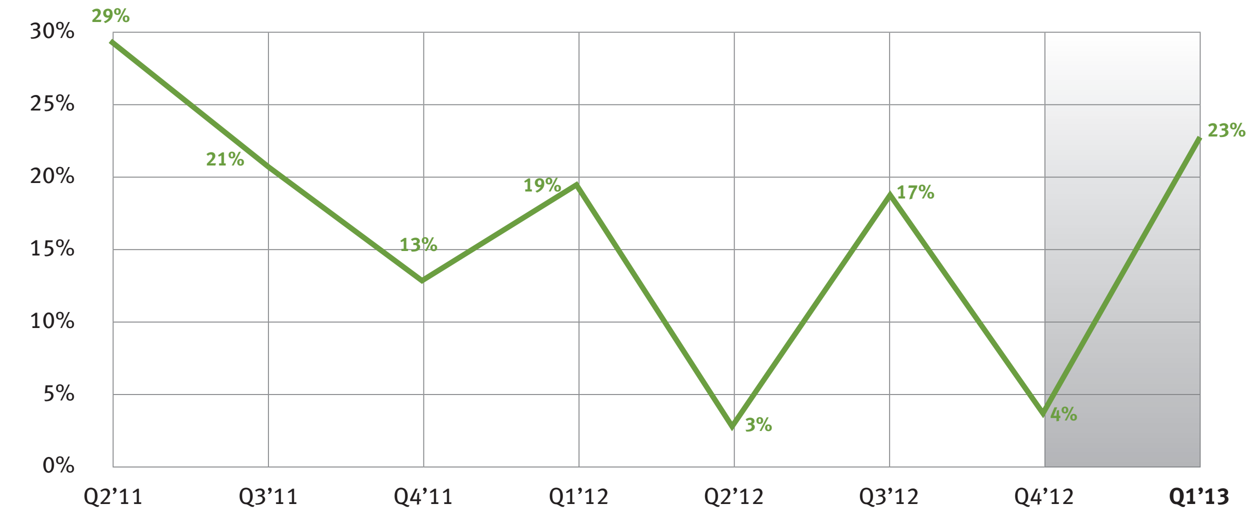
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



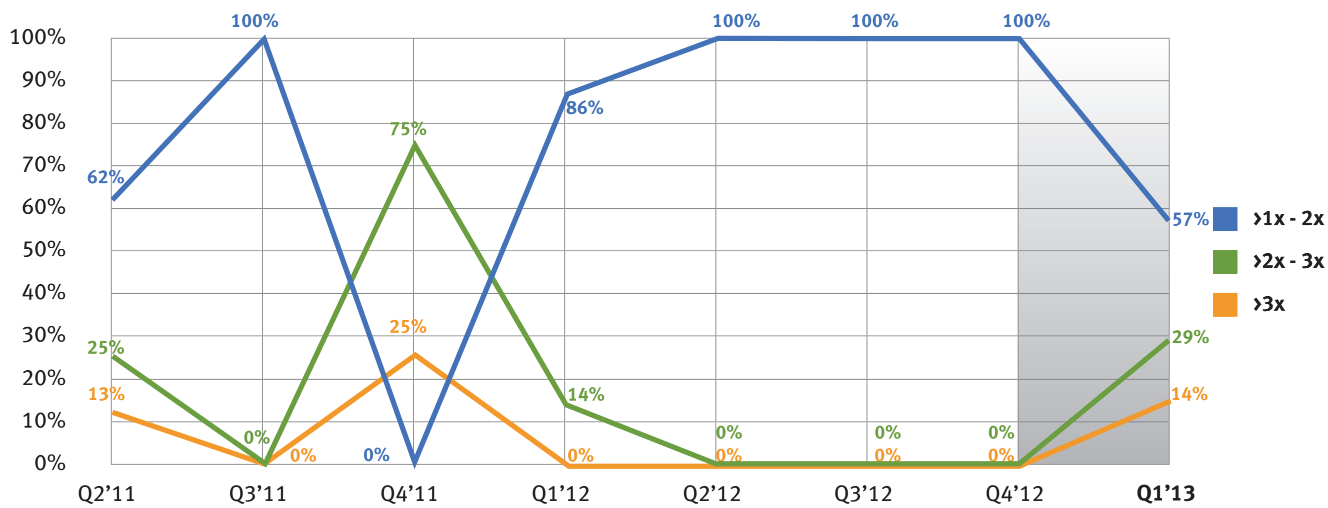
The percentage of senior liquidation preference by series was as follows:



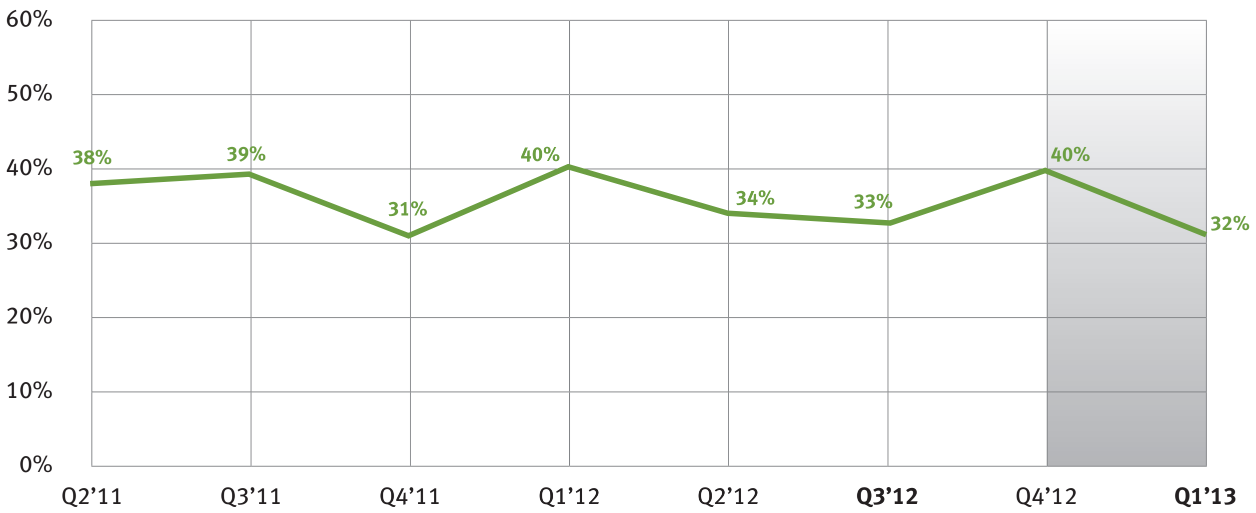
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



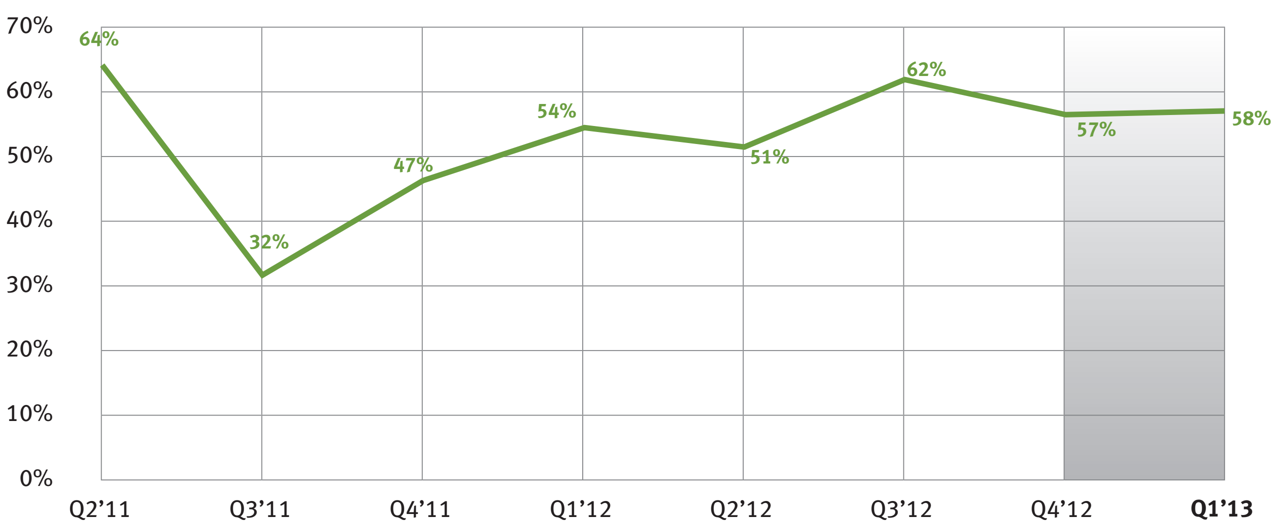
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



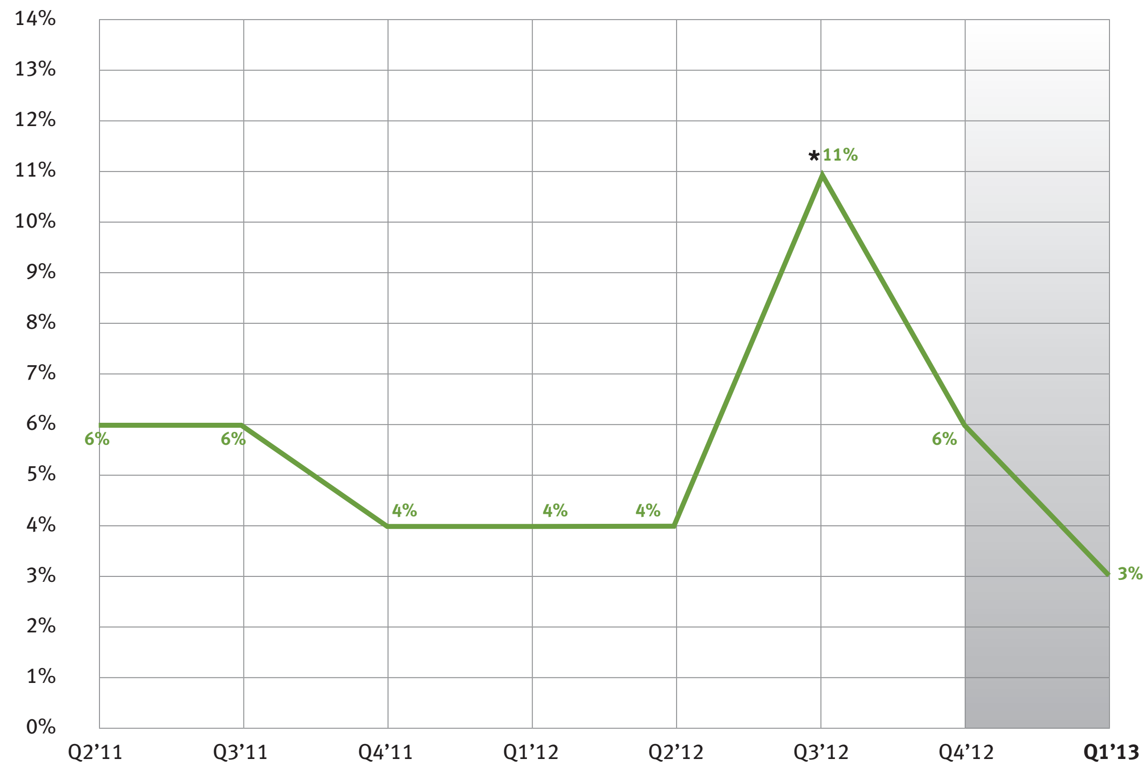
PARTICIPATION IN LIQUIDATION —The percentages of financings that provided for participation were as follows:



Of the financings that had participation, the percentages that were not capped were as follows:

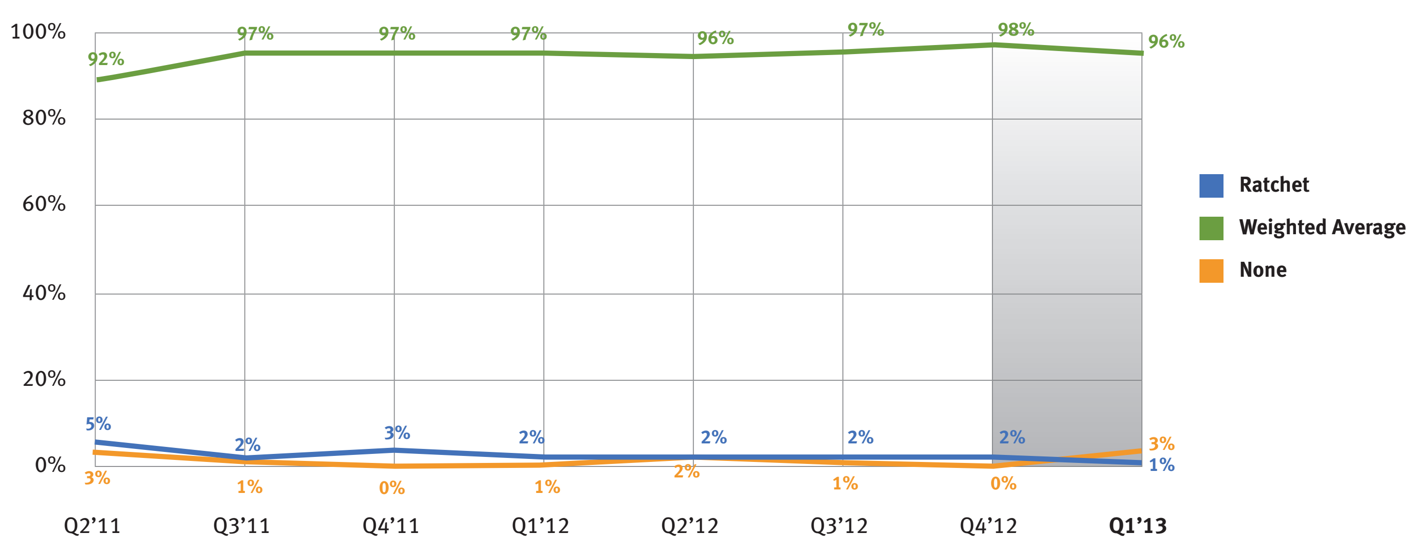


CUMULATIVE DIVIDENDS – Cumulative dividends were provided for in the following percentages of financings:

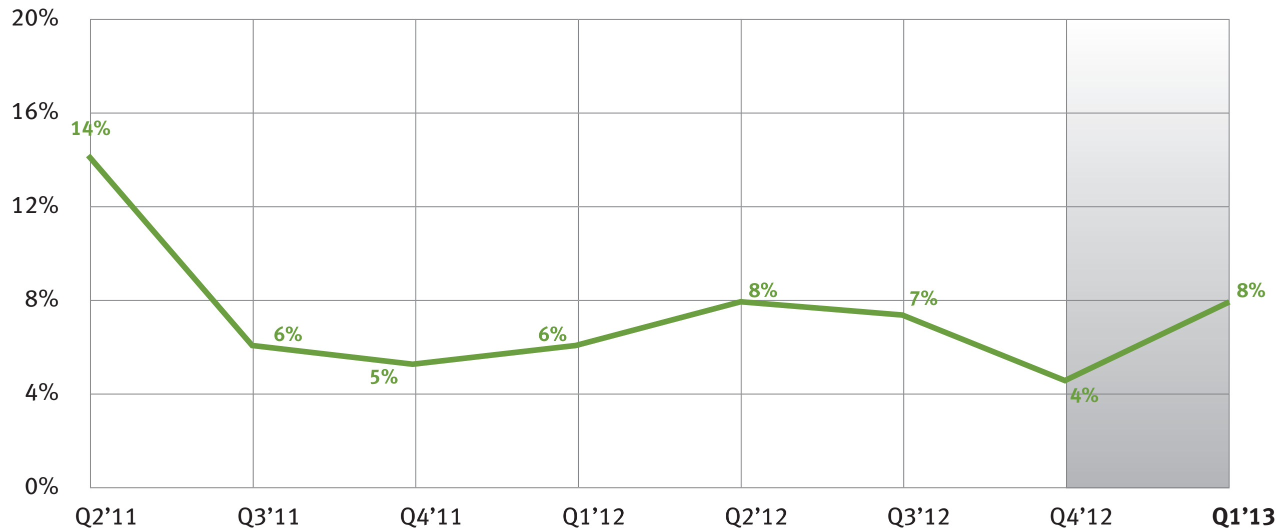


* Note that the use of cumulative dividends increased noticeably in 3Q12. We note that 46% of the financings using cumulative dividends were in the life science industry, and that 38% of the financings (and 33% of the life science financings) using cumulative dividends did not provide for a participating liquidation preference, suggesting that in those financings' cumulative dividends were used as a substitute for participating liquidation preference.

ANTIDILUTION PROVISIONS –The uses of antidilution provisions in the financings were as follows:

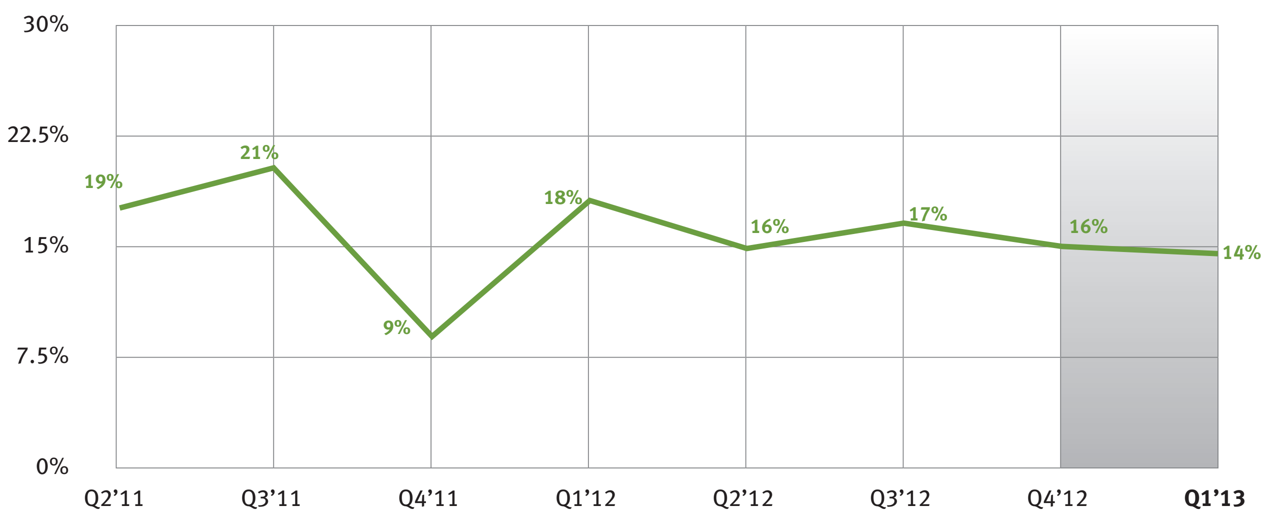


PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:

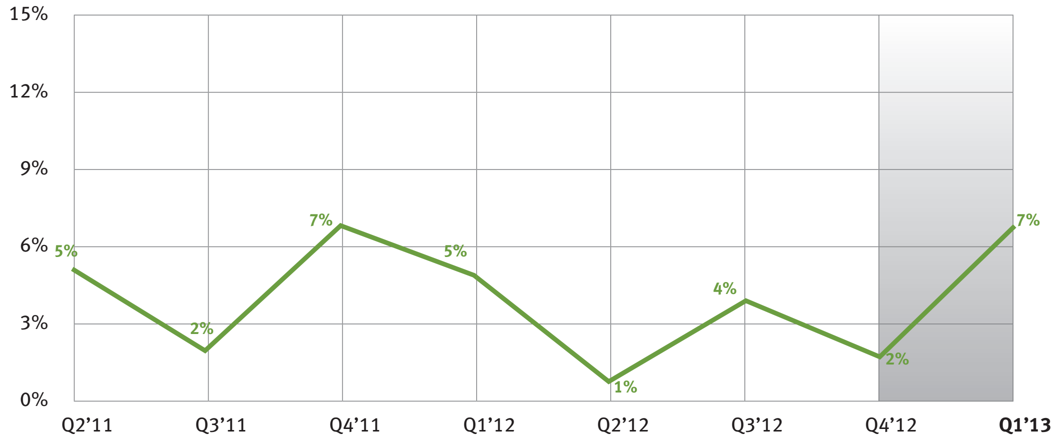


Note that anecdotal evidence indicates that companies are increasingly using contractual "pull up" provisions instead of charter based "pay to play" provisions. These two types of provisions have similar economic effect but are implemented differently. The above information includes some, but likely not all, pull up provisions, and accordingly may understate the use of these provisions.

REDEMPTION – The percentages of financings providing for mandatory redemption or redemption at the option of the investor were as follows:



CORPORATE REORGANIZATIONS – The percentages of post-Series A financings involving a corporate reorganization (i.e. reverse splits or conversion of shares into another series or classes of shares) were as follows:



- **Notes on Methodology.**

  When interpreting the Barometer results please bear in mind that the results reflect the average price increase of companies raising money in a given quarter compared to their prior round of financing, which was in general 12 to 18 months prior. Given that venture capitalists (and their investors) generally look for at least a 20% IRR to justify the risk that they are taking, and that by definition we are not taking into account those companies that were unable to raise a new financing (and that likely resulted in a loss to investors), a Barometer increase in the 40% range should be considered normal.

  When comparing current period results to prior period results based on third party data (e.g., amounts invested by venture capitalists, amount of M&A proceeds, etc.), we use the prior period results initially published by the third party for the period, not the results that have been updated with additional information over time, to provide better comparability with the current period published results. For example, when comparing fourth quarter results to third quarter results, we use the initially published third quarter results, typically provided in October, not the updated results that are typically provided in January. Such situations are set forth in our report with a parenthetical as to the date the information was initially reported.

- **Disclaimer.**

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- **Contact/Sign Up Information**

  For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West.

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