Silicon Valley Venture Capital Survey
Third Quarter 2012

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Background

We analyzed the terms of venture financings for 117 companies headquartered in Silicon Valley that reported raising money in the third quarter of 2012.

Overview of Fenwick & West Results

Venture financings in 3Q12 continued to show solid price increases from their prior round, but 3Q12 was not as strong as 2Q12.

- Up rounds exceeded down rounds in 3Q12, 61% to 17%, with 22% of rounds flat. This was another strong quarter, but not as strong as 2Q12 when 74% of rounds were up, 11% down and 15% flat. This was the 13th quarter in a row in which up rounds exceeded down rounds.

  Series B rounds were especially strong, with 92% of Series B rounds up, and Series E (and later) rounds were relatively weak, with only 44% up. However 64% of the Series B rounds were software and internet/digital media companies, while only 39% of the Series E rounds were from those industries, and as described below, software and internet/digital media were the strongest industries.

- The Fenwick & West Venture Capital Barometer™ showed an average price increase of 78% in 3Q12 – again a solid result but a decrease from 99% in 2Q12. There were three financings in 3Q12 that were up over 750% (two in internet/digital media and one in hardware), and if these three were excluded the Barometer would have been up 50% rather than 78%.
- The median price increase of financings in 3Q12 was 23%, down from 30% in 2Q12, and the lowest median price increase in the past two years.
- The results by industry are set forth below. In general the software and internet/digital media industries continued to be the strongest, cleantech showed good results on very low volume, hardware lagged a bit and the life science industry trailed significantly.

Overview of Other Industry Data

The third quarter of 2012 was generally not a strong one for the venture industry, with the upcoming election, the looming "fiscal cliff" and global economic uncertainty perhaps weighing on investors' minds.

- Venture investing in the U.S. was down slightly in 3Q12 compared to 2Q12, and 2012 is on track to be below 2011.
- M&A was down slightly in 3Q12 compared to 2Q12, and was also down slightly in the first nine months of 2Q12 compared to the first nine months of 2011.
- The number of IPOs was down slightly both in 3Q12, compared to 2Q12, and in the first nine months of 2012 compared to the first nine months of 2011.
- Venture fundraising in 3Q12 lagged 2Q12, but year to date fundraising in 2012 was above 2011 levels. Funding continues to be concentrated in a limited number of large funds, although less so in 3Q12 than 2Q12.

- **Venture Capital Investment.**

  Dow Jones VentureSource ("VentureSouce") reported that U.S. companies raised $6.92 billion in 820 venture financings in 3Q12, a 14.6% decrease in dollars and a 5% decrease in transactions from the $8.1 billion raised in 863 financings in 2Q12 (as reported in July 2012). Similarly, venture investment was down 15%, and the number of financings was down 3%, for the first nine months of 2012 compared to the first nine months of 2011.

  Venture capital investment in Silicon Valley was down 22% from the first nine months of 2012 ($8.2 billion) compared to the first nine months of 2011 ($10.5 billion), although the number of deals was only down 6.5%. That said, Silicon Valley received 39% of all U.S. venture investment in 3Q12.

  The median amount raised in a 3Q12 financing round was $3.7 million, the lowest quarterly median amount since 1997. This result was driven in part by first round financings, whose median amount raised is on track to be $2.5 million for 2012, which would be the lowest annual amount since 1992.

  The lead venture investors in 3Q12 were Google Ventures with 21 deals, Kleiner Perkins with 17, and 500 Startups and NEA with 16 each. Google Ventures recently announced that it was increasing its annual fund size from $200 million to $300 million, which will allow it to make more late stage investments (Sarah McBride, Reuters, 11/8/12).

  Similar to VentureSource, the PwC/NVCA MoneyTree™ Report based on data from Thomson Reuters (the "MoneyTree Report") reported that $6.5 billion was invested in 890 deals in 3Q12, a 7.1% decrease in dollars and a 1% decrease in transactions from the $7.0 billion raised in 898 deals in 2Q12 (as reported in July 2012). The MoneyTree Report also indicated that venture investing in 2012 is on track to be below 2011 amounts in both dollars and deal volume, and that seed stage venture investing was especially weak.

  The MoneyTree Report also reported that software and internet/digital media investing remained strong in 3Q12 at $2.1 billion, but both industries declined in dollar terms from 2Q12 amounts. Life science investing, led by follow-on biotech financings, increased in dollar terms from 2Q12, but is down 19% year-to-date compared to the first nine months of 2011. Cleantech investing declined 20% in dollars compared to 2Q12, but saw an increase in the number of deals as investing in this sector appears to be shifting to smaller, less capital intensive deals.

- **Mergers and Acquisitions Activity.**

  Dow Jones reported 99 acquisitions (including buyouts) of venture-backed U.S. companies for $13 billion in 3Q12, a 10% decrease in transactions, and a 5% decrease in dollars from the 110 transactions for $13.7 billion reported in 2Q12 (as reported in July 2012). Nearly half of the companies acquired this quarter were based in California. For the first nine months of 2012, there were 314 acquisitions of venture backed companies for a total of $39.5 billion, a decrease from the 404 acquisitions for $40.6 billion in the first nine months of 2011.

  Similarly, Thomson Reuters and the NVCA ("Thomson/NVCA") reported 96 venture-backed acquisitions in 3Q12, a 6% decrease from the 102 reported in 2Q12 (as reported in July 2012). IT companies dominated the acquisition environment in 3Q12, with 70 of the 96 transactions.

- **IPO Activity.**

  VentureSource reported 10 IPOs of U.S. venture-backed companies raising $807 million in 3Q12. This was a slight decrease from the 11 IPOs raising $7.7 billion ($6.8 billion was Facebook) in 2Q12 (as reported in July 2012).

  Similarly, Thomson/NVCA reported 10 IPOs raising $1.1 billion in 3Q12, compared to 11 IPOs raising $1.3 billion in 2Q12. (It appears that Thomson/NVCA includes sales by shareholders in their calculation of the amount raised). Six of the IPOs were in the IT industry, six were from companies based in California and all were from companies in the U.S. For the first nine months of 2012, there were 40 IPOs compared to 41 IPOs in the first nine months of 2011.

- **Venture Capital Fundraising.**

  Thomson/NVCA reported that 53 U.S. venture funds raised $5.0 billion in 3Q12, a 15% decrease in dollars but a 40% increase in funds from the $5.9 billion raised by 38 funds in 2Q12 (as reported in July 2012). Fundraising for the first nine months of 2012 was $16.2 billion raised by 148 funds, a 31% increase in dollars from the $12.4 billion raised in the first nine months of 2011, but a 13% decrease in funds. The concentration of fundraising by a few large funds decreased a bit in 3Q12, where the top five funds accounted for 55% of fundraising, as compared to 2Q12 when they accounted for 80% of fundraising, but was still significant.

  Thomson/NVCA also reported that the number of mid-sized venture funds ($250-800 million in size) raising funds has declined significantly over the past five years, with 41 and 45 raising money in 2006 and 2007 respectively, while only 16 raised money in 2011 and only 10 raised money in the first half of 2012 (Private Markets, Mark Boslet, 10/2/12).

  Dow Jones reported generally similar fundraising results, finding that $4.73 billion was raised in 3Q12 (but by only 37 funds) and that fundraising for 2012 to date was $17.5 billion versus $12.7 billion in the first nine months of 2011. However Dow Jones found that 9% more funds raised money in 2012 to date compared to the same period in 2011.

  Venture fundraising again lagged venture investment in 3Q12 by a significant amount.

- **Developments in Non-IT Fundraising.**

  With traditional fundraising by non-IT venture funds (e.g. life science, cleantech and hardware funds) especially challenging, some alternative funding mechanisms are appearing. This funding is often by entities, such as large corporations and governments, that have motives for investing in addition to financial return (e.g. filling product pipelines, diversifying a nation's economy), or that have a longer time horizon.

  For example Thomson/NVCA has reported that corporate venture capitalists participated in 17.5% of life science financings in 2011 through the first half of 2012, up from 15.3% in the 2010/2011 time frame. Large pharmaceutical companies are also expanding their investments in, and forming closer ties with, traditional venture capitalists (Timothy Hay, VentureWire, 10/9/12). Johnson & Johnson is even creating early stage "innovation centers" in life science hubs such as San Francisco, Cambridge, London and China to improve access to early stage life science companies. (Brian Gormley, VentureWire, 9/18/12).

Similarly, in the cleantech area, Broadscale Investment Network has been formed to connect large energy corporations with energy start-ups for investing and partnership purposes, and well known companies like GE and Duke Energy have paid to participate in this venture. (Yuliya Chernova, Venture Wire, 9/24/12).

In sovereign investing, the Russian government backed fund of funds, RVC-USA, has committed up to $400 million to U.S. start-ups focused in medical devices, IT infrastructure, energy efficiency technologies and telecommunications. Similarly, another Russian fund, Rusnano has invested hundreds of millions in U.S. venture funds, especially those focused in the life sciences (Jonathan Shieber, LBO Wire, 9/11/12).

- **Kauffman Report on Immigrant Entrepreneurs.**

  A recent Kauffman Report by Vivek Wadhwa concludes that the U.S. is becoming less attractive to foreign entrepreneurs. The report found that the percentage of Silicon Valley-based companies with a foreign born founder decreased from 52% over the period 1995-2005 to 43% over the period 2005-2012. Visa/immigration problems was listed as a major problem. The improvement in the entrepreneurial environment in countries outside the U.S. was also a likely factor. The report found that by far the largest number of entrepreneurial immigrants to the U.S. came from India (33%), followed by China (8.1%), the U.K. (6.3%), Canada (4.2%), Germany (3.9%), Israel (3.5%) and Russia (2.4%).

- **Accelerators and Angels.**

  As noted above, early stage venture investing has declined recently, but the growth of early stage non-venture funding is continuing and may be offsetting this trend.

  For example, the number of accelerators and incubators continues to grow, with worldwide estimates ranging from 200-700. There is concern, however, about the value of some of these accelerators. A recent study by Kauffman Fellow Aziz Gilani of venture firm DFJ Mercury analyzing 29 accelerators found that 45% failed to produce even one graduate that obtained venture funding. David Cohen of Techstars has encouraged accelerators to publish their track records, so that entrepreneurs can be better informed in their selection process. A possible trend in the accelerator environment is increased specialization, with accelerators focusing on assisting entrepreneurs in a specific industry. (Tom Stein, Private Markets, 9/512; Mark Boslet, Private Markets, 10/2/12).

  Angel investing also continues to grow, increasing 3.1% in the first half of 2012 over the first half of 2011, with 40% of such funding going to seed and early stage companies. Jeffrey Sohl, "The Angel Investor Market in Q1/Q2 2012: A Market in Steady Recovery", Center for Venture Research, October 10, 2012.

- **Venture Capital Fund Returns.**

  Cambridge Associates reported that the value of its venture capital index increased by 0.61% in 2Q12 (3Q12 information has not been publicly released) compared to -5.06% for Nasdaq. The venture capital index was also slightly higher Nasdaq for the 12 month period ended June 30, 2012, 6% vs. 5.82%, but still lagged for the ten year period ending June 30, 2012, 5.28% to 7.21% per year. The Cambridge Associates venture index is net of fees, expenses and carried interest.

- **Venture Capital Sentiment.**

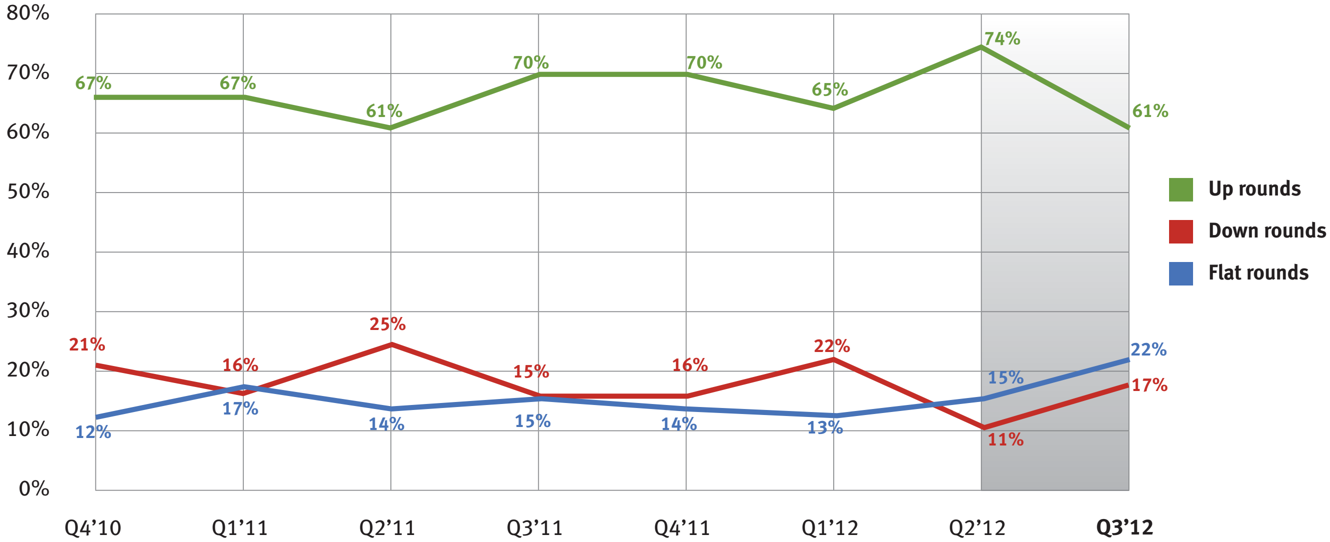
  The Silicon Valley Venture Capitalist Confidence Index™ produced by Professor Mark Cannice at the University of San Francisco reported that the confidence level of Silicon Valley venture capitalists was 3.53 on a 5-point scale in 3Q12, a small increase from the 3.47 reported in 2Q12. Venture capitalists expressed concern about high valuations, macro economic uncertainty and life science funding, but felt positive about the depth and breadth of innovation in Silicon Valley, especially in the mobile, cloud and payment industries, and the availability of strategic acquirors with substantial cash holdings.

- **Nasdaq.**

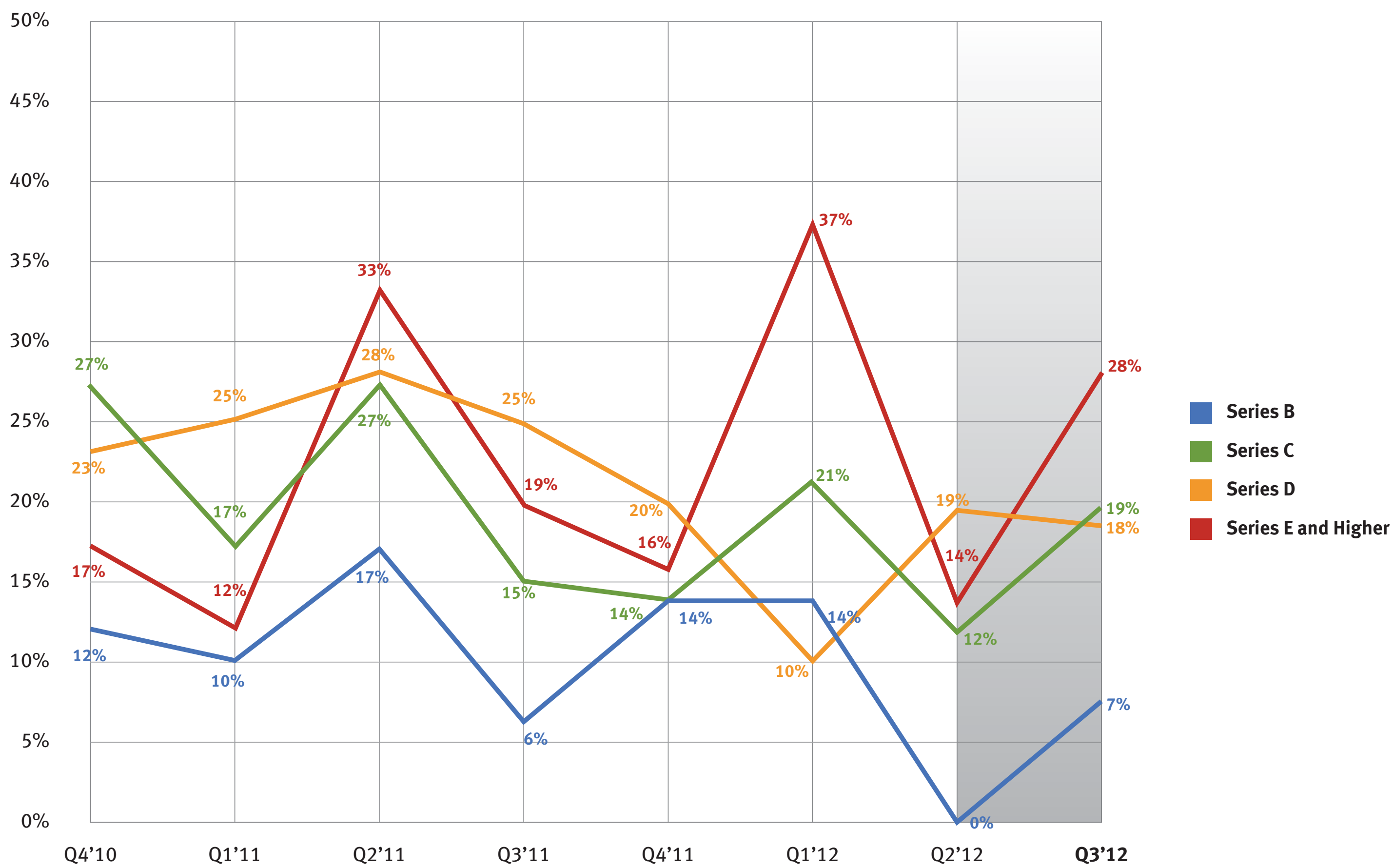
  Nasdaq increased 6.1% in 3Q12, and is flat in 4Q12 through November 8, 2012.

Fenwick & West Data on Valuation

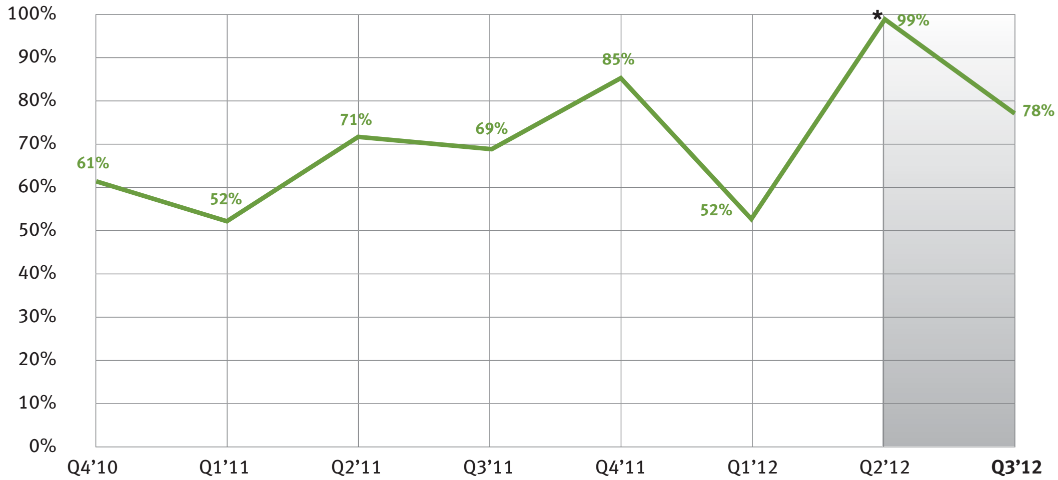
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



The percentage of down rounds by series were as follows:

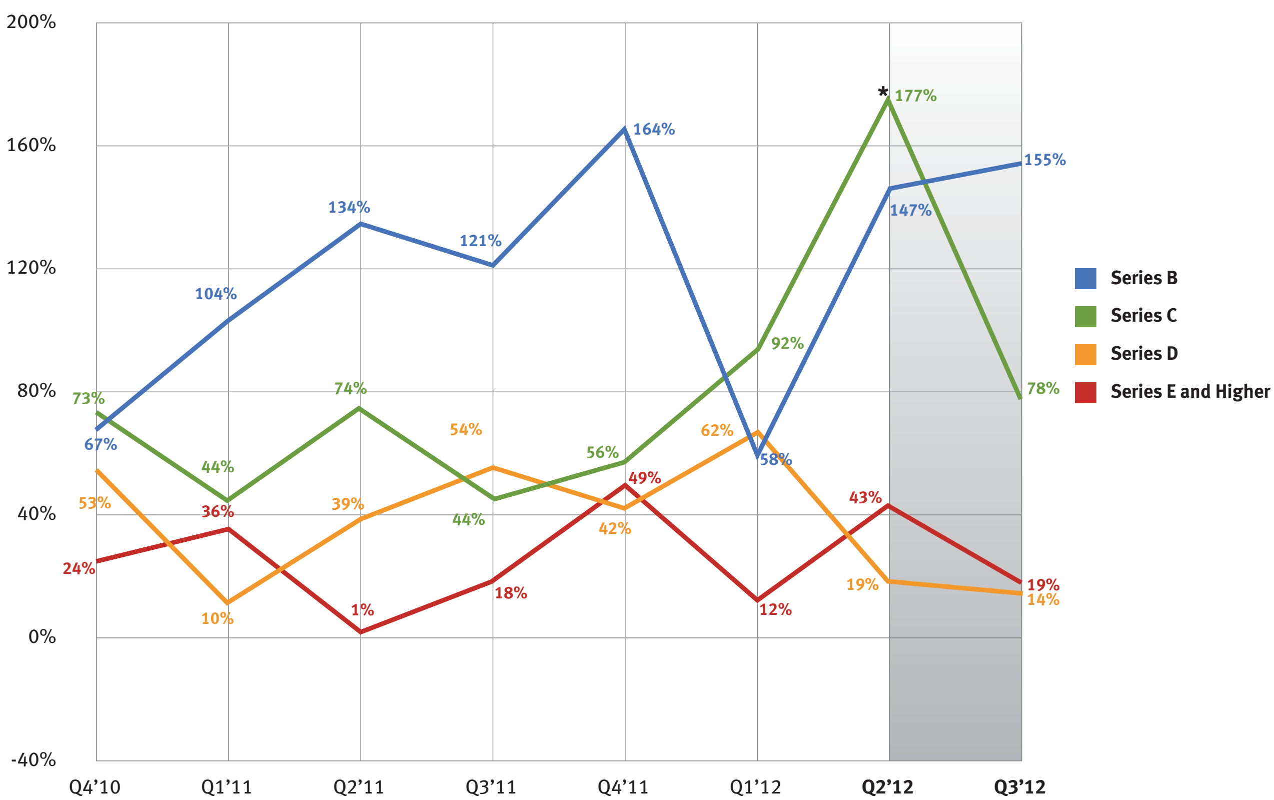


THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (MAGNITUDE OF PRICE CHANGE)—Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing.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



*Please note that one software company had a 1460% up round and one internet/digital media company had a 1190% up round. 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 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 3Q12, 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	73%	11%	16%	+87%	37
Hardware	50%	30%	20%	+55%	20
Lifescience	36%	21%	43%	-2%	14
Internet/Digital Media	64%	14%	22%	+153%	14
Cleantech	67%	0%	33%	+158%	3
Other	100%	0%	0%	+33%	1
Total all Industries	**61%**	**17%**	**22%**	**78%**	**89**

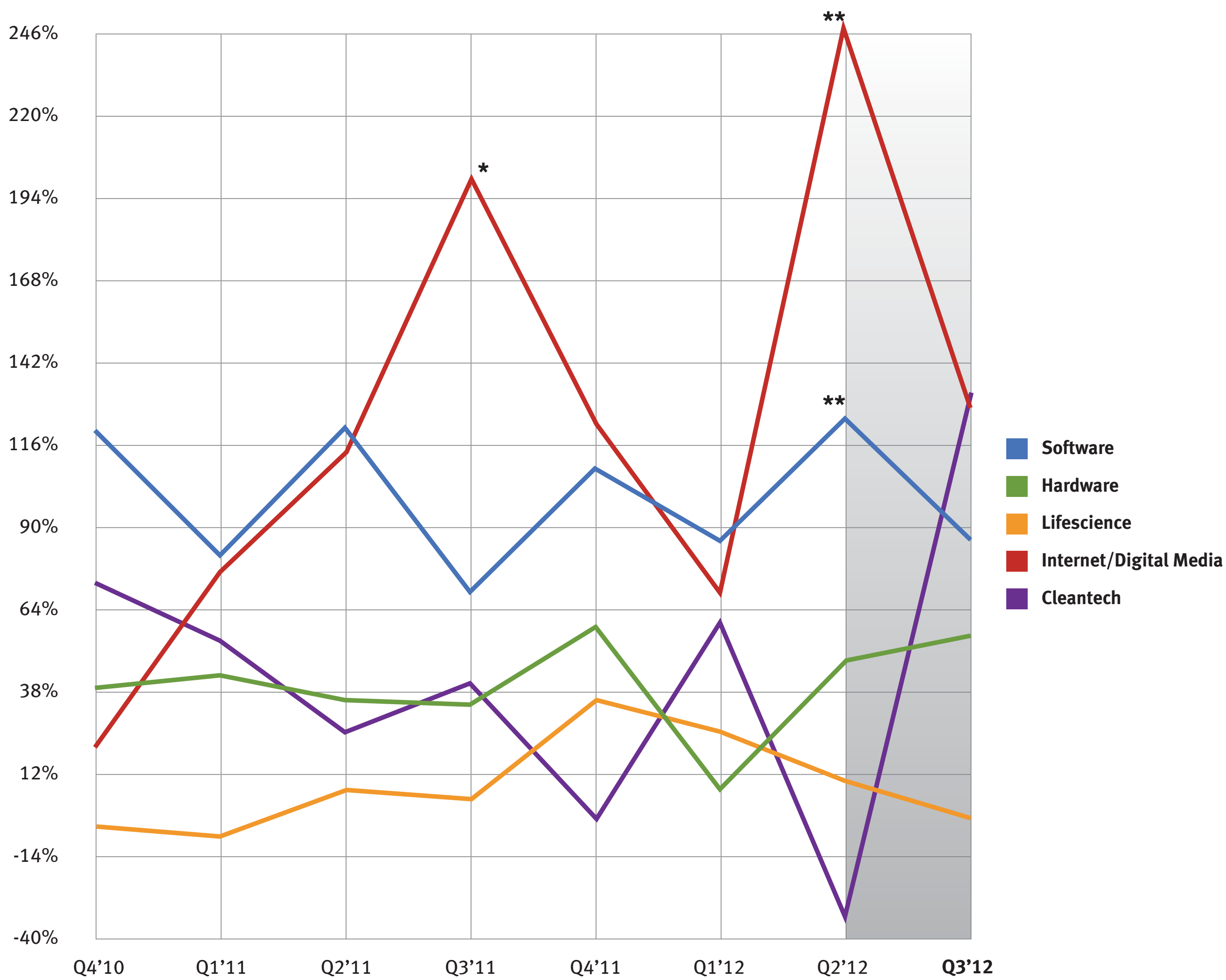
DOWN ROUND RESULTS BY INDUSTRY—The table below sets forth the percentage of "down rounds," by industry groups, for each of the past eight quarters.

Down Rounds	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Software	7%	14%	14%	14%	11%	14%	8%	11%
Hardware	36%	15%	15%	12%	0%	42%	15%	30%
Lifescience	36%	31%	31%	22%	33%	24%	6%	21%
Internet/Digital Media	25%	11%	11%	18%	12%	20%	0%	14%
Cleantech	14%	0%	0%	11%	43%	0%	75%	0%
Other	0%	25%	25%	0%	0%	0%	50%	0%
Total all Industries	**21%**	**16%**	**16%**	**15%**	**16%**	**22%**	**11%**	**17%**

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

Barometer	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Software	121%	75%	121%	71%	105%	85%	123%**	87%
Hardware	38%	43%	35%	34%	58%	5%	46%	55%
Lifescience	-5%	-8%	6%	4%	36%	26%	11%	-2%
Internet/Digital Media	20%	77%	115%	201%*	122%	72%	248%**	153%
Cleantech	73%	54%	24%	41%	-3%	61%	-33%	158%
Total all Industries	**61%**	**52%**	**71%**	**69%**	**85%**	**52%**	**99%**	**78%**

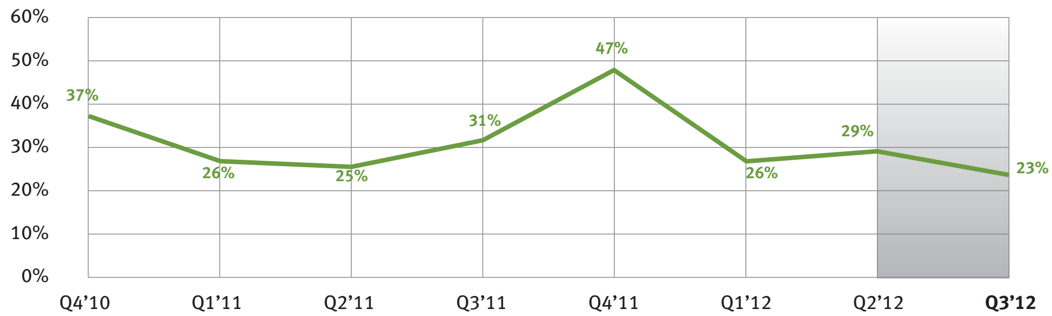
A graphical representation of the above is below.



*Please note that 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 Software Barometer would have been 86% and the Internet/Digital Media Barometer would have been 176%.

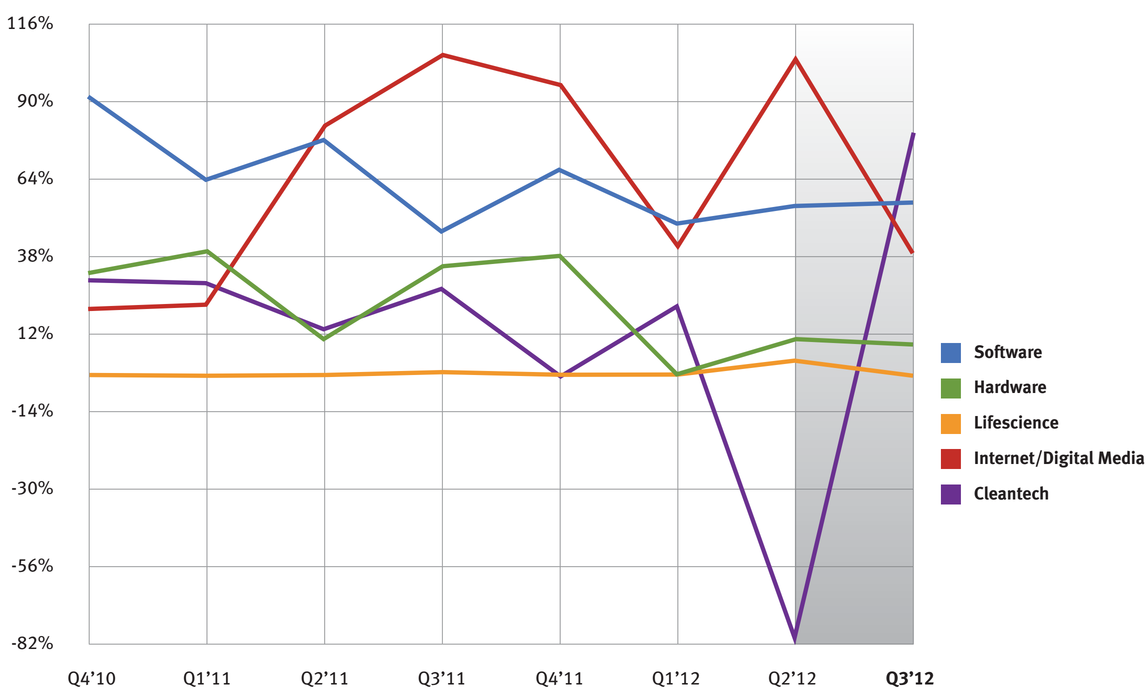
MEDIAN PERCENTAGE PRICE CHANGE — Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, 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	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Software	91%	64%	78%	46%	67%	50%	56%	57%
Hardware	32%	39%	11%	35%	38%	0%	11%	10%
Lifescience	0%	0%	0%	1%	0%	0%	5%	0%
Internet/Digital Media	20%	21%	82%	105%	96%	41%	105%	39%
Cleantech	29%	28%	14%	27%	0%	21%	-82%	79%
Total all Industries	**37%**	**26%**	**25%**	**31%**	**47%**	**26%**	**29%**	**23%**

A graphical representation of the above is below.

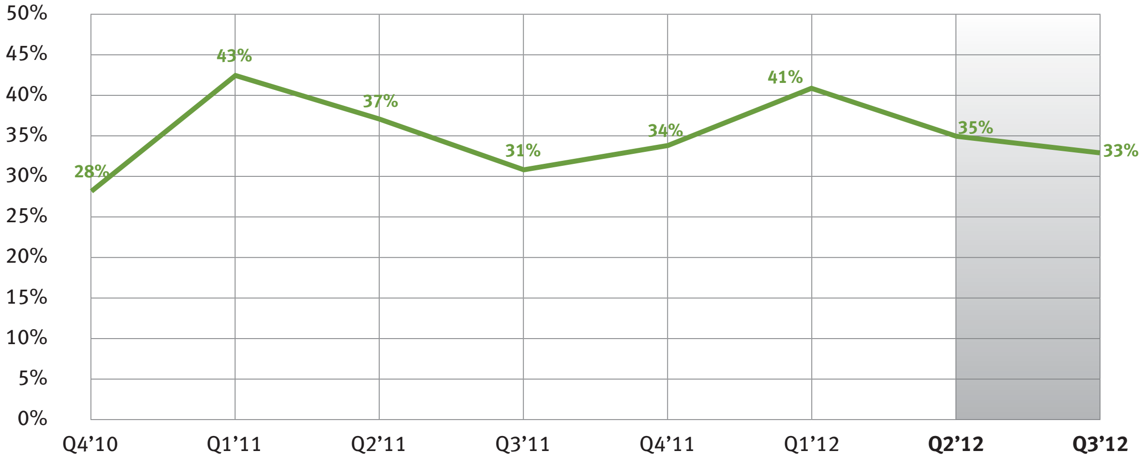


FINANCING ROUND—This quarter's financings broke down by series according to the chart below.

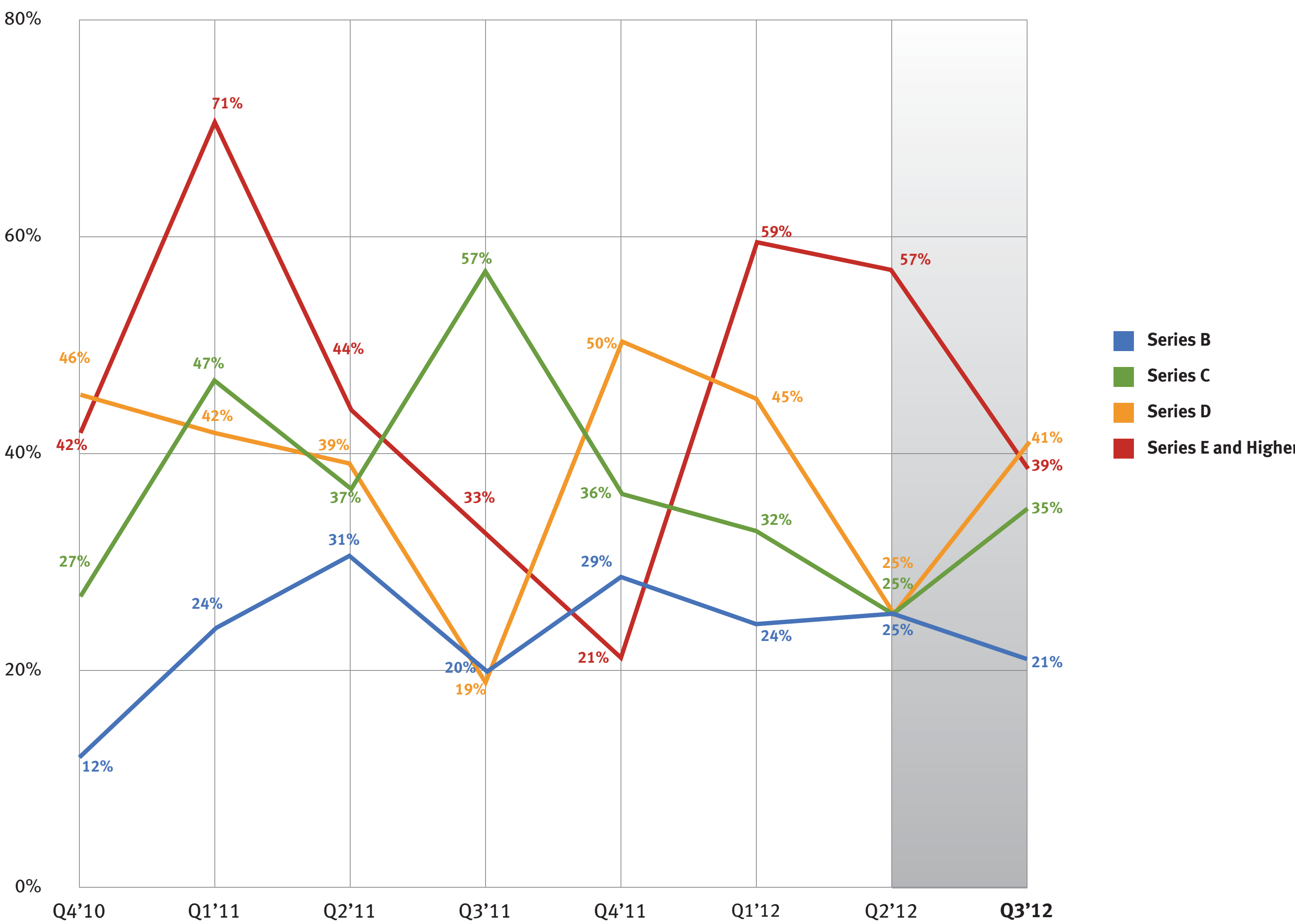
Series	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Series A	13%	18%	19%	18%	24%	24%	24%	24%
Series B	26%	24%	25%	31%	24%	18%	17%	24%
Series C	35%	24%	26%	19%	19%	17%	21%	22%
Series D	14%	20%	15%	14%	17%	17%	14%	15%
Series E and Higher	12%	14%	15%	18%	16%	24%	24%	15%

Fenwick & West Data on Legal Terms

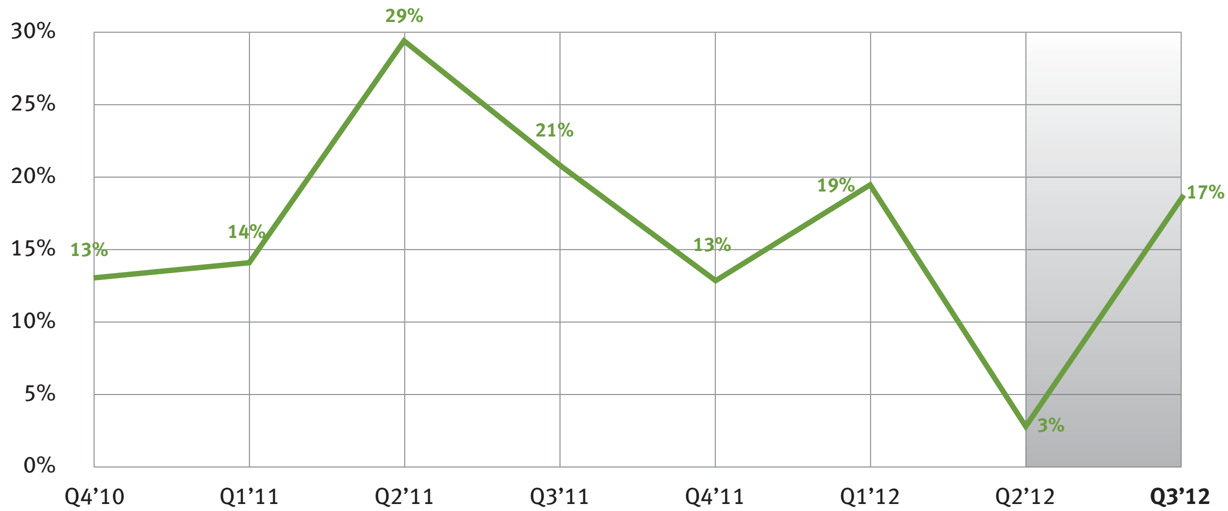
LIQUIDATION PREFERENCE — Senior liquidation preferences were used in the following percentages of financings.



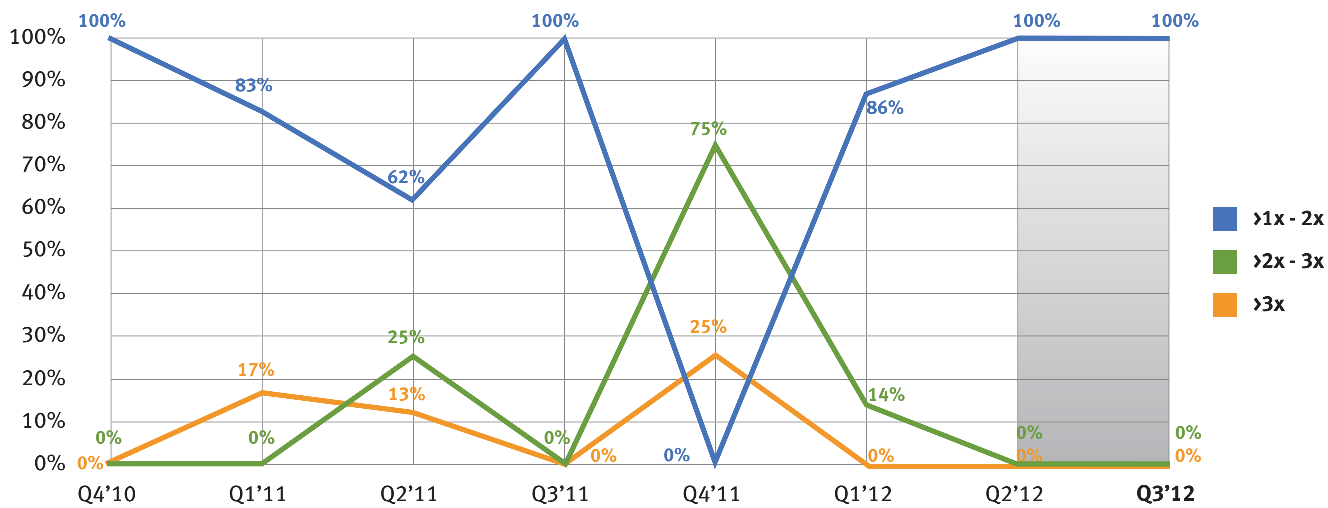
The percentage of senior liquidation preference by series was as follows:



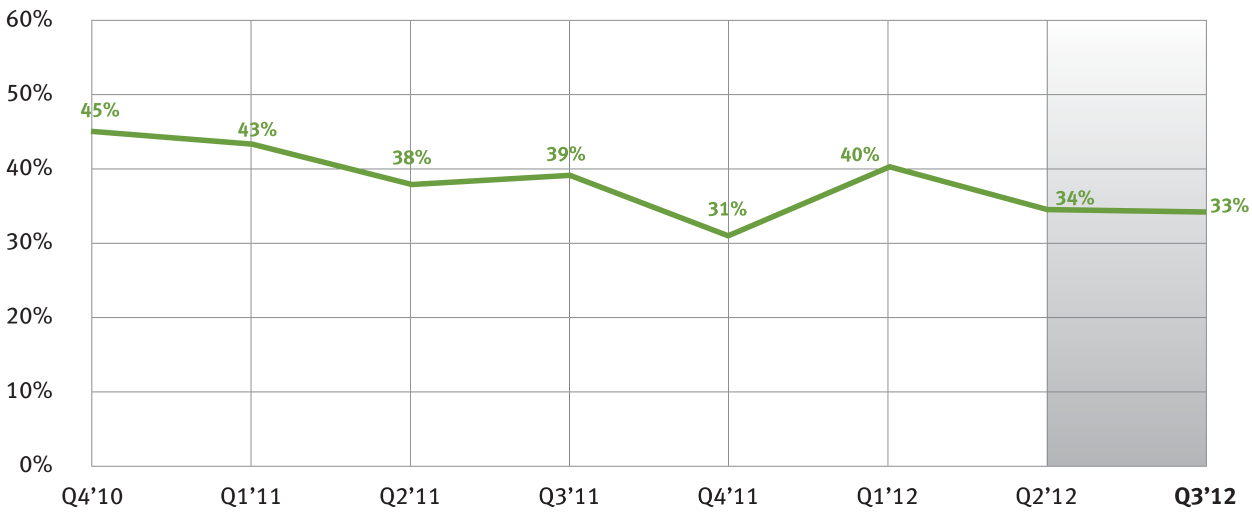
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



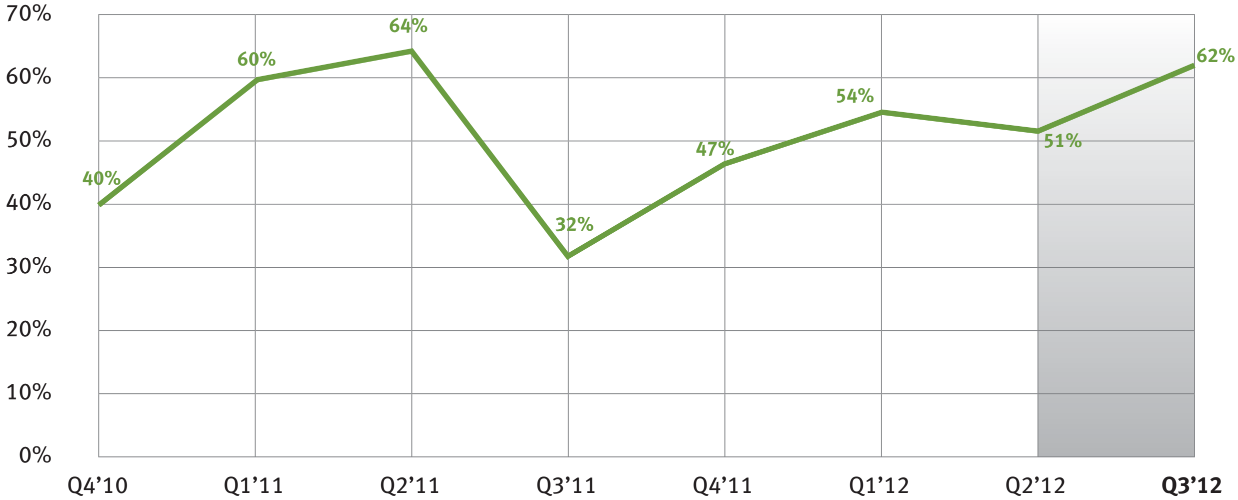
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



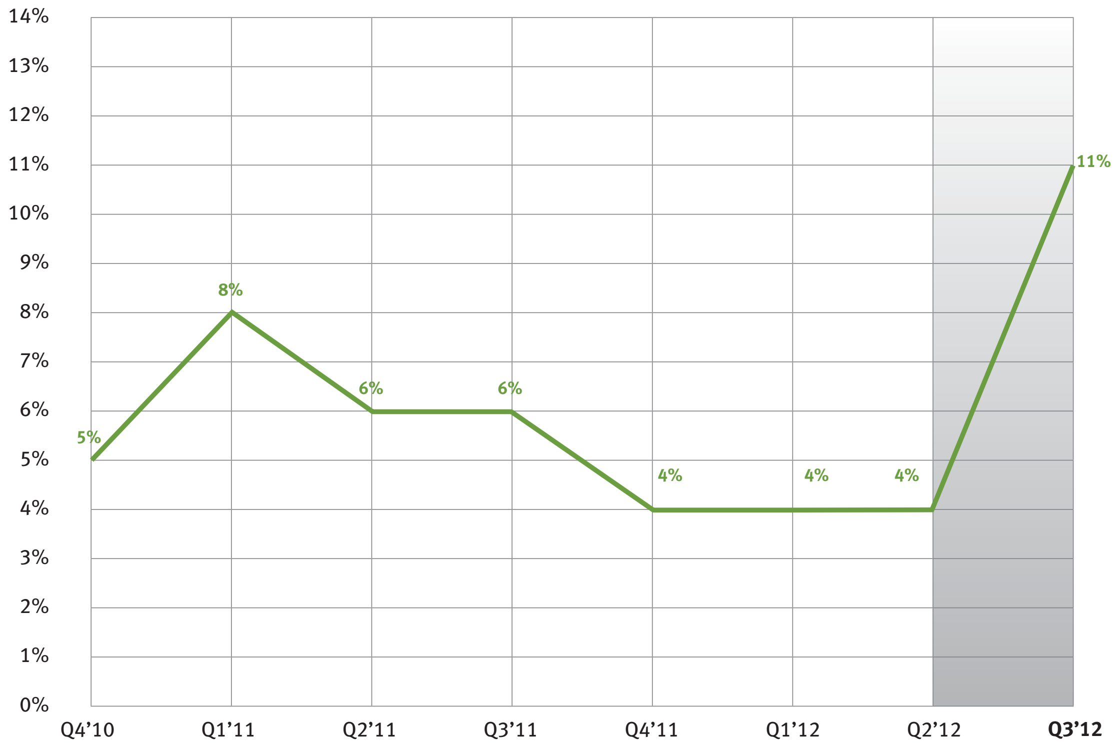
PARTICIPATION IN LIQUIDATION —The percentages of financings that provided for participation were as follows:



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

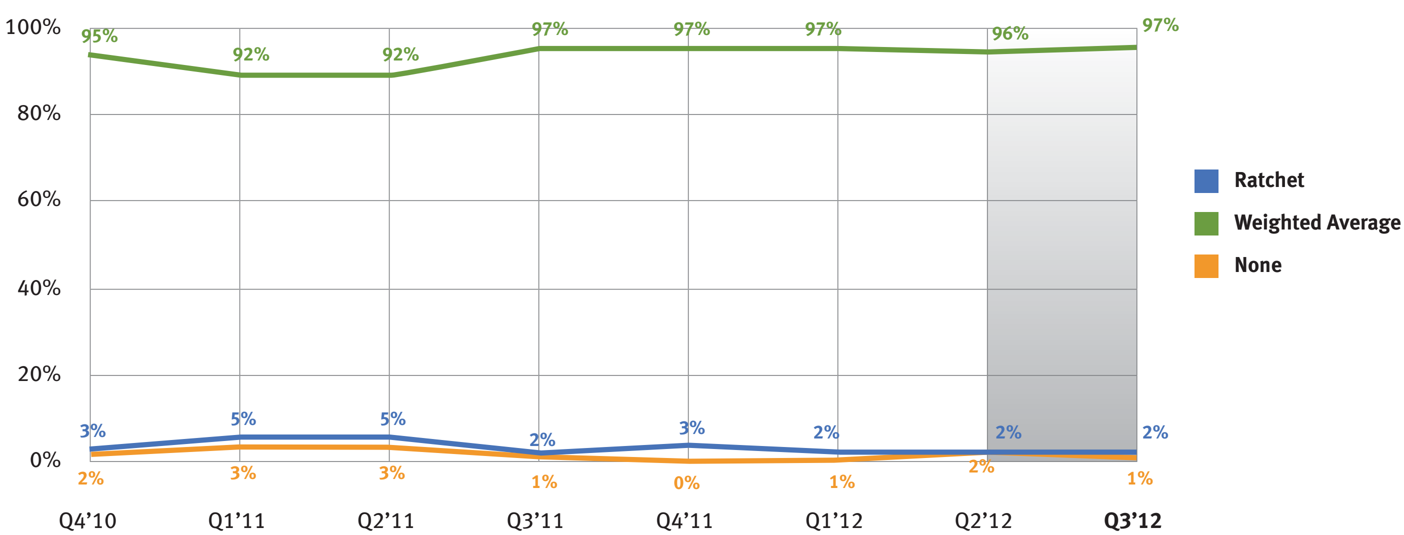


CUMULATIVE DIVIDENDS – Cumulative dividends were provided for in the following percentages of financings:

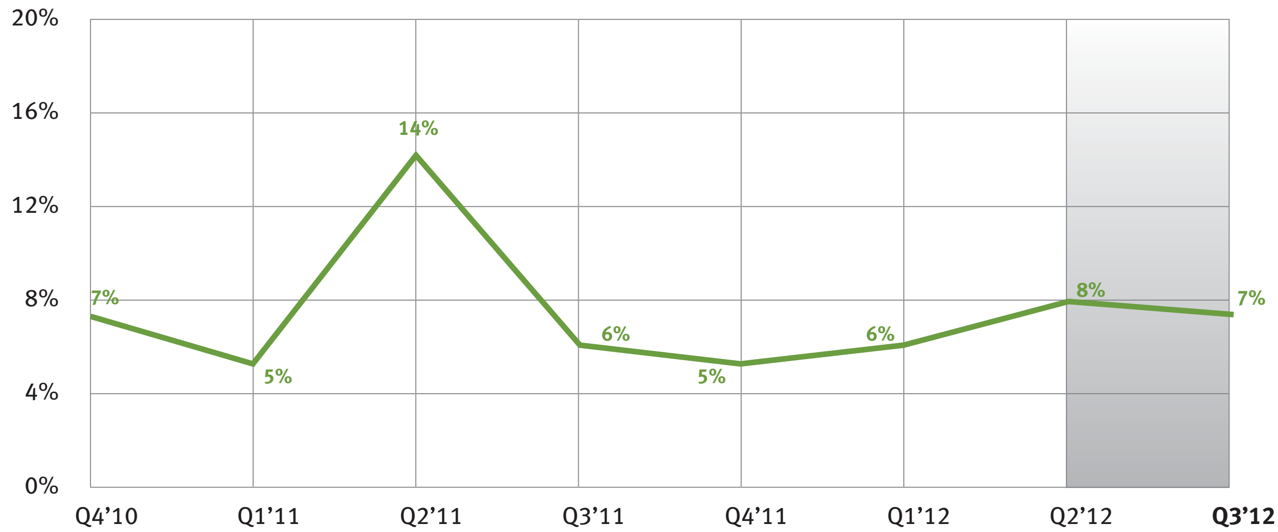


Note that the use of cumulative dividends increased noticeably in 3Q12. We note that 46% of the financings using cumulative dividends were in the life science industry, and that 38% of the financings (and 33% of the life science financings) using cumulative dividends did not provide for a participating 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:

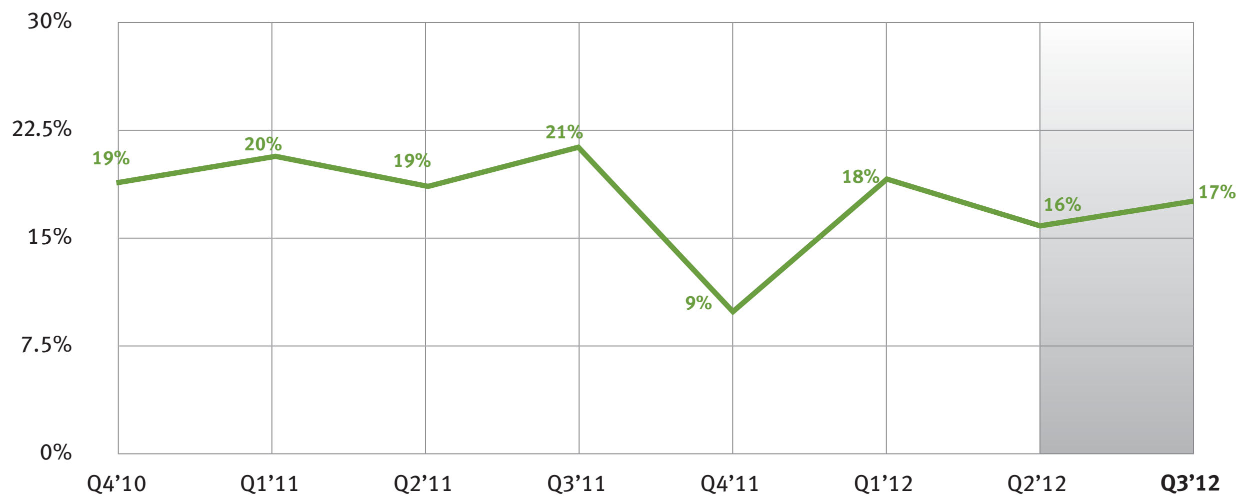


PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:

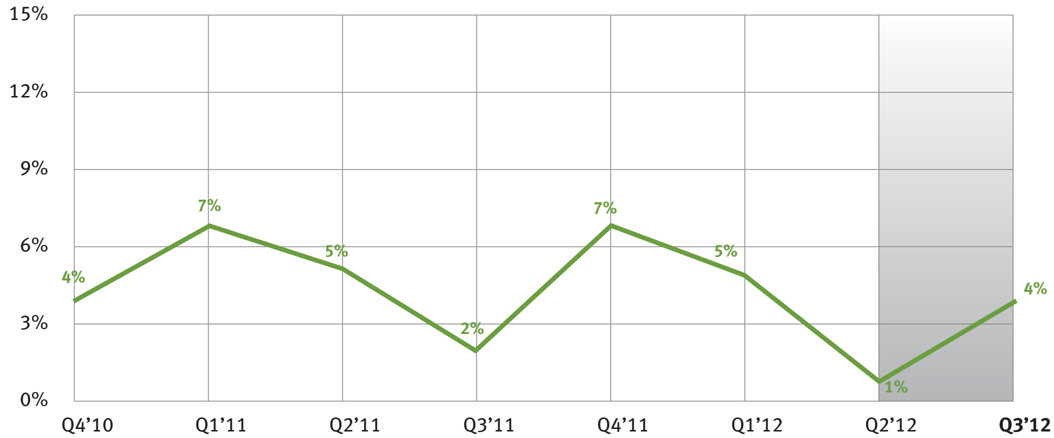


Note that anecdotal evidence indicates that companies are increasingly using contractual "pull up" provisions instead of charter based "pay to play" provisions. These two types of provisions have similar economic effect but are implemented differently. The above information includes some, but likely 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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