Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

THE ENTREPRENEURS REPORT:
Private Company Financing Trends

January 1, 2005 – June 30, 2007

Summer 2007

ANALYSIS: LOOKING BEYOND THE MEDIANS. Aggregate industry data for pre-money valuations, financing amounts, and other financing metrics are publicly available from several sources. This data can be quite useful, and many entrepreneurs refer to these sources to set their own expectations as to amounts raised and valuations in future financings. However, our data shows that in many instances, the medians and other aggregate data have little relevance to individual deals. The distributions of deal values and deal sizes do not follow a classic bell curve and do not cluster near the median. On the contrary, the distribution curves are remarkably flat.

For example, although the median Series A pre-money valuation for 2006 was $6 million, almost one-fourth of Series A financings exceeded $12 million in pre-money valuation, more than twice the median value. At the lower end, approximately 19 percent of Series A financings reflected pre-money valuations of one-half or less than the median valuation. Pre-money valuations in Series B and later-round financings also were widely dispersed relative to the median.

Amounts raised per round also vary widely from the median, although to a lesser extent than deal valuations. Aggregate 2005 - 2006 Series A financings, for example, had a median amount raised of $4 million, but 16 percent of Series A financings raised $10 million or more.

In summary, although industry financing statistics are useful as points of reference, their importance easily can be exaggerated. Entrepreneurs should understand that financings vary widely, and learn to emphasize the specific economic and other factors pertaining to their particular businesses.

For more than 45 years, Wilson Sonsini Goodrich & Rosati has been dedicated to serving the legal needs of the entrepreneurial and venture capital communities. What started out as a Silicon Valley-based focus rapidly expanded into a robust, global practice.

As a leader in this area, we have been keenly aware of venture capital trends, many of which we have learned from our participation in thousands of financings. We have found that the more we understand issues and trends surrounding private-company financings, the better able we are to serve the unique needs of this important and growing client base.

As we strive to cultivate this key economic driver, we thought that you, too, would benefit from a better understanding of the key trends we identify. In future editions of this report, we will add features that address industry and financing topics of interest to the entrepreneurial community, such as creative investment terms, commentary on particular trends that impact early-stage companies, and topical regulatory developments affecting companies, employees, or investors.

This service is all part of the firm's commitment to the entrepreneurs and venture capitalists that have built—and continue to build—some of the world's most innovative technology, life sciences, and growth companies. Recently, we developed the Entrepreneurs Network to further these efforts and provide entrepreneurs with the information and opportunities they need to develop into the next generation of industry leaders. The ongoing financing trends reports are part of this effort, as is the firm's Entrepreneurs College, a multi-week seminar series addressing a wide range of topics designed to help entrepreneurs focus their ideas and business strategies, build relationships, and access capital. Please see the end of this report or contact the firm's marketing department if you'd like more information on the Entrepreneurs Network or college sessions.

We hope that you find this report and the other components of the Entrepreneurs Network to be interesting and useful tools as you grow your business, and we welcome any feedback you might have.

Sincerely,

John Roos

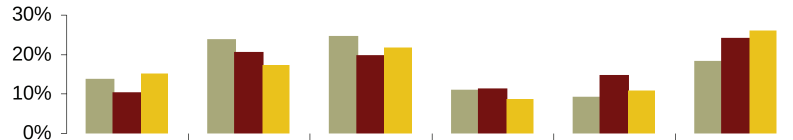
John Roos
Chief Executive Officer
Wilson Sonsini Goodrich & Rosati

THE DATA SET – DISTRIBUTION BY SERIES. From January 1, 2006, through June 30, 2007, nearly 36 percent of all WSGR financings in the data set have consisted of Series A rounds, another 27 percent have consisted of Series B rounds, 31 percent have consisted of Series C rounds or later, and 2 percent fall into other categories. For the purposes of this report, data relating to Series A rounds of financings predominantly refers to early-stage institutional investors (i.e., both organized angel groups as well as traditional venture capital firms). Angel rounds, where they are identified in the charts, typically include individual seed investors.

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Angel	7%	6%	4%	7%	1%	1%	7%	7%	4%	5%
Series A	35%	42%	39%	36%	33%	34%	46%	37%	35%	33%
Series B	24%	17%	27%	31%	32%	27%	22%	23%	25%	31%
Series C and later	32%	33%	26%	25%	34%	35%	22%	32%	32%	28%

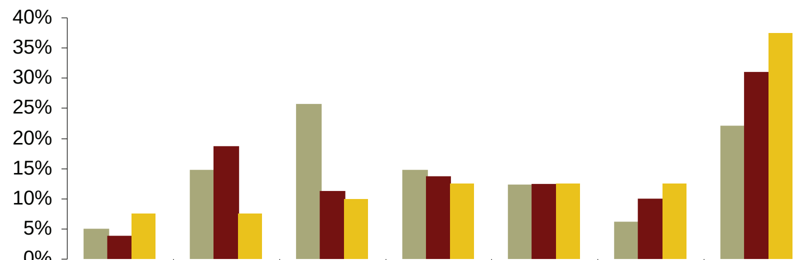
VALUATION TRENDS. Although median pre-money valuations may not be useful for pricing individual deals, they are pertinent as an indicator of industry trends. Our data indicates that the median valuations for later-round deals increased substantially from 2005 to 2006, particularly for later-stage financings. In the first half of 2007, 38 percent of Series B rounds reflected valuations of $30 million or more, compared to 31 percent of Series B rounds in all of 2006 with valuations at this level. In the first half of 2007, 26 percent of Series C and later rounds reflected valuations of $61 million or more, down from 37 percent for all of 2006.

Series A - The median Series A pre-money valuation was $6.0 million in 2005 and 2006, and decreased to $5.5 million in 1H 2007.



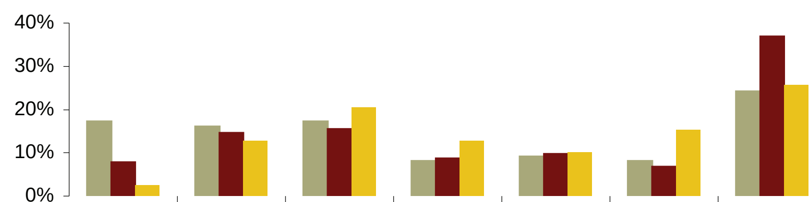
	$0-2 M	$3-4 M	$5-6 M	$7-8 M	$9-11 M	$12+ M
2005	14%	24%	25%	11%	9%	18%
2006	10%	21%	20%	11%	15%	24%
1H 2007	15%	17%	22%	9%	11%	26%

Series B - The median Series B pre-money valuation increased from $16.5 million in 2005 to $20.0 million in 2006 and $24.0 million in 1H 2007.



	$0-4 M	$5-9 M	$10-14 M	$15-19 M	$20-24 M	$25-29 M	$30+ M
2005	5%	15%	26%	15%	12%	6%	22%
2006	4%	19%	11%	14%	12%	10%	31%
1H 2007	8%	8%	10%	13%	13%	13%	38%

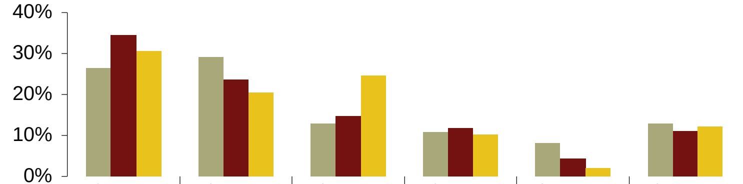
Series C and later - The median pre-money valuation for Series C and later rounds increased from $30.0 million in 2005 to $45.0 million in 2006, but decreased slightly to $42.0 million in 1H 2007.



	$0-10 M	$11-20 M	$21-30 M	$31-40 M	$41-50 M	$51-60 M	$61+ M
2005	17%	16%	17%	8%	9%	8%	24%
2006	8%	15%	16%	9%	10%	7%	37%
1H 2007	3%	13%	21%	13%	10%	15%	26%

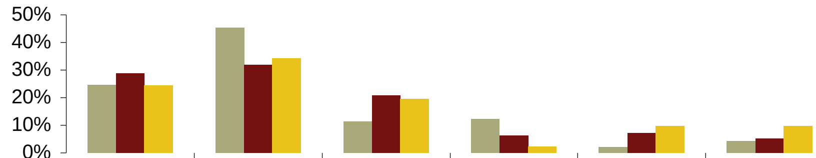
AMOUNTS RAISED – BY SERIES. As indicated in the charts, amounts raised have been widely dispersed relative to the medians. However, despite a strong supply of money in the venture sector, the median amounts raised by series did not change substantially during the period covered by this data set.

Series A - The median amount raised for Series A financings was $4.0 million in 2005, 2006, and again in 1H 2007. Based on historical pre-money valuations for companies raising their first round of institutional financing (see data on previous page), this data confirms the traditional view that founders should be prepared to allocate a significant percentage of equity capital to VCs even at the first round of investment.



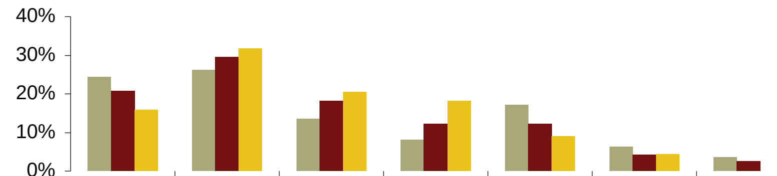
	$0-2 M	$3-4 M	$5-6 M	$7-8 M	$9-11 M	$12+ M
2005	26%	29%	13%	11%	8%	13%
2006	35%	24%	15%	12%	4%	11%
1H 2007	31%	20%	24%	10%	2%	12%

Series B - The median amount raised for Series B financings was $8.0 million for 2005, $9.0 million in 2006, and increased to $10.0 million in 1H 2007.



	$0-5 M	$6-10 M	$11-15 M	$16-20 M	$21-30 M	$31+ M
2005	25%	45%	11%	12%	2%	4%
2006	29%	32%	21%	6%	7%	5%
1H 2007	24%	34%	20%	2%	10%	10%

Series C and later - The median amount raised for Series C and later-round financings was $10.0 million in both 2005 and 2006, and increased to $11.0 million in 1H 2007.



	$0-5 M	$6-10 M	$11-15 M	$16-20 M	$21-30 M	$31-50 M	$51+ M
2005	25%	26%	14%	8%	17%	6%	4%
2006	21%	30%	18%	12%	12%	4%	3%
1H 2007	16%	32%	20%	18%	9%	5%	0%

UP VS. DOWN ROUNDS – BY QUARTER. Up rounds (that is, financing rounds at a company valuation above the valuation of the preceding round) far exceeded down rounds throughout this period. In both 2005 and 2006, 65 percent of Series B and subsequent rounds were up rounds, and 21 percent were down rounds. In the first half of 2007, 75 percent were up rounds and 13 percent were down rounds.

% of Total Financings (Series B and later)

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Up	67%	65%	52%	75%	68%	59%	70%	65%	74%	76%
Down	23%	25%	22%	17%	19%	26%	16%	23%	21%	7%

UP VS. DOWN ROUNDS - BY SERIES. The proportion of down rounds is naturally lowest in Series B financings and higher for subsequent rounds. Companies that struggle to become successful are more likely to need more financings.

% of Total Series B Deals

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Up	78%	63%	70%	86%	83%	78%	82%	74%	79%	87%
Down	22%	25%	15%	11%	3%	7%	12%	21%	16%	4%

% of Total Series C Deals

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Up	70%	86%	50%	78%	77%	47%	64%	62%	71%	75%
Down	20%	14%	28%	11%	15%	40%	9%	15%	29%	0%

% of Total Series D Deals

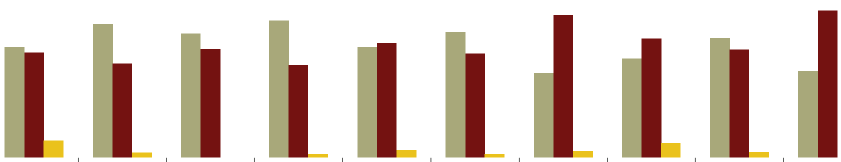
	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Up	50%	60%	0%	60%	44%	50%	33%	58%	50%	67%
Down	33%	20%	50%	20%	44%	36%	33%	25%	0%	17%

% of Total Series E and Later Deals

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Up	50%	45%	33%	67%	25%	67%	75%	50%	83%	33%
Down	25%	36%	17%	33%	50%	33%	25%	50%	17%	33%

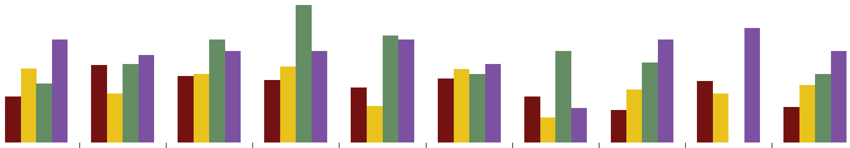
LIQUIDATION PREFERENCES

SENIOR VS. *PARI PASSU* LIQUIDATION PREFERENCES. The liquidation preference represents the right of preferred stockholders, upon a sale or liquidation of the company, to be paid in preference to common stockholders. Liquidation preferences also may establish a priority among series of preferred stock. The table below shows the percentage of financings in which the new series of preferred stock is senior to the prior series of preferred, and the percentage of financings in which the new series is on par (pari passu) with prior series. The use of senior liquidation preferences naturally increases in difficult financing environments and declines when the general financing market is strong. Our data shows that the use of senior liquidation preferences declined from 2005 to 1H 2007.



	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Senior to prior round	48%	57%	53%	59%	48%	54%	36%	43%	51%	37%
Pari Passu	45%	40%	47%	40%	49%	45%	61%	51%	46%	63%
Other (including Complex and Junior)	8%	2%	0%	2%	3%	2%	3%	6%	2%	0%

SENIOR LIQUIDATION PREFERENCE – BY SERIES. The proportion of financings with senior liquidation preferences generally is lowest for Series B rounds and increases for later rounds. The following chart shows the percentage of senior liquidation preferences by round of financing.



	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Series B	33%	56%	48%	46%	40%	46%	33%	24%	44%	26%
Series C	54%	36%	50%	56%	27%	53%	18%	38%	36%	42%
Series D	43%	57%	75%	100%	78%	50%	67%	58%	0%	50%
Series E and later	75%	64%	67%	67%	75%	57%	25%	75%	83%	67%

PARTICIPATING VS. NON-PARTICIPATING LIQUIDATION PREFERENCES. Since the "liquidation" event for most venture-backed companies is acquisition, the details of the liquidation preference may substantially affect the economics for the common stockholder. A "participating preferred" stock has the right to the return of its original investment and also the right to share the remaining proceeds pro rata with the common stock. A non-participating preferred stockholder must choose between the return of its investment or converting its preferred stock to common and sharing pro rata with the other common stockholders. By definition, a participating preferred stock is more advantageous to the preferred stockholders and more costly to the common stockholders.

Participating preferred stock has become more common in this decade. From 2005 to 1H 2007, it was used in close to two-thirds of the financings.

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Participating	75%	69%	62%	57%	69%	66%	68%	60%	63%	65%
Non-Participating	25%	31%	38%	43%	31%	34%	32%	40%	37%	35%

PARTICIPATING LIQUIDATION PREFERENCES – CAP VS. NO CAP. When participating preferred stock is used, companies often negotiate to cap the total return (preference plus participation) at a multiple of the original purchase price, often in a range between 1.5x and 4x. If the per share return on a sale of the company exceeds the cap, the preferred stock has the option to convert to common and share pro rata with the other common stockholders. Our data indicates that about one-half of all financings with participating preferred stock are subject to caps.

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Participating -- cap	47%	48%	51%	52%	50%	34%	52%	52%	49%	44%
Participating -- no cap	53%	52%	49%	48%	50%	66%	48%	48%	51%	56%

FINANCINGS WITH PAY-TO-PLAY PROVISIONS. Forward-looking pay-to-play provisions impose a penalty on stockholders who do not participate in future down-round financings. The penalty typically is mandatory conversion to common stock. The purpose of pay-to-play provisions is to help facilitate future financings in the difficult circumstances that are common for down-rounds.

	Series A	Later Up Rounds	Later Flat Rounds	Later Down Rounds
% of Financings with Forward-Looking Pay-to-Play	7%	4%	8%	9%

DIVIDENDS. A series of preferred stock can have cumulative or non-cumulative dividends. Non-cumulative dividends do not accrue if not paid and, consequently, are almost never paid. Cumulative dividends accrue from year to year even if not paid. Such dividends typically are payable on a sale or IPO of the company. The requirement of cumulative (accruing) dividends as part of a financing is, and remains, unusual and outside of market norms.

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Cumulative Dividends	18%	8%	7%	10%	16%	12%	9%	7%	14%	14%

ANTI-DILUTION PROVISIONS. Anti-dilution clauses give a measure of price protection to preferred stock by increasing the number of shares issuable on conversion of the preferred stock into common if the company issues shares in the future at a lower price than the price paid by the preferred investor. Formulas range from "broad-based" and "narrow-based" weighted-average formulas to "ratchet-based" anti-dilution. Broad-based weighted average anti-dilution is the least protective to the investor, and ratchet clauses are the most protective. Broad-based weighted-average formulas most recently were used in 89 percent of the financings in our data set.

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Weighted average -- broad	87%	91%	81%	80%	80%	83%	88%	78%	90%	89%
Weighted average -- narrow	4%	6%	7%	7%	2%	5%	3%	2%	4%	1%
Full ratchet	6%	2%	2%	6%	11%	3%	3%	10%	1%	7%
Other (including Blend and None)	3%	1%	10%	8%	8%	10%	7%	10%	4%	3%

REDEMPTION RIGHTS. Redemption rights represent the right of the investor to require the issuer to repurchase preferred stock at a predetermined price, usually the original purchase price in the investment transaction. Although redemption rights are almost never exercised, they continue to be included in about one-third of the venture financings.

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
Yes, Redemption	42%	32%	35%	32%	39%	36%	35%	30%	35%	40%

ENTREPRENEURS COLLEGE

In October 2006, Wilson Sonsini Goodrich & Rosati launched its Entrepreneurs College seminar series. Presented by Wilson Sonsini Goodrich & Rosati attorneys, the seminars in each session address a wide range of topics designed to help entrepreneurs focus their ideas and business strategies, build relationships, and access capital. In response to attendee demand, there also are occasional additional sections that address issues of concern to particular industries.

Offered twice a year, in the spring and the fall, the sessions are held at the Palo Alto campus and are webcast live to the firm's national offices. These events are available exclusively to entrepreneurs and start-up company executives in the Wilson Sonsini Goodrich & Rosati network, which includes leaders in entrepreneurship, venture capital, angel organizations, and other finance and advisory firms.

As part of its services to attendees and other entrepreneurs in the firm's network, the firm offers archived webcasts and podcasts of the seminars, as well as a collection of the PowerPoint presentations and supporting materials.

FALL 2007 SESSION

October 2: Overview & Valuation
Robert Latta, Presenter
An overview of the start-up process and the financing of new entrepreneurial ventures, including methods commonly used to value companies and how investors apply these methods to early-stage companies and technology projects.

October 17: Business Plans & Fundraising
Brian Beard, Presenter
Practical guidance for organizing a business plan as a critical planning tool and preparing executive summaries, including financial projections and budgets. Also includes strategies for approaching the investment community and exploring alternative sources of funding.

October 31: Forming & Organizing the Start-Up & Founders Stock
Mark Reinstra, Presenter
An exploration of the decision-making process in forming a start-up, including timing, documents, and the issues involved in determining the capital structure of the business organization. Also covers strategies regarding the allocation of founders stock and the composition of the board of directors.

November 7, 2007: Clean Tech Session: The Financing Life Cycle of a Clean Tech Company
Bob O'Connor & Peter Mostow, Presenters
An in-depth discussion of the important issues that entrepreneurs need to master in order to grow their clean tech ventures. Whether you have a developed technology or are merely interested in getting involved in the clean tech industry, this session will guide you through the stages in the life cycle of financing your venture and bringing your ideas to the marketplace.

November 14: Intellectual Property
Jeff Guise, Presenter
A discussion of the importance of developing an IP strategy tailored to your particular business and the relationship between IP protection and the commercialization objectives of your business. Also covers the available forms of IP protection and their benefits and liabilities.

November 28: Compensation & Equity Incentives
Donna Petkanics, Presenter
An overview of the compensation and equity incentive structures available to founders to attract and retain new talent. Discusses the general mechanics of creating and issuing these awards, as well as the legal and tax consequences involved in the execution of compensation and equity programs.

December 5 (TBD): Biotech Session: Acquiring a Core Technology
Ian Edvalson, Presenter
An in-depth discussion of the issues that biotech entrepreneurs should consider when starting their ventures. Explore the process for acquiring a core technology, from both universities and big biotech and pharmaceutical companies. Discuss how these agreements will affect your ongoing business operations, partnering activities, and exit and acquisition opportunities.

December 12: Term Sheets
Craig Sherman, Presenter
An overview of term sheets and the due diligence necessary before signing. Helps provide an understanding of investor expectations, including board seats, liquidity, registration rights, and non-compete agreements. Discusses key provisions to include in term sheets and negotiation strategies for achieving the best-case investment scenario.

December 19: Exits & Liquidity
Steve Bochner, Presenter
A discussion of recent developments in exit events, including the IPO process and M&A trends. Provides an understanding of the expectations of investors and the public capital markets and covers the recent corporate governance and regulatory issues involved in liquidity events. Includes a cocktail and networking reception to celebrate the conclusion of the fall session.

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