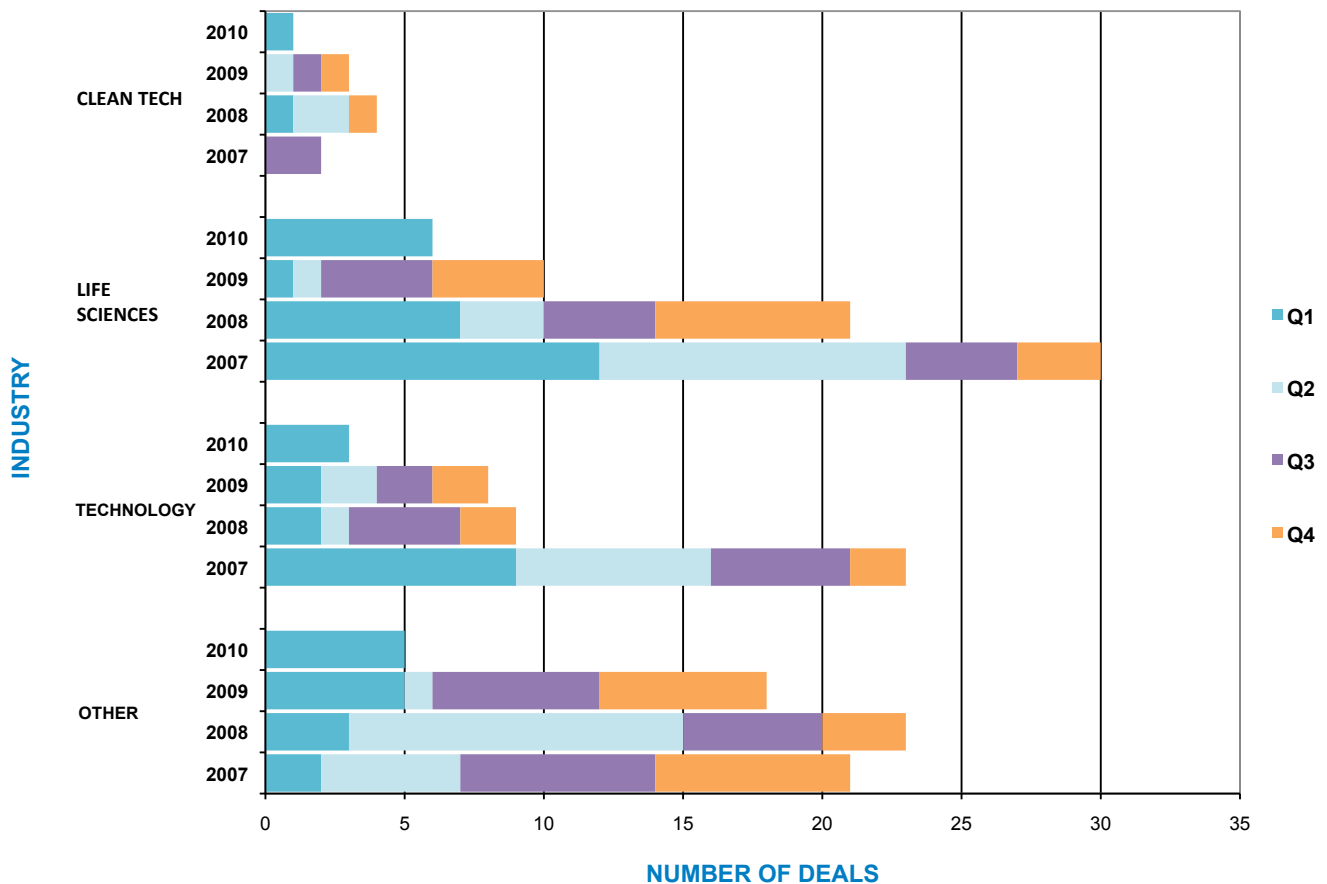


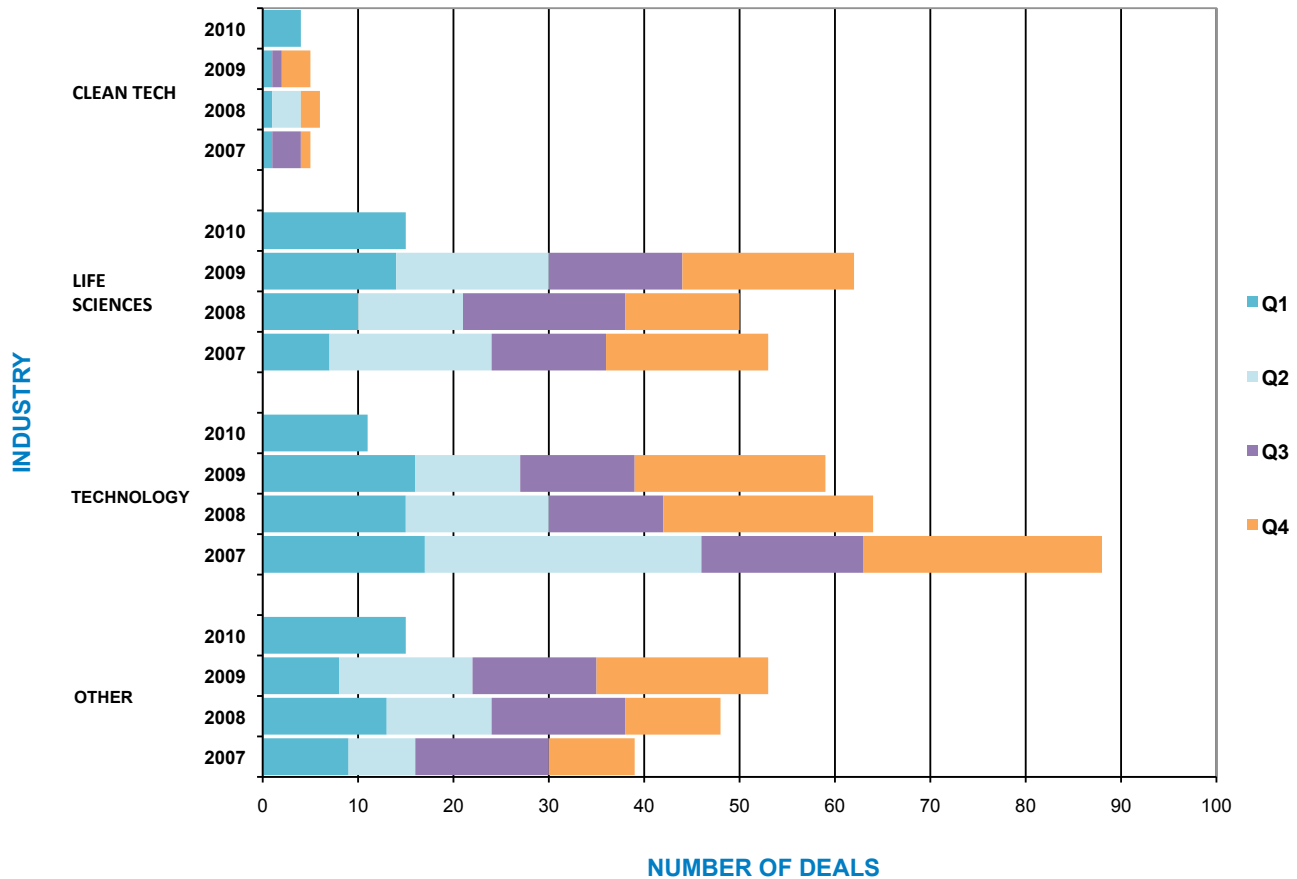


Quarterly Review of Venture Capital Financings: First Quarter 2010

New England Series A Deal Activity



New England Series B and Later Round Deal Activity



The Numbers: Maybe Belief Makes Reality

Dave Broadwin

While no one knows what the future will bring, it is surely an optimistic sign when people start behaving as if they think the future looks good. A measure of optimism is the consumer sentiment number that the government keeps and publishes from time to time. Nobody keeps a similar number for our industry, but I think sentiment is revealed by what VCs are actually doing.

My first candidate for this type of sign is things that buck a negative trend. If, as Michael Mandel has pointed out, the telecom industry is adding jobs at a time when the rest of the economy is losing them, it is a pretty sure sign of health in the telecom sector.

My second candidate for this type of sign is actions that seem to implicate optimistic views about the future. An increase in employment is an obvious one. Another obvious one is an increase in spending. Increased investment activity also fits the bill.

As I write this article, macro trends don't look so good, despite the U.S. economy reporting decent growth. Portugal, Ireland, Greece and Spain are in deep trouble, with massive implications for the world economy. The Dow fell 1000 points in intra-day trading. On an industry level, the number of exits at valuations below invested dollars is staggering (round numbers nine out of 29 deals with disclosed valuations in Q1 according to Thomson Reuters and the National Venture Capital Association). While there were nine IPOs of venture-backed companies in Q1 (an increase over all of last year), the pace is still way below 2007 (which was no barn burner).

Selected Deals

Among the Series B and later stage deals reported on by us, just less than half were down rounds and a handful were even with the prior round. Many, perhaps all, of these investments were made before the great recession, and the flat and down valuations reflect the carnage that has already taken place. In a sense, they predict the future because the prices anticipate an exit, but they reveal more about the predictions made two or more years ago than they do about two years from now. Investors would not be making these bets, if they did not think they would make a good return on them, but it is hard to measure any particular degree of optimism.

By way of comparison, Series A rounds reported on by us continue to look like regular Series A rounds. Holding aside the life science category, the tables show most VCs getting around one-third of the companies they invest in. In life science deals the percentage is higher. At first blush this situation seems to fly in the face of conventional expectation that VCs take about 50% in the A round. A couple of possible explanations for this are (1) entrepreneurs are taking companies further on seed and angel money than they have in the past and are able to demand higher valuations and (2) these companies are more capital efficient and are therefore able to get to an exit sooner and on less money than in the past. Either explanation seems to me to bode well for investors and entrepreneurs.

Selected Deal Terms

This quarter we decided to focus on four terms that seem to us to reveal more about the nature of the market than other terms. These are dividends, participation, redemption and pay-to-play.

With respect to later stage deals, in each case (except for cumulative dividends) results are roughly in line with prior quarters. With respect to cumulative dividends in later stage deals, the number has risen steadily since last year reaching almost 70% of all Series B and later stage deals in New England. When you consider this fact in light of the high percentage of down and flat rounds for later stage deals, it appears to confirm the idea that these companies were overvalued in the past rather than that VCs are not optimistic about exits in the future.

This conclusion is reinforced if you consider it in the light of Series A deals in New England, in which the incidence of cumulative dividends, participation, and redemption are way down compared to last year. Participating preferreds appeared in slightly more than 40% of the Series A deals we looked at. Perhaps more surprisingly, but consistent with the trend, is that redemption provisions appeared in only about half the deals, compared to about 70% in the prior quarter and almost all deals in the quarters before that. (By way of comparison, redemption provisions appeared in about 65% of Series B and later stage deals, consistent with prior quarters.)

The diminution in the amounts of participating preferreds and in cumulative dividend provisions in early stage deals strongly suggests optimism on the part of investors. This is all good news for entrepreneurs and for the industry in general. Although it is not clear to me, the decrease in redemption provisions may be due to recent concerns about the accounting treatment of preferred stock with these provisions.

Activity Levels

In another piece of optimistic news, activity levels for Series A investments in New England measured by number of deals are up both compared to last quarter and the first quarter of 2009. The picture is a little more mixed for Series B and later round deals. In this case the number of investments increased compared to the first quarter of 2009 but

slowed considerably from the last quarter. Nationally, Series A investments and Series B investments were up compared to the prior year but down from the prior quarter.

It is very difficult to draw conclusions from changes occurring from one quarter to the next, but looked at over longer periods of time, sizable changes probably do indicate trends. The fact that there has been a significant increase, across the board, in the first quarter of 2010 from the first quarter of 2009, indicates a strong positive trend.

Conclusion

This survey indicates that there is a fairly significant divergence in terms between Series A rounds and later rounds, with Series A getting much better terms (as a general proposition). Investors don't seem to be buying as large a percentage of Series A companies, as one might expect. In addition, the number of Series A investments is up significantly over the first quarter of 2009. This does not mean that the industry is back to where it was in 2007. But, in light of all the turmoil in the world economy, the volatility in the Dow, and huge trade and budget deficits the U.S. is running, it looks a lot like investors believe that start-ups will thrive despite a lot of negatives, and this is a pretty good sign of health in the entrepreneurial sector of the economy.

Selected New England Series A Deals

First Quarter 2010

Pre-Money and Post-Money Valuation

Company	Amount Raised	Series A preferred stock as a percentage of authorized common stock	Implied Pre-Money Valuation	Implied Post-Money Valuation
CLEAN TECH				
General Compression, Inc.	\$23,000,000	31%	\$52,000,000	\$75,000,000
LIFE SCIENCES				
Excelimmune, Inc.	\$2,000,000	50%	\$2,000,000	\$4,000,000
RA Pharmaceuticals, Inc.	\$27,600,000	45%	\$6,100,000	\$33,700,000
Rhythm Pharmaceuticals, Inc.	\$21,000,000	70%	\$9,000,000	\$30,000,000
TECHNOLOGY				
3Play Media, Inc.	\$600,000	12%	\$4,300,000	\$4,900,000
BuyWithMe, Inc.	\$5,500,000	31%	\$12,500,000	\$18,000,000
Dynamic Decision Technologies, Inc.	\$2,600,000	36%	\$4,700,000	\$7,300,000
Fluent Mobile, Inc.	\$2,500,000	18%	\$11,200,000	\$13,700,000
North End Technologies, Inc.	\$4,200,000	51%	\$4,200,000	\$8,400,000
Postabon, Inc.	\$1,500,000	25%	\$4,500,000	\$6,000,000
OTHER				
CyPhy Works, Inc.	\$1,800,000	12%	\$11,400,000	\$13,200,000

Selected New England Series B and Later Round Deals

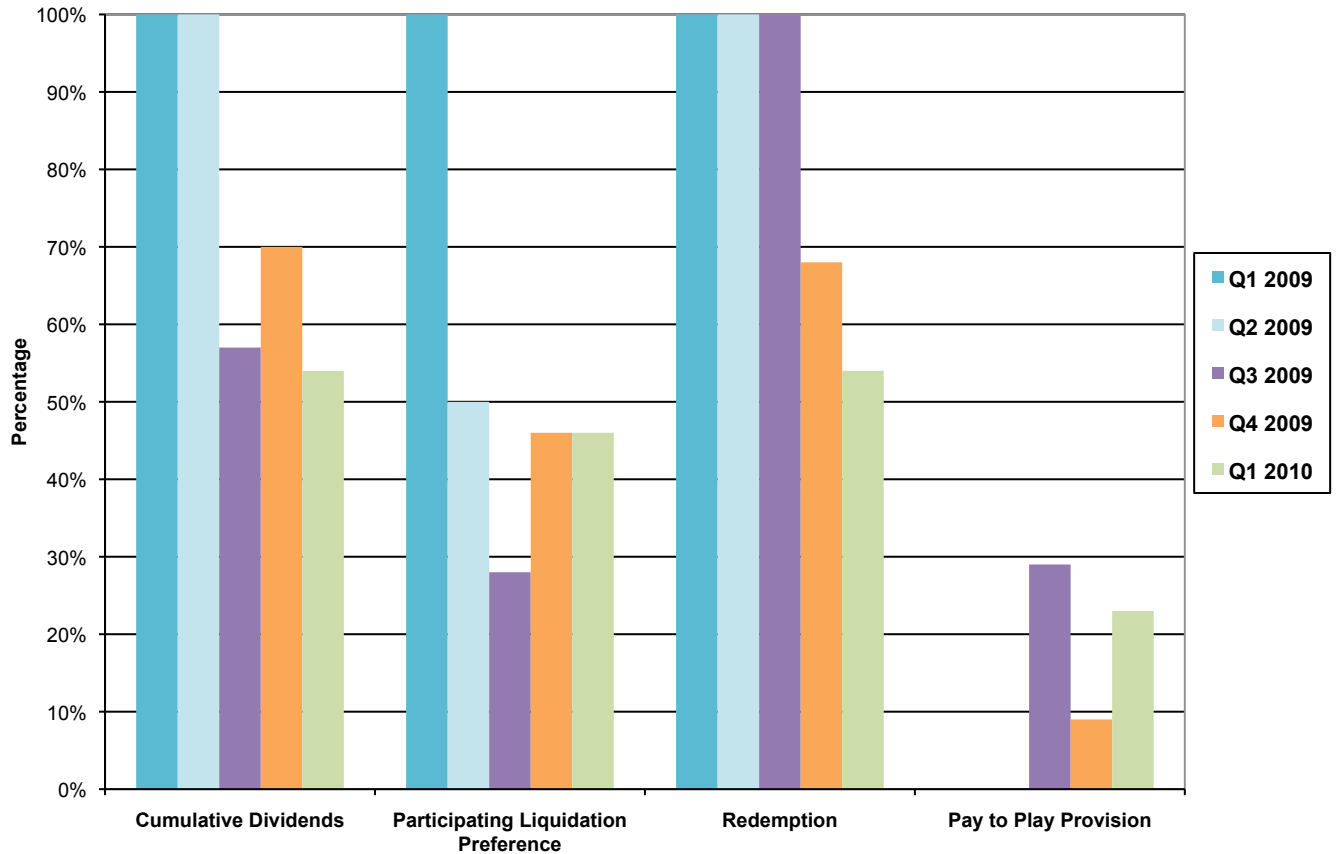
First Quarter 2010

Pre-Money and Post-Money Valuation

Company	Most recent round of preferred stock	Amount raised	Percentage of Company owned by most recent round of preferred holders	Pre-money valuation of Company	Post-money valuation of Company	Up or Down Round
CLEAN TECH						
Joule Unlimited, Inc.	B	\$12,500,000	29%	\$73,200,000	\$103,200,000	Up
LIFE SCIENCES						
Alnara Pharmaceuticals, Inc.	B	\$35,000,000	46%	\$41,300,000	\$76,300,000	Up
Artisan Pharma, Inc.	B	\$24,000,000	29%	\$57,600,000	\$81,600,000	Down
Fluidnet Corporation	B	\$9,900,000	37%	\$16,700,000	\$26,600,000	Down
Intrinsic Therapeutics, Inc.	E	\$20,600,000	24%	\$65,800,000	\$86,400,000	Down
NABsys Inc.	B	\$7,000,000	36%	\$12,600,000	\$19,600,000	Up
Rhythmia Medical, Inc.	B-1	\$2,700,000	6%	\$41,000,000	\$43,700,000	Up
Seahorse Bioscience, Inc.	D-2	\$12,000,000	11%	\$100,800,000	\$112,800,000	Even
Smartcells, Inc.	D	\$4,000,000	4%	\$88,500,000	\$92,500,000	Up
TECHNOLOGY						
Aternity, Inc.	C	\$5,000,000	11%	\$40,100,000	\$45,100,000	Up
Brightcove, Inc.	D	\$12,000,000	3%	\$340,400,000	\$352,400,000	Down
innoPad, Inc.	C	\$4,100,000	32%	\$23,500,000	\$27,600,000	Even
Polatis, Inc.	B	\$2,600,000	6%	\$41,000,000	\$43,500,000	Down
SensAble Technologies, Inc.	A-1	\$8,000,000	28%	\$20,600,000	\$28,600,000	Up
Tap 'n Tap, Inc.	C	\$1,800,000	21%	\$6,500,000	\$8,300,000	Up
OTHER						
Awareness, Inc.	B	\$10,800,000	35%	\$20,100,000	\$31,000,000	Down
Azigo, Inc.	B	\$2,200,000	29%	\$5,500,000	\$7,700,000	Down
EveryScape, Inc.	D	\$6,000,000	15%	\$33,100,000	\$39,100,000	Up
SepSensor Inc.	A-1	\$2,500,000	18%	\$5,400,000	\$7,900,000	Down
SwapTree, Inc.	D-2	\$6,000,000	13%	\$39,000,000	\$45,000,000	Up

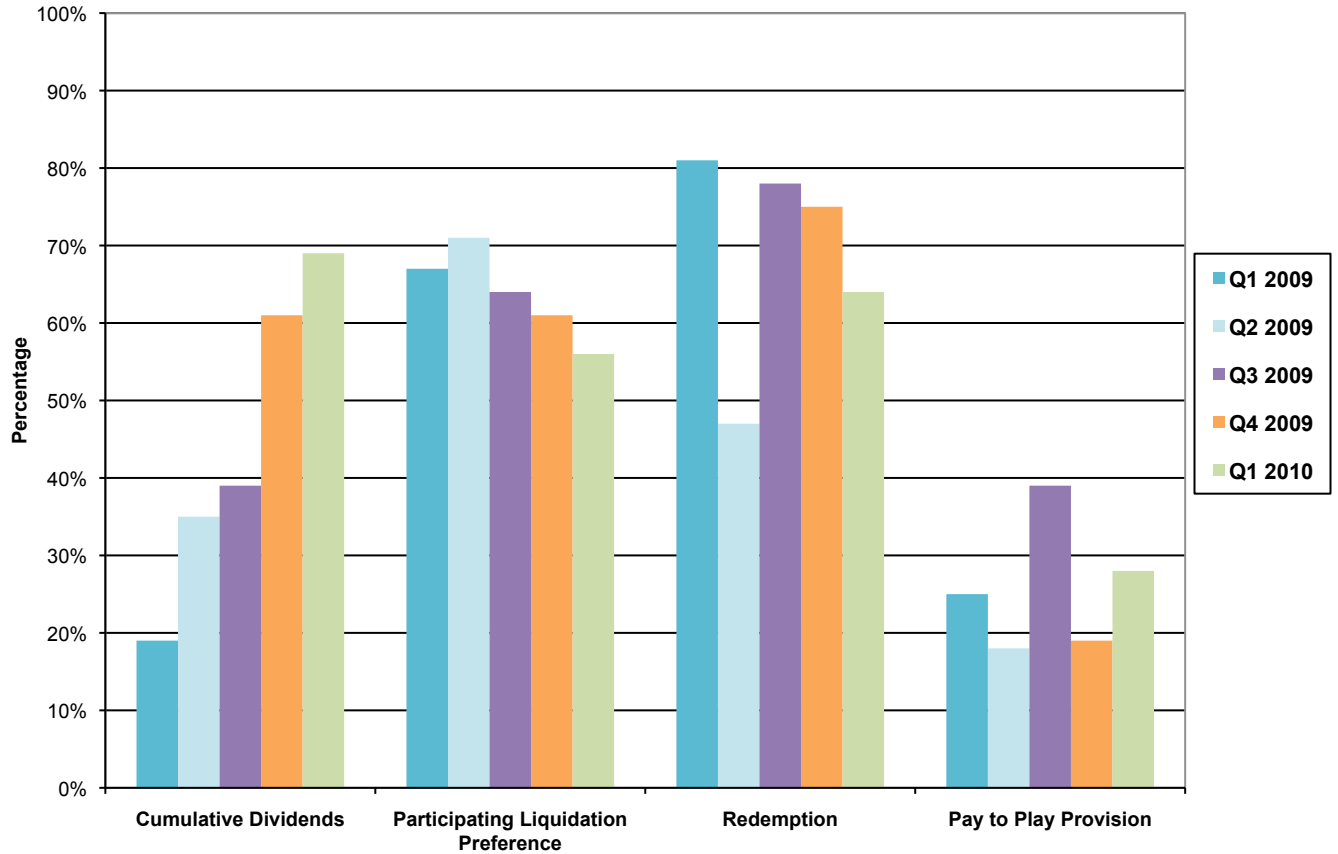
Figures shown in the Amount Raised, Pre-Money Valuation and Post-Money Valuation columns have been rounded to the nearest hundred thousand. This analysis is inherently imprecise and is based on a number of general assumptions which may or may not be accurate. However, in a typical situation we believe it will yield an approximation of the valuation placed on the company at the time of financing, and therefore may be of interest to our readers.

Selected New England Series A Deal Terms 2009-2010



The chart above summarizes publicly available information about various terms included in "Series A" financings for companies headquartered in New England. For the purposes of this table we have focused solely on transactions that appeared to us, from the public filings, to be identifiable as "Series A" financings. We have excluded transactions that appeared to us to involve considerations and concerns different from those applicable in a typical "Series A", such as might occur, for example in the case of a recapitalization. For this reason, the set of transactions described above is somewhat different from the set of transactions described in the later tables. We have selected terms to report on that we believe will be of particular interest to entrepreneurs. Each of these terms is linked to a description of that term on our website.

Selected New England Series B and Later Round Deal Terms 2009-2010



The chart above summarizes publicly available information about various terms included in "Series B" and later round financings for companies headquartered in New England. For the purposes of this table we have focused solely on transactions that appeared to us, from the public filings, to be identifiable as "Series B" and later round financings. We have excluded transactions that appeared to us to involve considerations and concerns different from those applicable in a typical "Series B" or later round, such as might occur, for example in the case of a recapitalization. For this reason, the set of transactions described above is somewhat different from the set of transactions described in the later tables. We have selected terms to report on that we believe will be of particular interest to entrepreneurs. Each of these terms is linked to a description of that term on our website.

The Activity Level Summary - New England

New England Series A Deals by Industry*

Industry	2009				2010	Quarter ended March 31, 2009	Quarter ended March 31, 2010
	Q1	Q2	Q3	Q4	Q1		
Life Sciences							
Biopharma	1	1	0	3	5	1	5
Medical Device	0	0	4	1	1	0	1
Clean Tech	0	1	1	1	1	0	1
Technology	2	2	2	2	3	2	3
Other	5	1	6	6	5	5	5
Total	8	5	13	13	15	8	15

* Source: Dow Jones VentureSource

New England Series B and Later Round Deals by Industry*

Industry	2009				2010	Quarter ended March 31, 2009	Quarter ended March 31, 2010
	Q1	Q2	Q3	Q4	Q1		
Life Sciences							
Biopharma	10	8	10	13	8	10	8
Medical Device	4	8	4	5	7	4	7
Clean Tech	1	0	1	3	4	1	4
Technology	16	11	12	20	11	16	11
Other	8	14	13	18	15	8	15
Total	39	41	40	59	45	39	45

* Source: Dow Jones VentureSource

The Activity Level Summary - National

National Series A Deals by Industry*

Industry	2009				2010	Quarter ended March 31, 2009	Quarter ended March 31, 2010
	Q1	Q2	Q3	Q4	Q1		
Life Sciences							
Biopharma	9	4	17	19	13	9	13
Medical Device	4	7	17	15	12	4	12
Clean Tech	3	5	7	14	6	3	6
Technology	22	13	30	49	34	22	34
Other	45	16	79	95	85	45	85
Total	83	45	150	192	150	83	150

* Source: Dow Jones VentureSource

National Series B and Later Round Deals by Industry*

Industry	2009				2010	Quarter ended March 31, 2009	Quarter ended March 31, 2010
	Q1	Q2	Q3	Q4	Q1		
Life Sciences							
Biopharma	39	40	51	54	41	39	41
Medical Device	31	55	52	61	47	31	47
Clean Tech	11	18	17	18	24	11	24
Technology	107	100	104	140	116	107	116
Other	112	125	160	171	137	112	137
Total	380	338	384	444	365	300	365

* Source: Dow Jones VentureSource

Size of New England 2010 Series A Deals by Industry*

Industry	\$5 million or less	Above \$5 million up to \$10 million	Above \$10 million up to \$15 million	Above \$15 million up to \$20 million	Above \$20 million
Life Sciences					
Biopharma	2	0	2	0	1
Medical Device	0	1	0	0	0
Clean Tech	0	0	0	1	0
Technology	3	0	0	0	0
Other	4	1	0	0	0
Total	9	2	2	1	1

* Source: Dow Jones VentureSource

Size of New England 2010 Series B and Later Round Deals by Industry*

Industry	\$5 million or less	Above \$5 million up to \$10 million	Above \$10 million up to \$15 million	Above \$15 million up to \$20 million	Above \$20 million
Life Sciences					
Biopharma	2	3	0	1	2
Medical Device	3	2	0	1	1
Clean Tech	2	1	0	0	1
Technology	5	3	3	0	0
Other	8	3	3	1	0
Total	20	12	6	3	4

* Source: Dow Jones VentureSource

The tables above summarize publicly available information about the number and size of first round financings and second round financings for companies headquartered in New England and nationally by industry. The data included in the tables is derived from Venture Source, a publication of Dow Jones Venture One. Venture Source categorizes transactions as "seed round," "first round," "second round" and so on. Upon examination of each transaction, it is not always clear why a particular transaction was put in a particular category, however, for the purposes of these tables we have used the categories as defined by VentureSource.

If you have any questions about this publication or about the Emerging Enterprise Center at Foley Hoag and how we can help your entrepreneurial venture, please feel free to contact any of the following lawyers:



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