

## Reitler Brown & Rosenblatt Silicon Alley Venture Survey

Venture Financing Trends in the New York Metropolitan Area  
2005 Second Quarter

**Background:** Our firm has collected data relating to 30% of the reported venture investments made in the New York Metropolitan Area during the second quarter of 2005. We have analyzed the results to provide our clients, survey participants and other friends of our firm with valuable insight into venture financing trends and deal terms.

**Overview:** The results of our 2Q05 survey show positive trends. Some of the highlights are as follows:

- For the second quarter in a row, none of the reported investments were down rounds.
- The Reitler Brown Silicon Alley Venture Capital Price Index™ showed a 19.6% average price increase from companies' preceding rounds, compared to a 59.3% average increase in the first quarter.<sup>1</sup>
- Nearly 70% of the reported venture capital investments being made in the New York Metropolitan area are in technology companies.
- Multiple liquidation preferences were utilized in only 7.7% of the reported transactions, a drop from 27% in the first quarter.
- In 61% of the reported transactions, whether or not they received a participating preferred security, venture capital investors were capped in their preferred return in that they must convert their venture preferred security (and give up their preference) if they hope to receive more than the cap. The average cap was 1.5x.
- For the second quarter in a row approximately 60% of venture capital investments contained redemption rights.
- Of those transactions that contain anti-dilution protection for investors, by far the most common form was weighted average (89%), rather than full ratchet (11%).

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<sup>1</sup> The Reitler Brown Silicon Alley Venture Capital Price Index™ measures the average percentage increase/decrease in Series B rounds or subsequent rounds over the immediately preceding round.

**Industry of Portfolio Company:**

<b>Description</b>	<b>1Q05</b>	<b>2Q05</b>
Technology	67%	69%
Life Science	13%	8%
Other	20%	23%

**Financings rounds broke down as follows:**

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
Common	None	15.4%
A	47%	38.5%
B	27%	38.5%
C	20%	7.6%
D	6%	None

**Price Change:**

<b>Price Change</b>	<b>1Q05</b>	<b>2Q05</b>
Up	47%	23%
Flat	13%	23%
Down	None	None
Not Applicable	40%	54%

**Senior Liquidation Preferences:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	33%	77%

**By Series:**

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
A	67%	80%
B	25%	100%
C	None	100%
D	None	N/A

**Capping:**

<b>Description</b>	<b>2Q05</b>
Utilized	61.5%
Average Amount	1.5x

**Multiple Liquidation Preferences:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	27%	7.7%

By Series:

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
A	50%	20%
B	None	None
C	None	None
D	100%	N/A

Amount of Multiple:

<b>Description</b>	<b>2Q05</b>
Average Multiple	5x

**Participation in Liquidation after recovery of dividends and principal:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	80%	85%

By Series:

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
A	83%	100%
B	75%	80%
C	100%	None
D	None	N/A

**Cumulative Dividends:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	67%	67%

By Series:

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
A	83%	40%
B	100%	80%
C	67%	None
D	None	N/A

**Anti-Dilution Provisions:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	87%	69%

By Series:

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
A	83%	100%
B	100%	60%
C	100%	100%
D	100%	N/A

Type:

<b>Calculation</b>	<b>2Q05</b>
Full Ratchet	11%
Weighted Average	89%

**Pay to Play:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	None	None

**Redemption Rights:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	60%	61.5%

By Series:

<b>Series</b>	<b>1Q05</b>	<b>2Q05</b>
A	50%	80%
B	75%	60%
C	33%	100%
D	100%	N/A

**Corporate Reorganizations, Recapitalizations or Refinancings:**

<b>Total</b>	<b>1Q05</b>	<b>2Q05</b>
	None	23%

For additional information about the Reitler Brown & Rosenblatt Silicon Alley Venture Survey, please feel free to contact Ed Reitler at (212) 209-3010 or [ereitler@reitlerbrown.com](mailto:ereitler@reitlerbrown.com). If you wish to participate in our survey in the future, or have any other questions or comments, contact Jaime Sorrentino at [jsorrentino@reitlerbrown.com](mailto:jsorrentino@reitlerbrown.com).

The total number of venture financings in the New York Metropolitan area was obtained from the PricewaterhouseCoopers Money Tree™ Survey.