



FENWICK & WEST LLP

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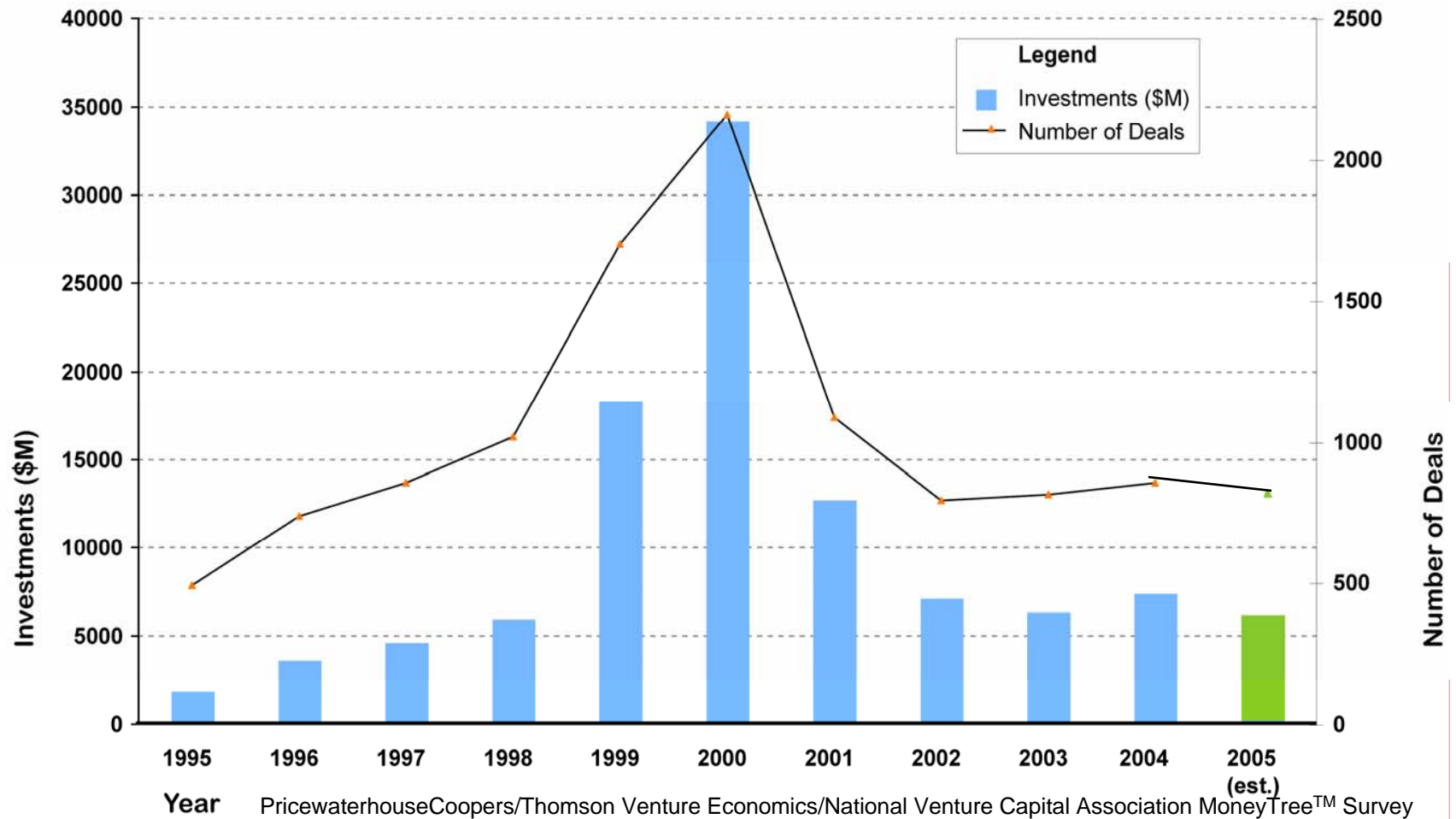
# THE CURRENT VENTURE CAPITAL FINANCING ENVIRONMENT

University of California  
TECHNOLOGY TRANSFER FORUM

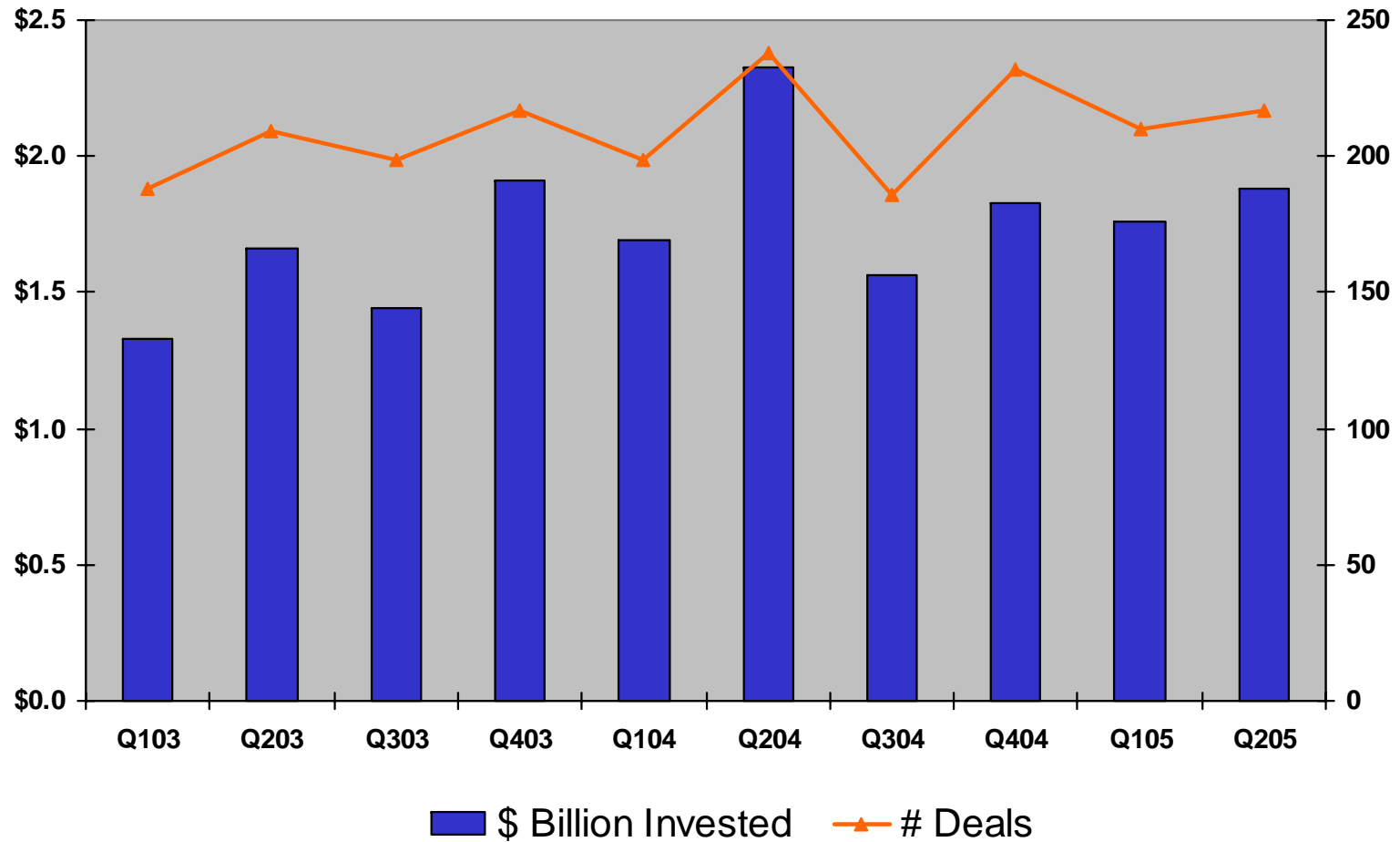
Gordon Davidson  
Lindsey Munro  
Fenwick & West LLP  
November 3, 2005



# Venture Capital Investment in the Bay Area



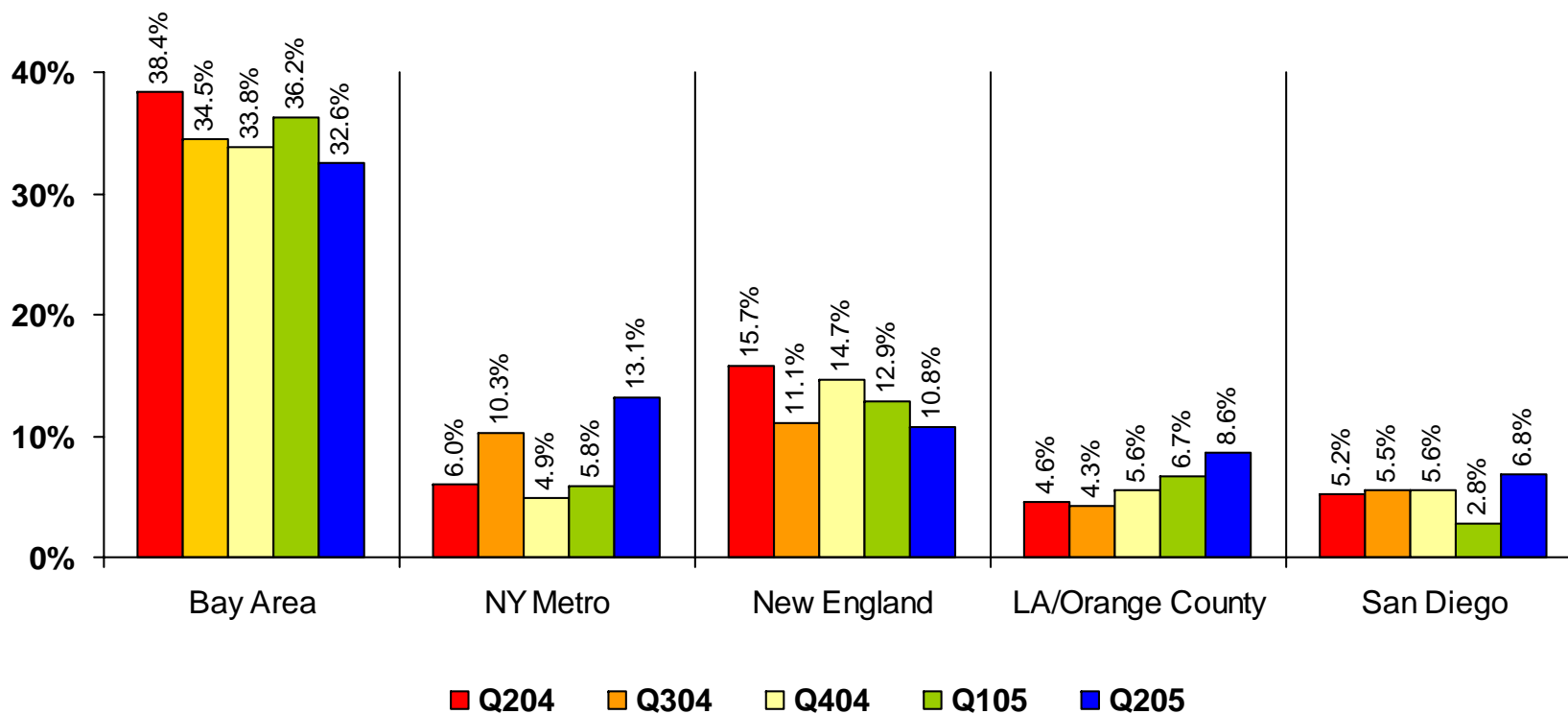
# Venture Capital Investment in the Bay Area



# Investments by Region – Quarterly Percent of Total U.S. Investments

Top U.S. Regions – Q2 2005

% of Total Dollars

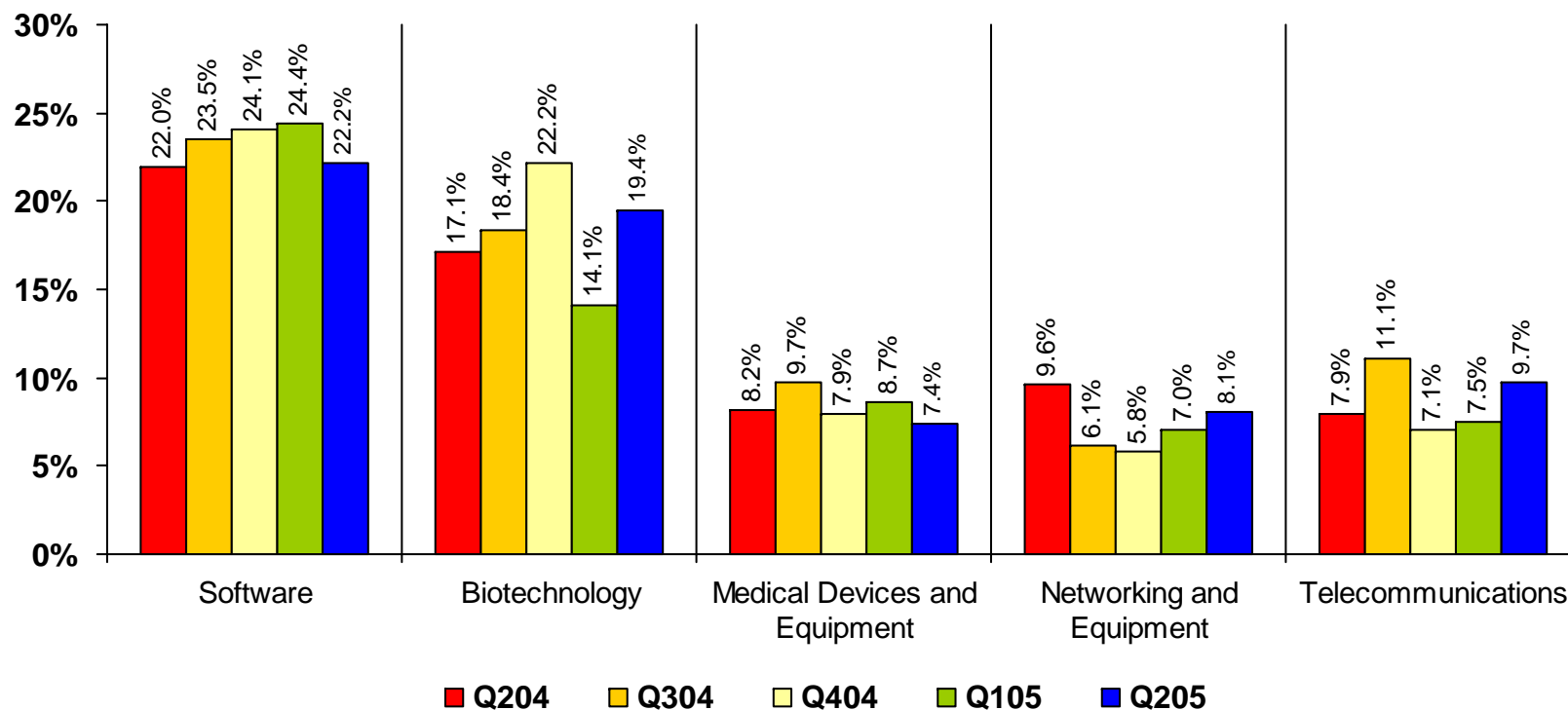


PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey

# Investments by Industry – Quarterly Percent of Total U.S. Investments

Top 5 Industries – Q2 04 to Q2 05

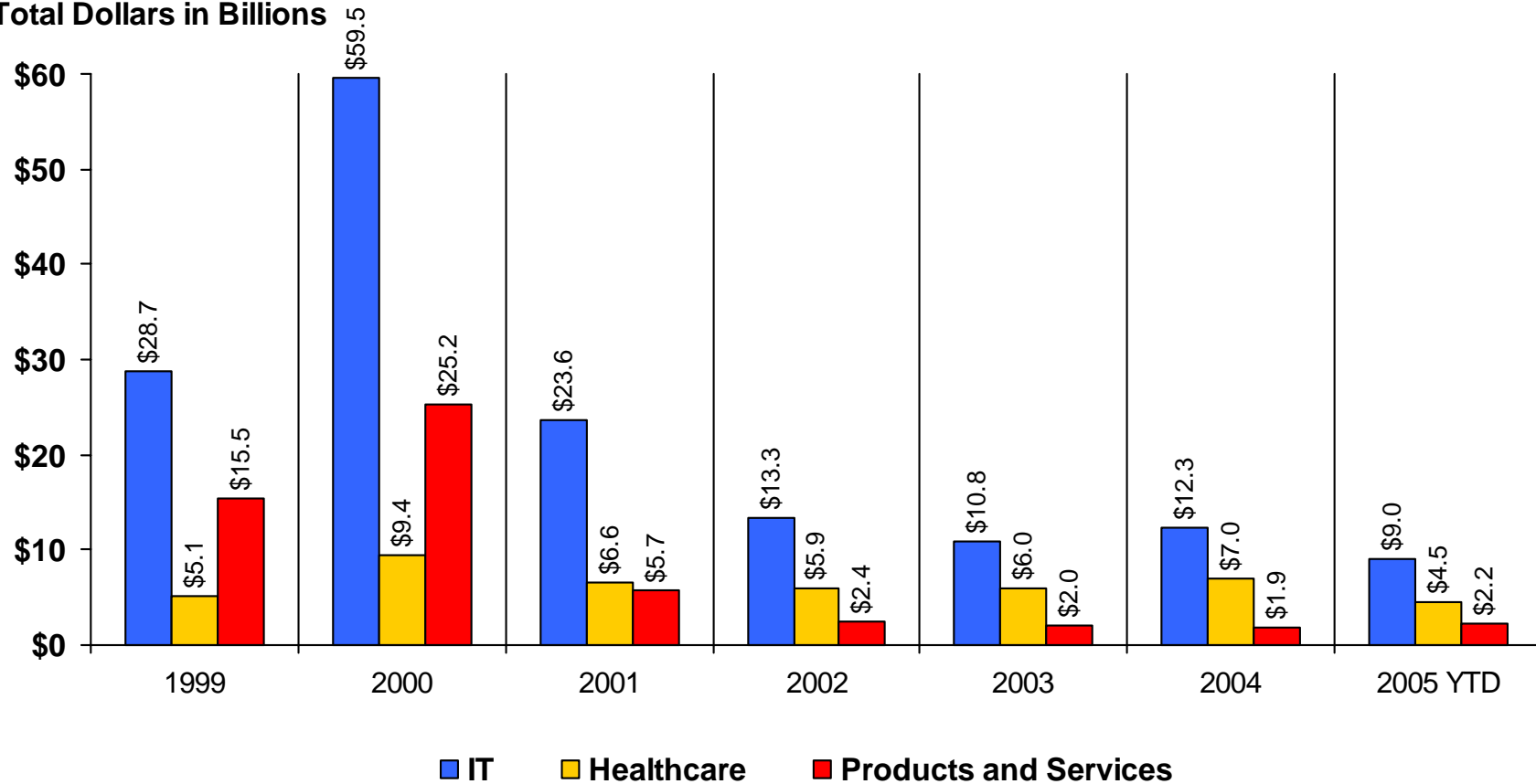
% of Total Dollars



PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey

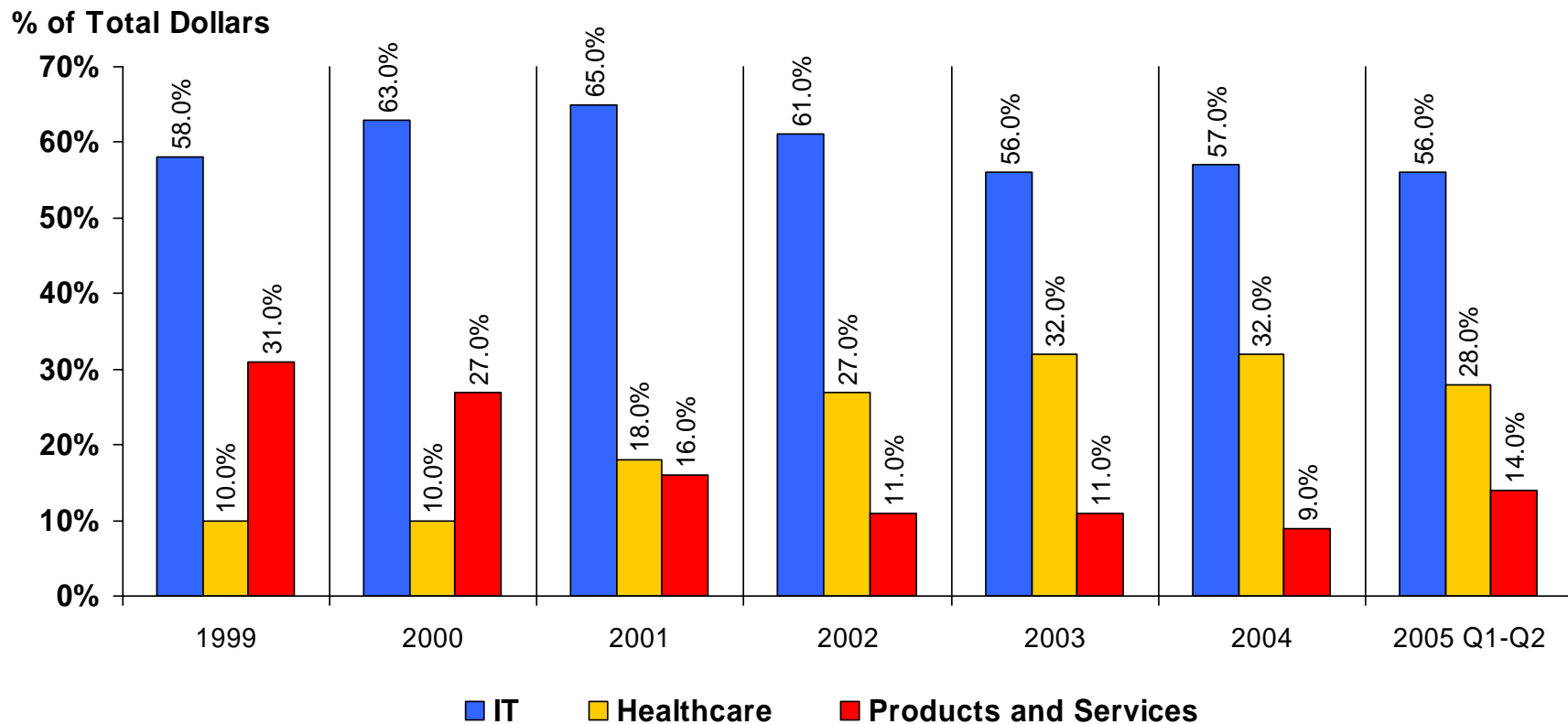
# Dollar Amounts Invested by Industry

Total Dollars in Billions



Dow Jones VentureSource

# Percentage of Dollars Invested by Industry

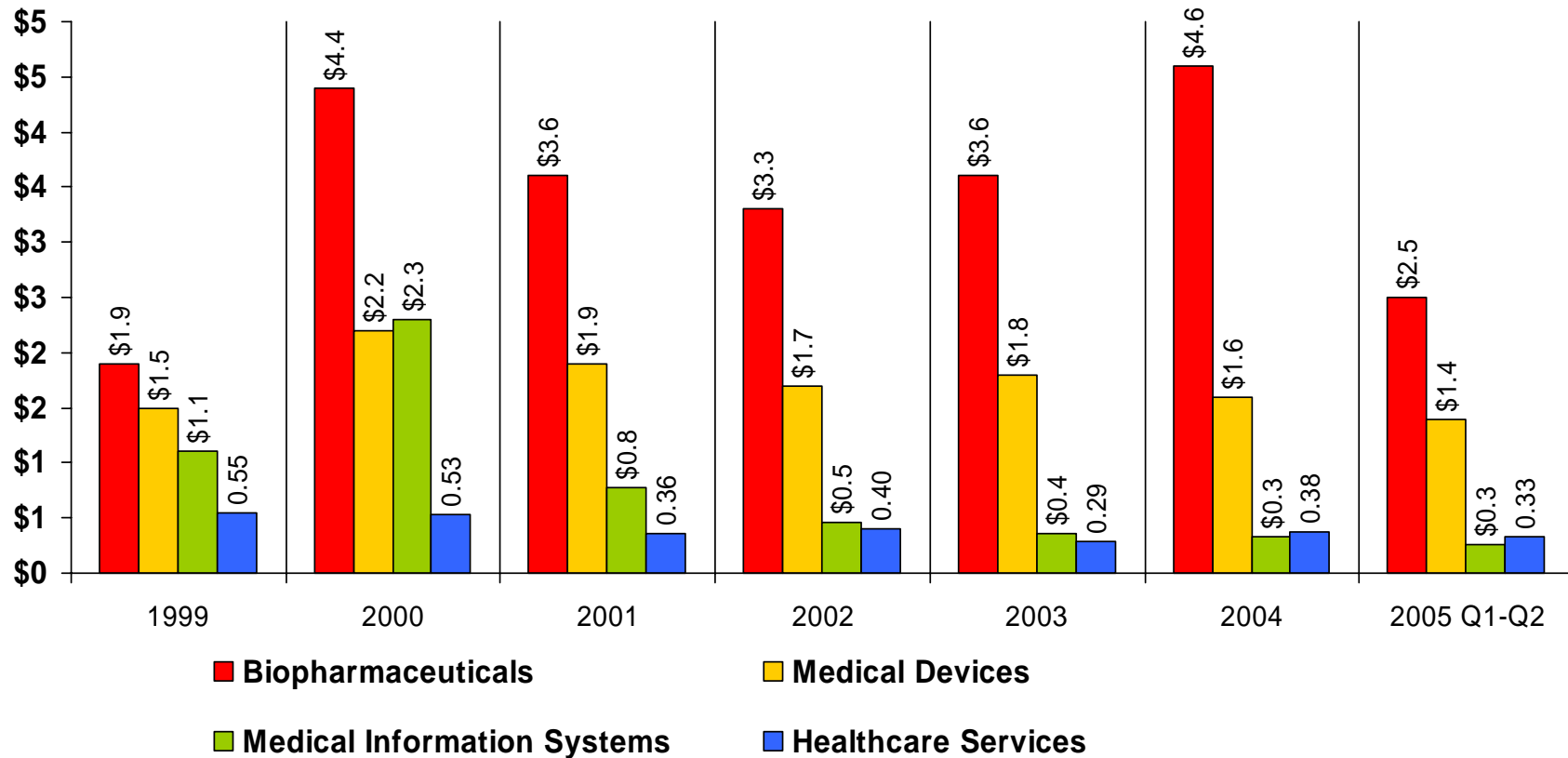


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# Investments in Healthcare Industry

## Total Dollars Invested by Segment per Year

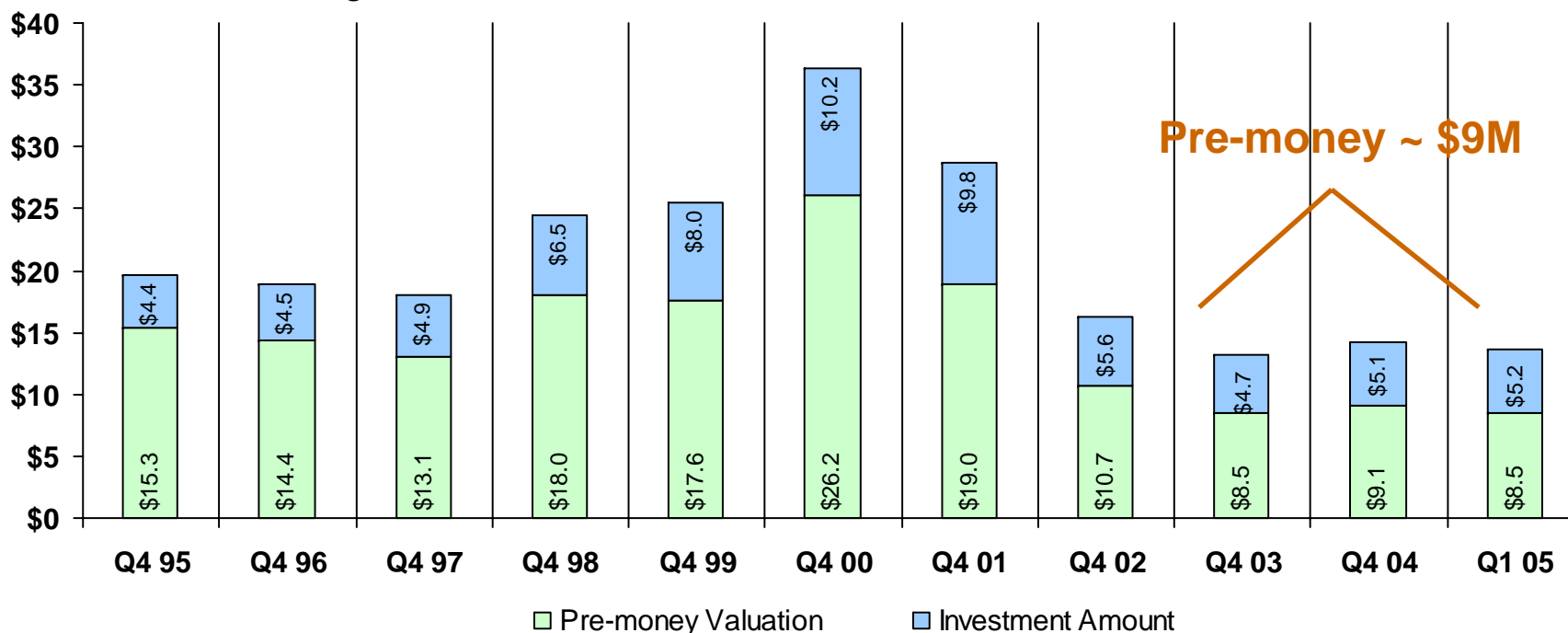
Total Dollars in Billions



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# Post-Money Valuations Early Stage Companies 1995 to 2005

12 Month Average

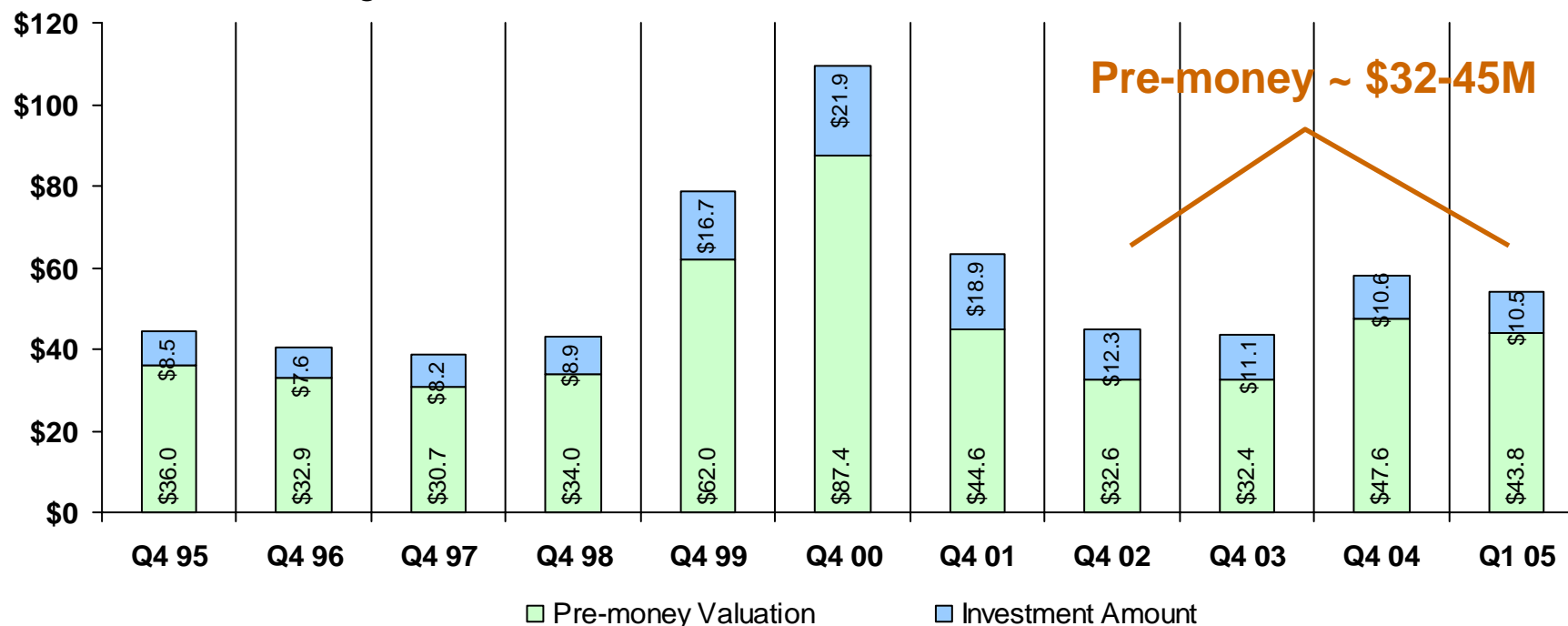


Q4 Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Q1 2005
<b>Total</b>	\$19.70	\$18.94	\$17.97	\$24.47	\$25.56	\$36.37	\$28.76	\$16.24	\$13.22	\$14.25	\$13.63

PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey

# Post-Money Valuations Expansion Stage Companies 1995 to 2005

12 Month Average

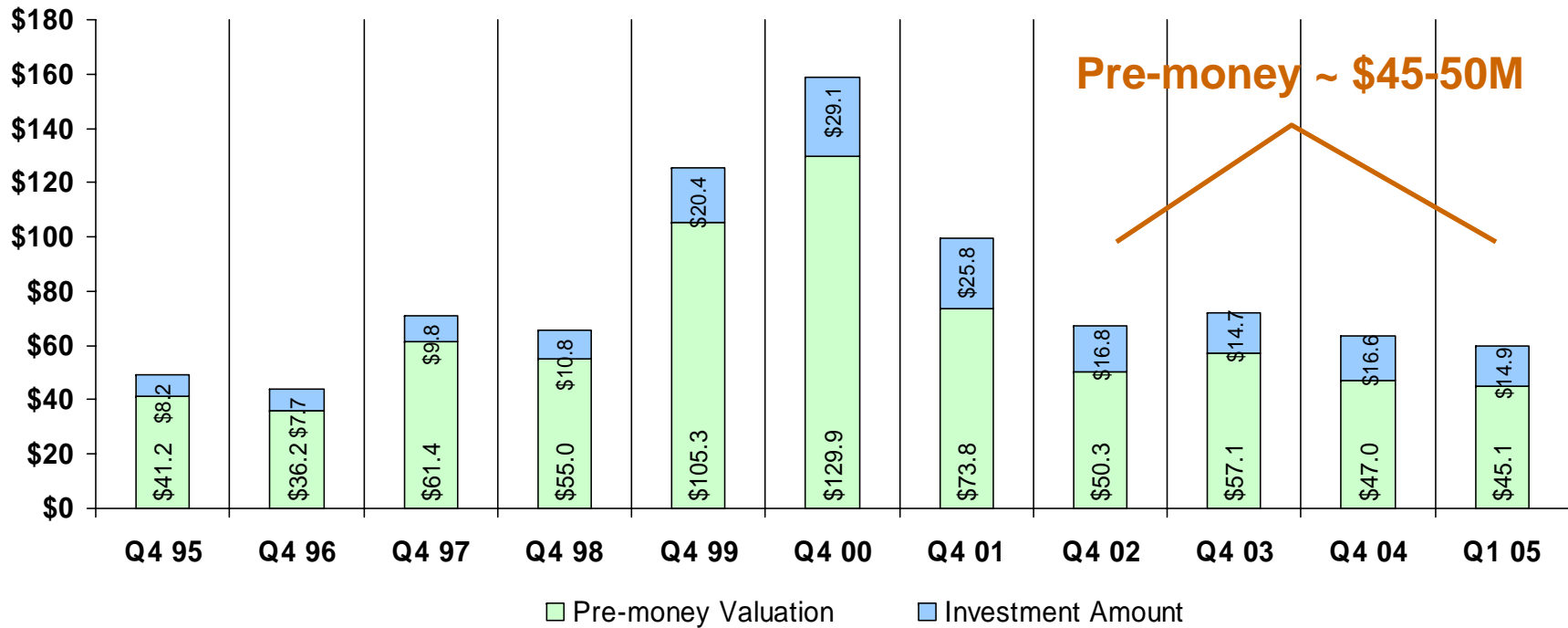


Q4 Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Q1 2005
<b>Total</b>	\$44.54	\$40.50	\$38.88	\$42.94	\$78.66	\$109.25	\$63.48	\$44.97	\$43.55	\$58.16	\$54.31

PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey

# Post-Money Valuations Later Stage Companies 1995 to 2005

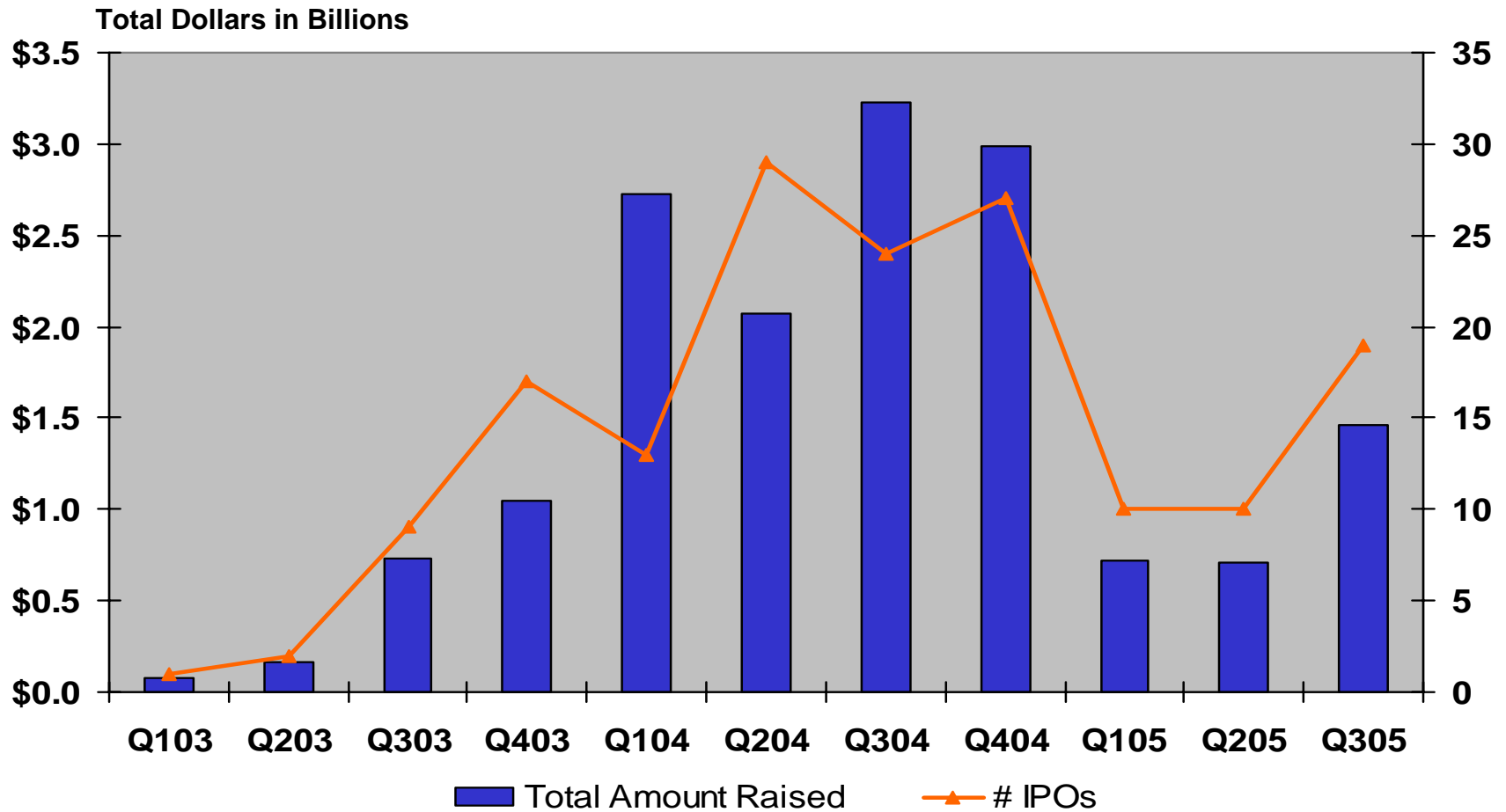
12 Month Average



Q4 Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Q1 2005
<b>Total</b>	\$49.37	\$43.91	\$71.19	\$65.79	\$125.71	\$158.94	\$99.60	\$67.03	\$71.82	\$63.52	\$59.90

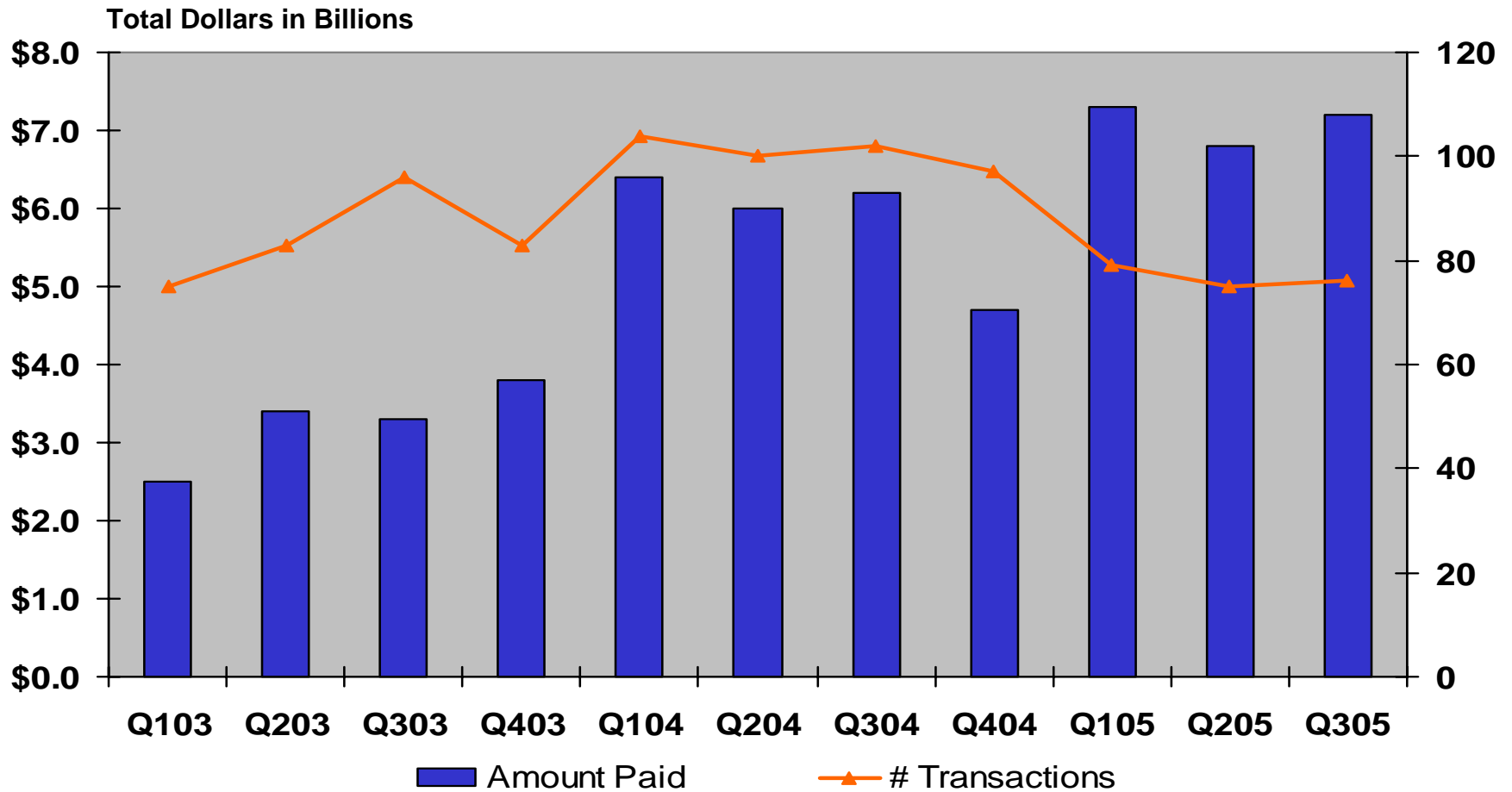
PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey

# Venture-Backed Initial Public Offerings



Dow Jones VentureSource

# Venture-Backed Mergers & Acquisitions



Dow Jones VentureSource

## Venture-Backed Liquidity Events in Q3 05

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- Venture-backed IPOs jumped in Q3 05, but down from Q3 04
  - 19 IPOs in Q3 raised \$1.5B, vs. only 10 and \$714M in Q2
    - Of the 19 IPOs, 7 were life sciences while 9 were IT
    - 39 IPOs in Q1-Q3 2005 vs. 66 IPOs in Q1-Q3 2004
    - Average amount raised in Q3 was \$77M
      - down from the 2004 average of \$118M
- Acquisitions of venture-backed companies steady in 2005
  - 75-80 transactions per quarter in 2005
    - fewer than the 100+ per quarter average in 04
  - But average sales price in 2005 was over \$90M
    - up from the 2004 average price of \$83M

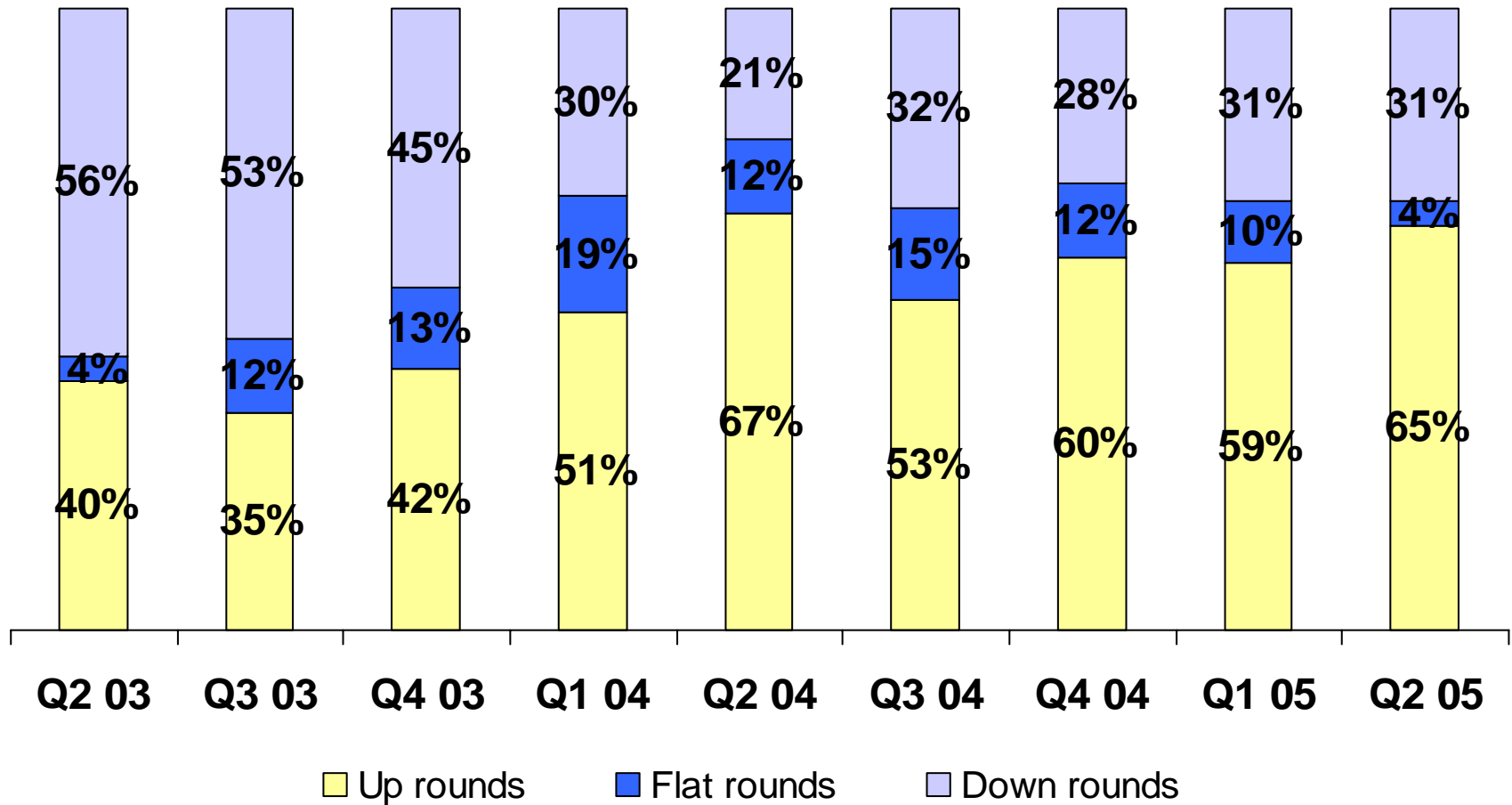
Thomson Venture Economics/NVCA Exit Poll

## Fenwick & West Venture Capital Survey™ Continued Positive Trends in Q2 Financings

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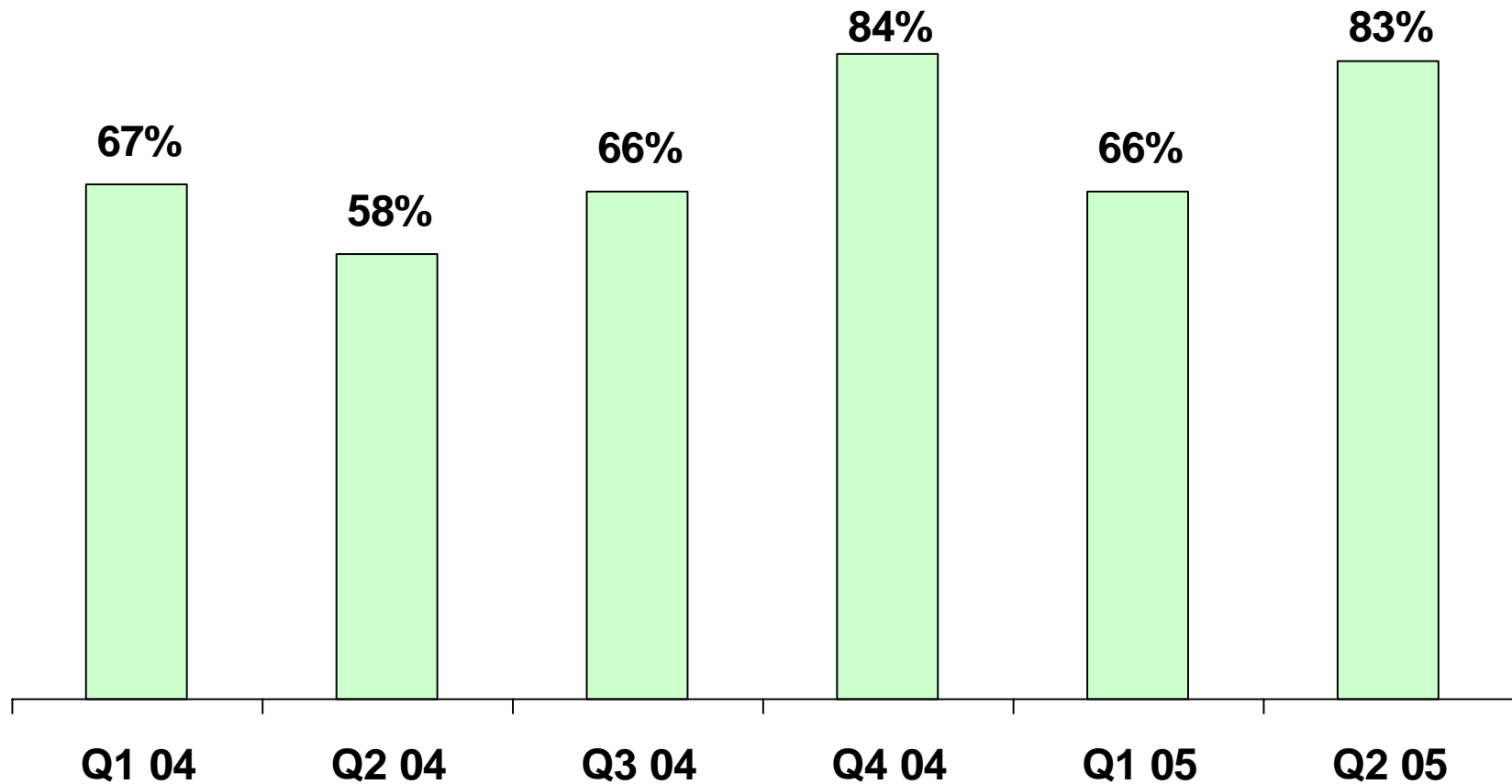
- Up rounds outpaced down rounds for sixth quarter in a row, and by the second highest margin since 2002: **65% to 31%**.
- The Fenwick & West Venture Capital Barometer™ -- **41%** average price increase for 2Q 05 compared to the previous financing round—the largest increase since 2002.
- The total \$ amount invested by venture capitalists in the U.S. in Q2 05 increased by 15% over Q1 05.
  - **Nearly half of the increase was in life sciences sector.**
- Venture fund fundraising appears to be on track for the best year since 2000 – 2001, according to industry publications.

# Percentage of Deals that were Up, Flat or Down



## Magnitude of Price Change for Up Rounds Average Per Share Percentage Increase over Previous Round

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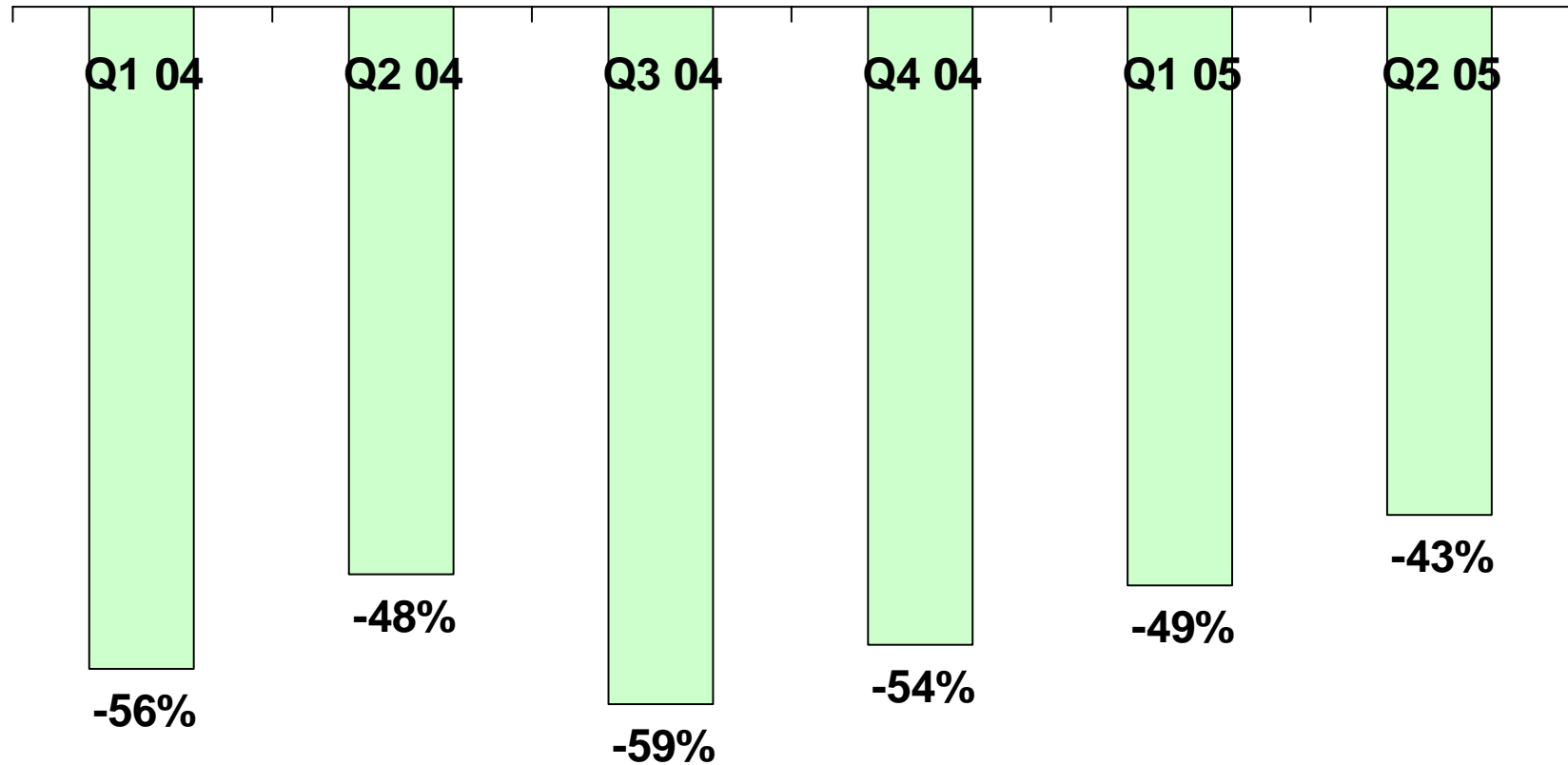


Fenwick & West Venture Capital Barometer™

## Magnitude of Price Change for Down Rounds

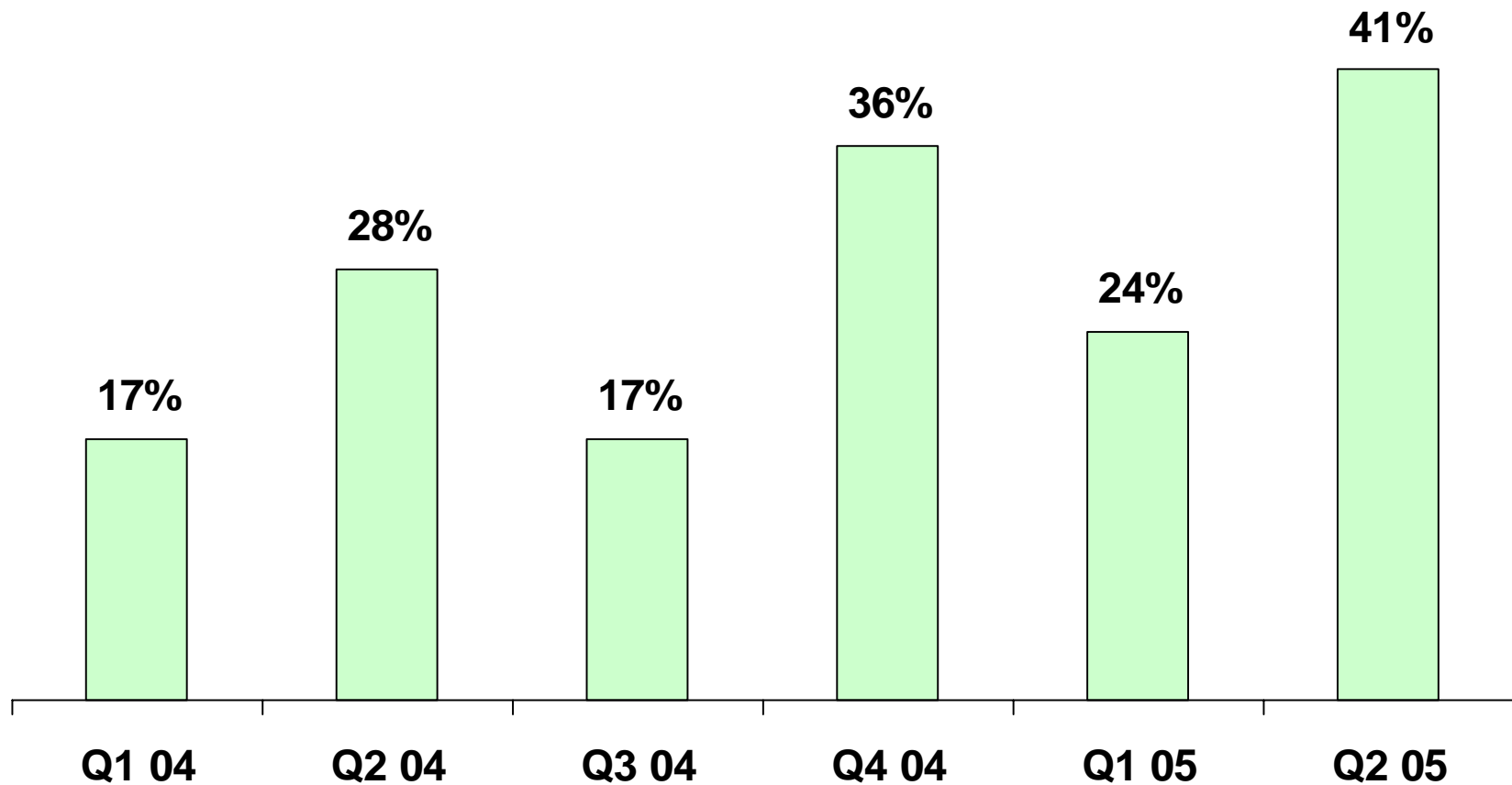
Average Per Share Percentage Decrease over Previous Round

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Fenwick & West Venture Capital Barometer™

## Average Net Price Change Combining Up, Flat and Down Rounds



Fenwick & West Venture Capital Barometer™

## Price Changes Compared to Last Round (Q2)

<b>Q2 05 Percent Change</b>	<b>Series B</b>	<b>Series C</b>	<b>Series D</b>	<b>Series E and Higher</b>
<b>Up Rounds</b>	<b>+117%</b>	<b>+67%</b>	<b>+57%</b>	<b>+49%</b>
<b>Down Rounds</b>	<b>-38%</b>	<b>-48%</b>	<b>-35%</b>	<b>-47%</b>
<b>Net Result</b>	<b>+93%</b>	<b>+28%</b>	<b>+20%</b>	<b>-9%</b>

## Trends in Legal Terms of Financings (Q2)

<u>Term (compared to last 8 quarter average)</u>	<u>Q2 05</u>	<u>8Q Avg.</u>
Senior Liquidation Preference	46%	53%
Multiple Liquidation Preference	22%	27%
Participating Preferred	71%	71%
Uncapped Participation	60%	58%
Cumulative Dividends	4%	7.8%
Ratchet Anti-dilution Protection	8%	9.1%
Weighted Average Anti-dilution	88%	87.7%
No Anti-dilution Protection	4%	3.25%
Redemption Rights of Investors	29%	30.5%

# Anecdotal Comments on Recent Financings

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- Valuations generally up (first rounds \$5M to \$10M pre-money)
- More competition for quality deals, some being bid up
- Some late stage deals are being financed at high valuations:
  - E.g., \$60M round at \$340M pre-money
  - \$100-150M pre-money not uncommon
- Some recaps to eliminate liquidation preference overhang
- Some lengthening in time to close—deal specific
- Regulatory path and IP protection critical for life sciences
- Expect significant due diligence by prospective investors

# Investment Growth in Life Sciences Sector

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## Life Sciences investments:

- In Q3 05, \$1.6B was invested in 154 life sciences companies similar to Q2 05 total of \$1.5B invested in 155 companies.
- Life sciences made up 26% of all venture investing for first three quarters of 2005.
- \$4.2B YTD, likely to meet or exceed 2004 total of \$5.8B.

## In contrast:

- Software industry had \$1B invested in 185 companies in Q3.
- Telecom industry had \$605M invested in 65 companies in Q3.

MoneyTree™ Survey

## What Venture Capitalists Are Looking For:

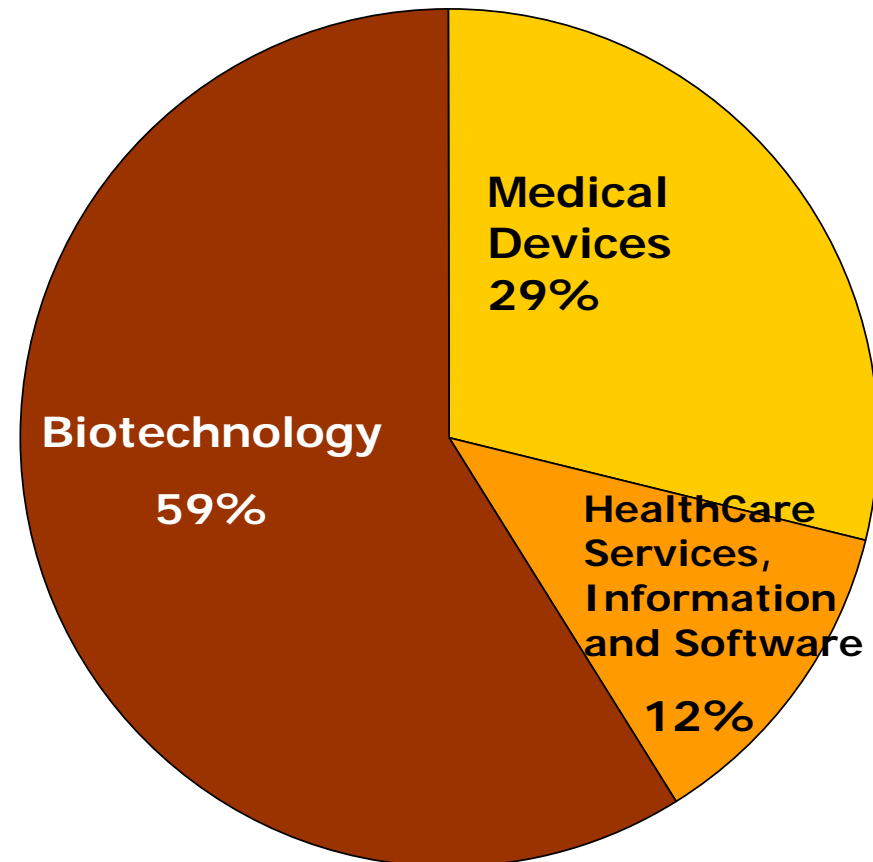
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- VCs are looking deeper into university labs for new technologies
- What's hot:
  - Life Sciences
  - Energy and Materials
  - Consumer/Internet
  - Semiconductors
- What's not:
  - Enterprise Software

# What's Hot: Life Sciences

- Cancer drug development
- Disease management
- Genomics
- Innovative drug delivery methods
- Medical devices with large markets
- Molecular biology
- Modeling & simulation
- Neurotechnology
- Personalized medicine
- Predictive diagnostics

Dollars Invested by Sector  
Q1-Q2 05



## Q1 and Q2 Investments in Biotechnology and Pharmaceutical Companies Focusing on Cancer

Company	Financing	Amount	Nature of Business
Idun Pharmaceuticals (acquired by Pfizer for undisclosed amount)	Late stage	\$38.6M	Human therapeutics to control programmed cell death
Raven Biotechnologies	Late stage	\$34M	Antibody based therapeutics for treating several forms of cancer
Therion Biologics	Late stage	\$30M	Therapeutic vaccines for cancer patients
Receptor BioLogix	Early stage	\$26.5M	Protein therapeutics to treat cancer and other diseases
Cylene Pharmaceuticals	Expansion stage	\$26.3M	Small molecule anti-cancer agents
GlobelImmune	Expansion stage	\$25M	Vaccine platform technology for cancers and viral infections

## Q1 and Q2 Investments in Biotechnology and Pharmaceutical Companies Focusing on Cancer

Company	Financing	Amount	Nature of Business
Celator Pharmaceuticals	Expansion stage	\$20M	Biopharmaceutical technologies to treat cancer
Aureon Laboratories	Late stage	\$18M	Oncology-based clinical tests
Cellerant Therapeutics	Expansion stage	\$16M	Products regulating the hematopoietic system
Conforma Therapeutics	Late stage	\$11.1M	Small-molecule drugs for treating cancer
Genoptix	Late stage	\$10M	Genetic testing and identification services
Biopheresis Technologies.	Early stage	\$8.3M	Develops novel cancer treatment systems

## Q1 and Q2 Investments in Biotechnology and Pharmaceutical Companies Focusing on Cancer

Company	Financing	Amount	Nature of Business
Exagen Diagnostics	Expansion stage	\$7M	Prognostic markers for breast cancer and other diseases
AmpliMed Corporation	Expansion stage	\$6.5M	Cancer chemotherapies
Neotropix	Early stage	\$3.8M	Virus-based therapies for treating cancer
Miikana Therapeutics	Early stage	\$1M	Small-molecule anti-cancer agents
ProNAi Therapeutics	Early stage	\$0.5M	DNA-related therapies for treating cancer and other diseases

### Service Companies Focusing on Cancer

Vantage Oncology	Late stage	\$22M	Radiation oncology treatment centers
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## Q1 and Q2 Investments in Medical Device and Equipment Companies Focusing on Cancer

Company	Financing	Amount	Nature of Business
Calypso Medical Technologies	Late stage	\$35.5M	Medical devices for radiation therapy treatments
Neoguide Systems	Expansion stage	\$14M	Endoscopy technology
Kereos	Early stage	\$9M	Targeted therapeutics and imaging agents to detect and attack cancer and other diseases
TomoTherapy	Late stage	\$1.3M	Image-guided radiation therapy for cancer treatment
Sanarus Medical	Expansion stage	\$0.9M	Surgical devices and technologies for treating tumors

## VCs Investing in Cancer-Focused Companies in Q1-Q2

Investor	Deals	Representative Deals
Domain Associates	3	Receptor BioLogix; Celator Pharmaceuticals; Conforma Therapeutics
Inglewood Ventures	2	Conforma Therapeutics Corporation; Cyclene Pharmaceuticals
Integra Ventures	2	Raven Biotechnologies; Calypso Medical Technologies
Kaiser Permanente Ventures	2	Calypso Medical Technologies; Neoguide Systems
Mitsui & Co. Venture Partners	2	Calypso Medical Technologies; Cyclene Pharmaceuticals
MPM Capital	2	Idun Pharmaceuticals; Cellerant Therapeutics

## VCs Investing in Cancer-Focused Companies in Q1-Q2

Investor	Deals	Representative Deals
Novartis Corp.	2	Neotropix; Cyclene Pharmaceuticals
Quaker BioVentures	2	Celator Pharmaceuticals; Neotropix
RiverVest Venture Partners	3	Conforma Therapeutics; Calypso Medical Technologies; Kereos
Tullis-Dickerson & Co.	2	Genoptix; Exagen Diagnostics
U.S. Venture Partners	2	Raven Biotechnologies; Sanarus Medical
Versant Ventures	2	Neoguide Systems; Vantage Oncology