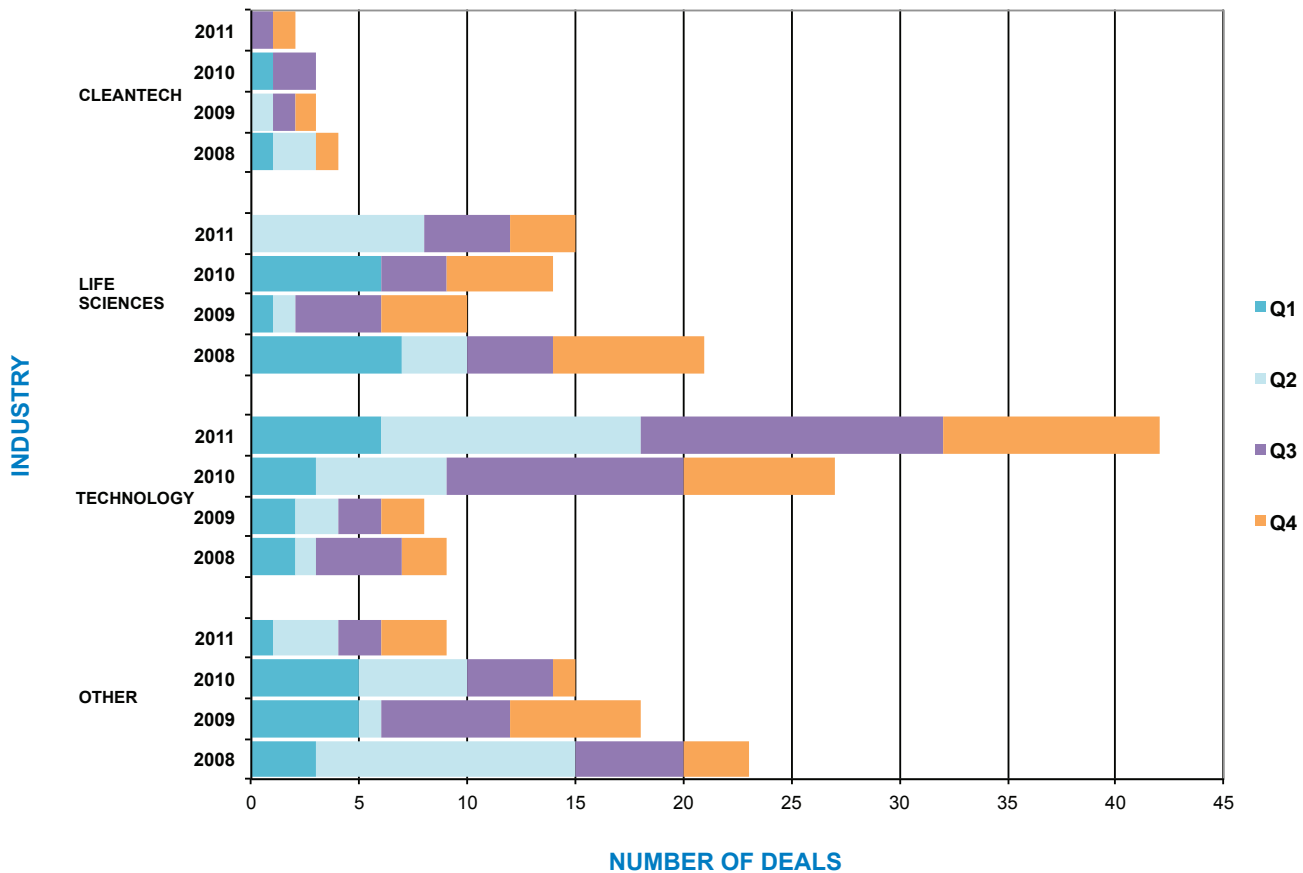


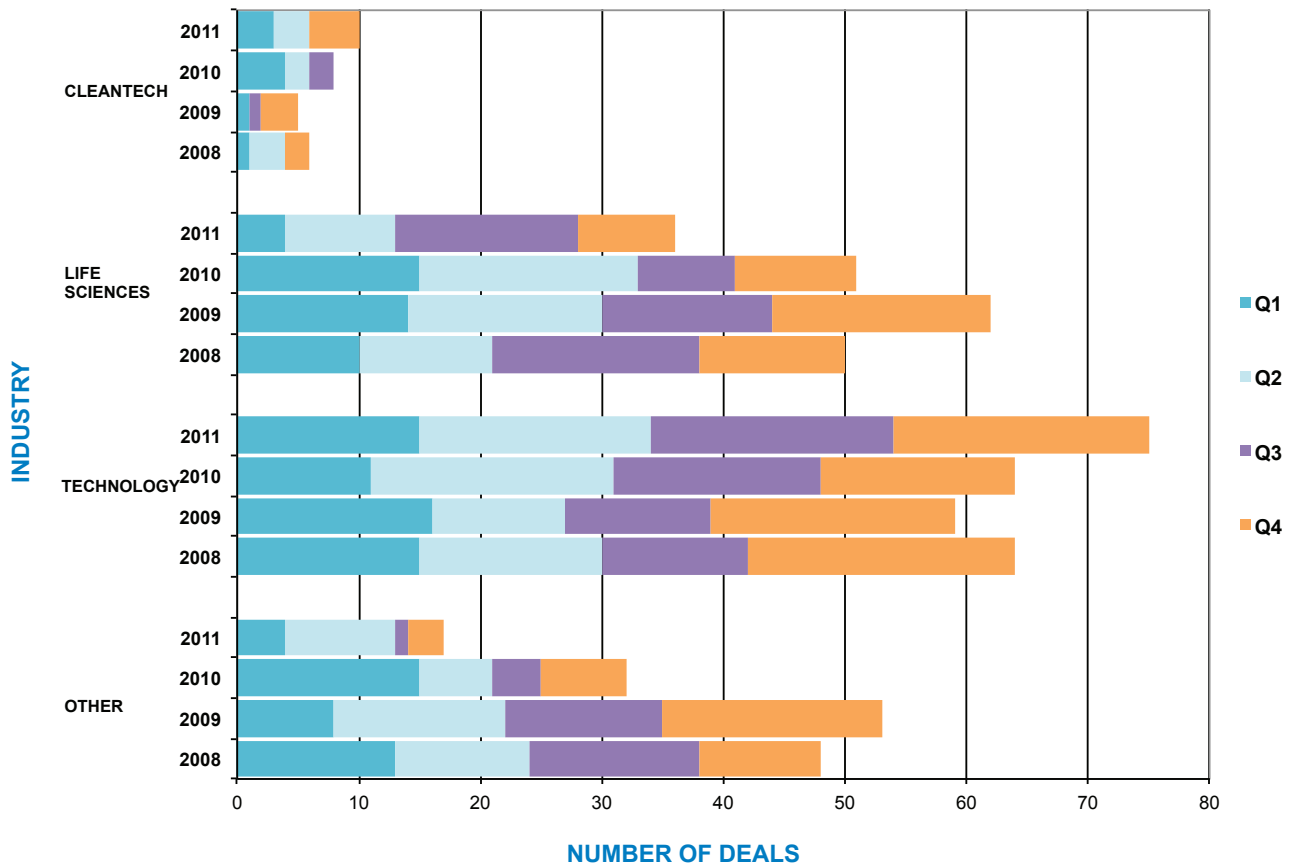


## Review of Series A Financings and Series B and Later Round Financings: Fourth Quarter and Year 2011

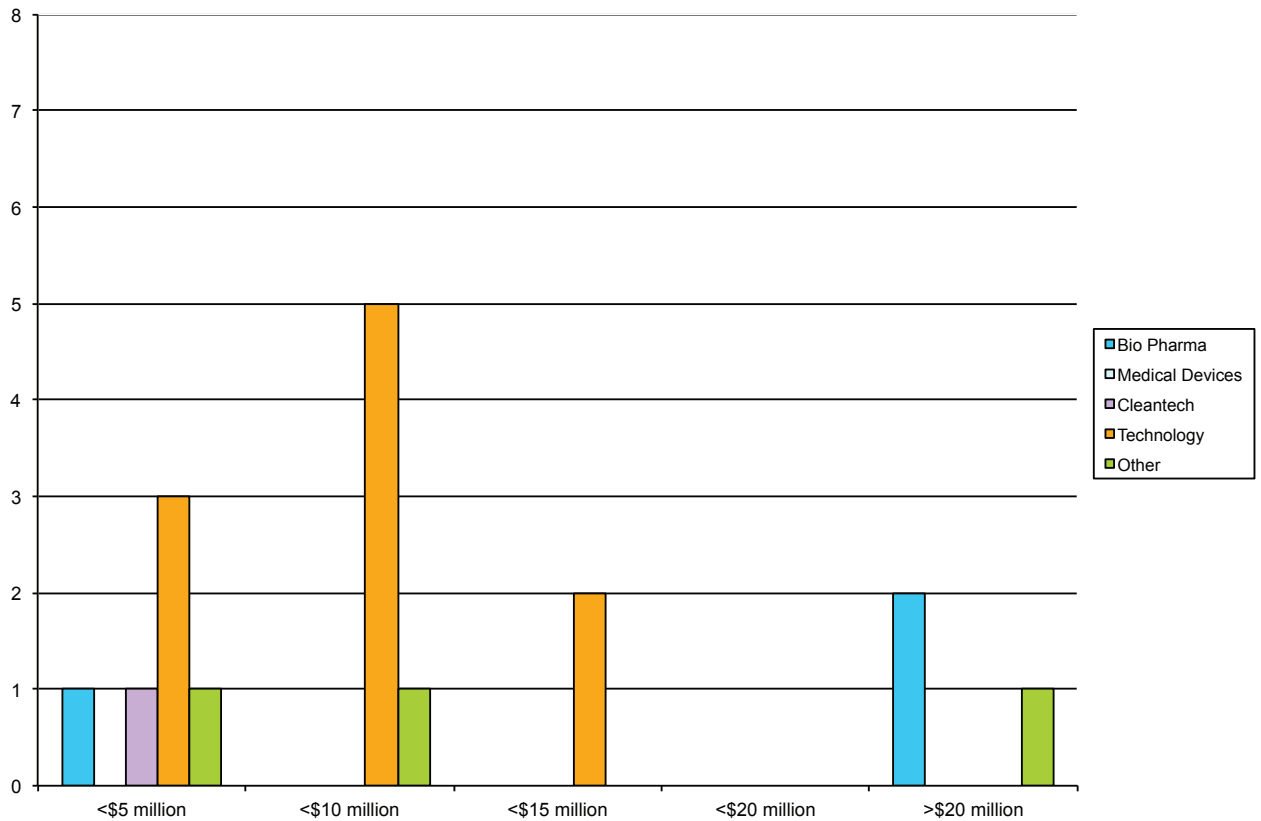
### Activity Level of New England Series A Transactions



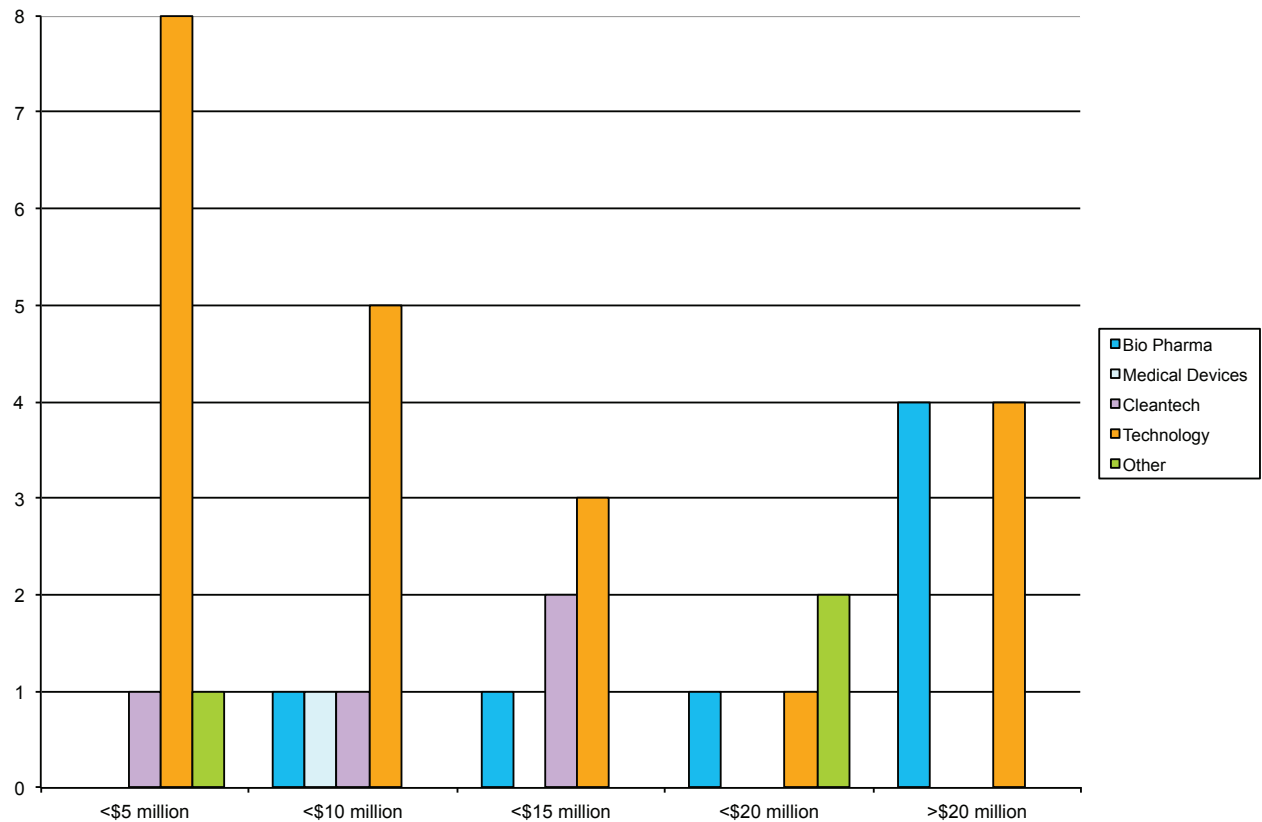
## Activity Level of New England Series B and Later Round Transactions



## Size of New England Q4 2011 Series A Transactions by Industry



## Size of New England Q4 2011 Series B and Later Round Transactions by Industry



### The Numbers

Dave Pierson

Set forth below are analysis and commentary regarding the information reported in the various tables throughout this issue of *Venture Perspectives*.

#### Activity Levels

##### Q4 2011

During Q4 2011, the total number of New England Series A transactions dropped 19% from the Q3 2011 level and increased 31% compared to Q4 2010. The technology sector showed the strongest performance, accounting for 59% of the Q4 2011 total. The life sciences and the "other" sectors were a distant second, each representing 18% of the Q4 2011 total. The cleantech sector accounted for 6% of the Q4 2011 total.

The total number of New England Series B/Later Round transactions during Q4 2011 was flat with Q3 2011 but increased 9% over Q4 2010. Again, the technology sector showed the strongest performance, accounting for 58% of the Q4 2011. The life sciences sector was a distant second, representing 22% of the Q4 2011 total. The cleantech and "other" sectors accounted for 11% and 8%, respectively, of the Q4 2011 total.

At the national level, the reported Q4 2011 information presents a somewhat different picture from the quarterly New England information. Nationally, the total number of Series A transactions increased 2% over Q3 2011 (compared to a 19% decrease in New England) and increased 18% over Q4 2010 (compared to a 31% increase in New England). The total number of Series B/Later Round transactions nationally remained flat compared to Q3 2011 (as in New England) and decreased 4% from Q4 2010 (compared to a 9% increase in New England). There was also considerable variation between the New England data and the national data with respect to the relative number of transaction represented by each of the various sectors. Nationally, the sector with the greatest relative percentage of the reported transactions for the quarter was "other", while in New England it was technology.

## 2011 Year

For the year, the total number of New England Series A transactions increased 15% over 2010, and the total number of New England Series B/Later Round transactions decreased 11% from 2010. Overall, the total number of transactions in 2011 decreased 4% from 2010, and there was a modest shift in the split between Series A transactions and Series B/Later Round transactions. In 2010, Series A transactions represented 28% of the total and Series B/Later Round transactions represented 72%. In 2011, Series A transactions represented 33% of the total and Series B/Later Round transactions represented 67%.

At the national level, the total number of Series A transactions for the year increased 32% over 2010, and the total number of Series B/Later Round transactions remained essentially unchanged. Overall, the total number of transactions nationally in 2011 increased 9% over 2010, and as in New England there was a modest shift in the split between Series A transactions and Series B/Later Round transactions. In 2010, Series A transactions represented 28% of the national total and Series B/Later Round transactions represented 72%. In 2011, Series A transactions represented 34% of the national total and Series B/Later Round transactions represented 66%.

## Deal Size

Of the New England Series A transactions during Q4 2011, 35% involved investments under \$5 million and 18% involved investments over \$20 million.

Of the New England Series B/Later Round transactions during Q4 2011, 28% involved investments under \$5 million and 22% involved investments over \$20 million.

## Implied Pre-Money Valuations

### Series A Round

There were thirteen reported New England Series A transactions in Q4 2011, with implied pre-money valuations ranging from \$0.7 million to \$46.8 million. The results by industry sector were as follows:

- *Cleantech*: There was one cleantech transaction, with an implied pre-money valuation of \$6.6 million.
- *Life Sciences*: There were two life sciences transactions, with implied pre-money valuations of \$10.3 million and \$46.8 million.
- *Technology*: In the eight technology transactions, the implied pre-money valuations ranged from \$0.7 million to \$22.6 million.
- *Other*: There were two transactions in the "other" category, with implied pre-money valuations of \$26.8 million and \$27.3 million.

### Series B/Later Round

There were twenty-two reported New England Series B/Later Round transactions in Q4 2011, with implied pre-money valuations ranging from \$3.6 million to \$168.2 million. The results by industry sector were as follows:

- *Cleantech*: There were two cleantech transactions, a Series B down round with an implied pre-money valuation of \$10.9 million and a Series D up round with an implied pre-money valuation of \$120.5 million.
- *Life Sciences*: There were three life sciences transactions, of which two were up rounds and one was an even round. The implied pre-money valuations ranged from a low of \$16.4 million in a Series B up round to a high of \$79.7 million in Series D up round.
- *Technology*: There were fifteen technology transactions, of which eleven were up rounds, two were even rounds, and two were down rounds. The implied pre-money valuations ranged from a low of \$3.6 million in a Series B up round to a high of \$168.2 million in a Series C up round.
- *Other*: There were two transactions in the "other" category, a Series E up round with an implied pre-money valuation of \$12.7 million and a Series C up round with an implied pre-money valuation of \$29.4 million.

## Terms

The bar graph relating to terms for selected New England Series A transactions shows the following trends in Q4 2011 as compared to the immediately preceding quarter and the comparable prior year quarter:

- an increase in the percentage of transactions with cumulative dividends as compared to the immediately preceding quarter and a decrease as compared to the comparable prior year quarter (47% in Q4 2011 versus 43% in Q3 2011 and 69% in Q4 2010);

- an increase in the percentage of transactions with a participating liquidation preference as compared to the immediately preceding quarter and a decrease as compared to the comparable prior year quarter (47% in Q4 2011 versus 33% in Q3 2011 and 62% in Q4 2010);
- an increase in the percentage of transactions with a redemption provision as compared to the immediately preceding quarter and a decrease as compared to the comparable prior year quarter (41% in Q4 2011 versus 33% in Q3 2011 and 77% in Q4 2010); and
- an increase in the percentage of transactions with a pay to play provision as compared to the immediately preceding quarter and a decrease as compared to the comparable prior year quarter (18% in Q4 2011 versus 10% in Q3 2011 and 31% in Q4 2010).

The bar graph relating to terms for selected New England Series B/Later Round transactions shows the following trends in Q4 2011 as compared to the immediately preceding quarter and the comparable prior year quarter:

- an increase in the percentage of transactions with cumulative dividends (69% in Q4 2011 versus 58% in Q3 2011 and 61% in Q4 2010);
- a decrease in the percentage of transactions with a participating liquidation preference (25% in Q4 2011 versus 44% in Q3 2011 and 45% in Q4 2010);
- an increase in the percentage of transactions with a redemption provision (78% in Q4 2011 versus 69% in Q3 2011 and 76% in Q4 2010); and
- a decrease in the percentage of transactions with a pay to play provision (17% in Q4 2011 versus 25% in Q3 2011 and 24% in Q4 2010).

## Conclusion

In some notable respects, 2011 showed improvement over 2010:

- New England Series A financing activity was up, significantly in the technology sector.
- Total venture investment in dollars in 2011 was up 22% over 2010 and marked the third highest level in the past ten years, according to The MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters.

But in other respects, 2011 performance was not so encouraging:

- New England Series B/Later Round activity was down, and the overall activity level was roughly comparable to 2010.
- Nationally, the overall financing activity level was up modestly, but lagged far behind the increase in dollars invested.
- According to data published by Thomson Reuters and the National Venture Capital Association, overall exit activity for venture-backed companies slowed somewhat in 2011. The venture-backed IPO activity level in 2011 was down 31% from the robust level in 2010, with 52 transactions in 2011 versus 75 in 2010. The venture-backed M&A activity level in 2011 was roughly comparable to the 2010 level, with 429 transactions in 2011 and 436 in 2010.
- According to Thomson Reuters and the National Venture Capital Association, there was a 32% increase in dollar commitments in 2011 over 2010, but no change in the number of funds receiving those commitments.

For companies seeking financing, and particularly for those seeking start-up or early stage financing, there continue to be significant reasons for concern: there is a trend toward fewer and larger funds; average deal size has been growing; and on an industry-wide basis, venture capital funds have been investing more than they have been receiving in new capital commitments. All this suggests that the current environment is likely to continue to be with us for a while. Good companies and good ideas will still get financed, but money will continue to be difficult to find and, other than in hot sectors, deal terms will continue to be on the investor-friendly side.

## Selected New England Series A Round Transactions

Fourth Quarter 2011

Implied Pre-Money and Post-Money Valuations

Company	Amount Raised	Series A preferred stock as a percentage of authorized common stock	Implied Pre-Money Valuation	Implied Post-Money Valuation
<b>CLEANTECH</b>				
<b>Retroficiency, Inc.</b>	3,300,000	33%	\$6,600,000	\$9,900,000
<b>LIFE SCIENCES</b>				
<b>Ember Therapeutics, Inc.</b>	3,190,608	6%	\$46,800,000	\$50,000,000
<b>ImmusanT, Inc.</b>	20,000,000	66%	\$10,300,000	\$30,300,000
<b>TECHNOLOGY</b>				
<b>ChoiceStream, Inc.</b>	8,678,886	58%	\$6,300,000	\$15,000,000
<b>Communications Acquisitions Corporation</b>	980,000	59%	\$700,000	\$1,700,000
<b>Evariant, Inc.</b>	5,300,000	27%	\$14,200,000	\$19,500,000
<b>Hadapt, Inc.</b>	8,000,000	38%	\$12,800,000	\$20,800,000
<b>Modo Labs, Inc.</b>	2,000,000	20%	\$8,000,000	\$10,000,000
<b>Shareaholic Inc.</b>	2,274,003	9%	\$22,600,000	\$24,900,000
<b>Tonian, Inc.</b>	5,000,000	40%	\$7,300,000	\$12,300,000
<b>Vertical Performance Partners, Inc.</b>	1,500,000	13%	\$10,000,000	\$11,500,000
<b>OTHER</b>				
<b>Iora Health, Inc.</b>	6,250,000	19%	\$26,800,000	\$33,000,000
<b>RaNA Therapeutics, Inc.</b>	2,665,000	9%	\$27,300,000	\$30,000,000

## Selected New England Series B and Later Round Transactions

Fourth Quarter 2011

Implied Pre-Money and Post-Money Valuations

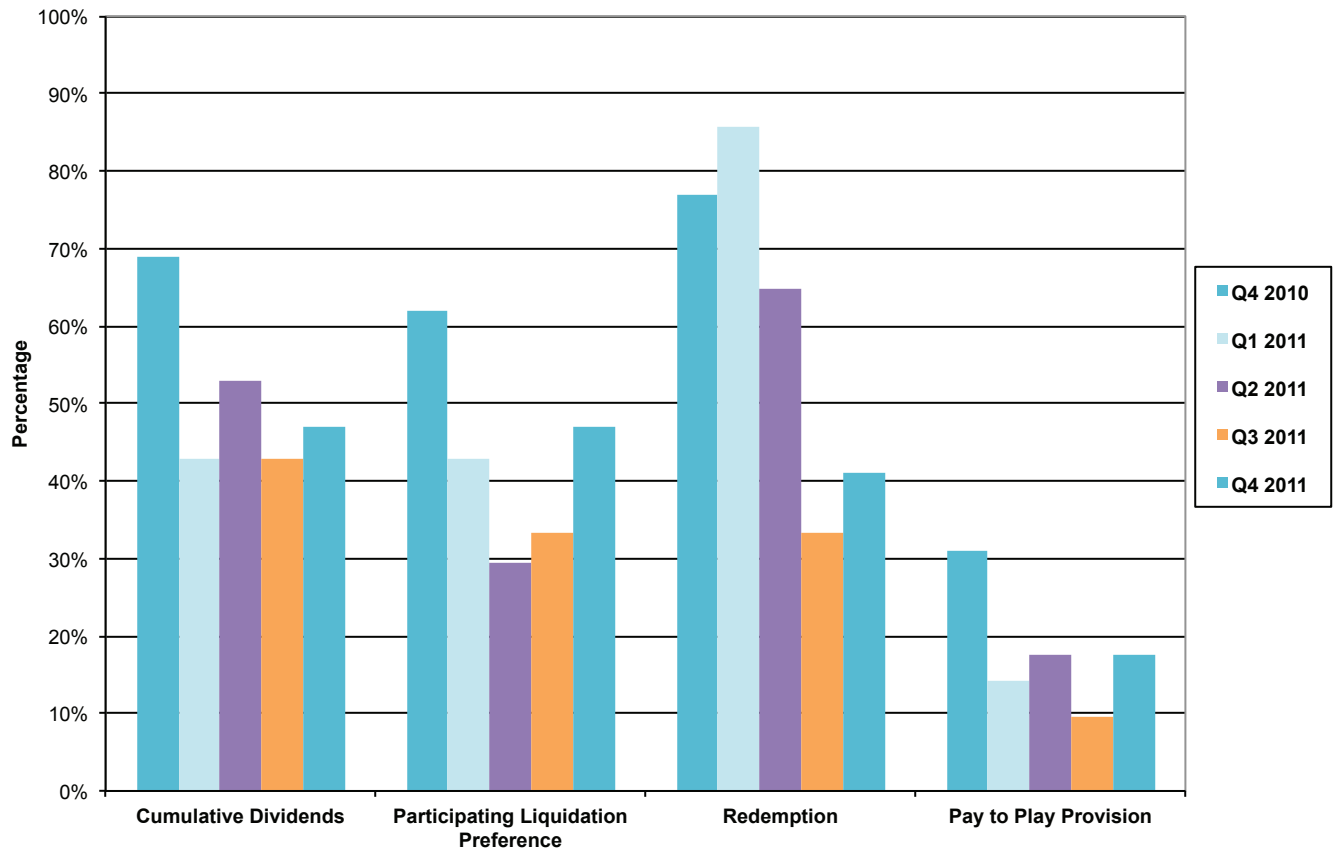
Company	Most recent round of preferred stock	Amount Raised	Percentage of Company owned by most recent round of preferred investors	Implied Pre-Money Valuation	Implied Post-Money Valuation	Up or Down Round
<b>CLEANTECH</b>						
Eco Power Solutions (USA) Corp.	B	\$1,700,000	14%	\$10,900,000	\$11,800,000	Down
Novomer Inc.	D	\$10,000,000	8%	\$120,500,000	\$130,500,000	Up
<b>LIFE SCIENCES</b>						
Cerulean Pharma, Inc.	D	\$15,000,000	16%	\$79,700,000	\$95,500,000	Up
Daktari Diagnostics, Inc.	B	\$5,000,000	19%	\$16,400,000	\$27,000,000	Up
Karyopharm Therapeutics Inc.	A-2/A-3	\$10,000,000	22%	\$35,000,000	\$45,000,000	Even
<b>TECHNOLOGY</b>						
Aternity, Inc.	F	\$13,000,000	15%	\$76,400,000	\$89,400,000	Up
Aveksa, Inc.	D	\$4,500,000	10%	\$41,600,000	\$46,100,000	Up
BiddingForGood, Inc.	E	\$2,200,000	14%	\$13,900,000	\$16,400,000	Even
CityVoter, Inc.	B-1	\$1,600,000	1%	\$105,900,000	\$110,600,000	Up
Cloudant, Inc.	A-1	\$2,100,000	16%	\$9,600,000	\$13,000,000	Up
ConnectEDU, Inc.	H	\$5,000,000	6%	\$78,700,000	\$88,800,000	Even
CounterTack Inc. (f/k/a NeuralIQ, Inc.)	B	\$9,500,000	53%	\$8,300,000	\$17,800,000	Down
FitnessKeeper, Inc.	C	\$10,000,000	24%	\$30,900,000	\$40,900,000	Up
Krush, Inc.	B	\$4,500,000	23%	\$15,000,000	\$20,000,000	Up
Nanocomp Technologies, Inc.	C	\$7,700,000	10%	\$53,000,000	\$78,000,000	Up
Physicians Interactive Holdings, Inc.	D	\$8,500,000	6%	\$111,800,000	\$136,000,000	Down
PowerHouse Dynamics	B	\$3,000,000	43%	\$3,600,000	\$6,900,000	Up
Rapid7, Inc.	C	\$50,000,000	23%	\$168,200,000	\$218,200,000	Up
Skyword, Inc.	C	\$6,000,000	12%	\$42,100,000	\$48,100,000	Up
VMTurbo, Inc.	B	\$10,000,000	12%	\$70,200,000	\$80,200,000	Up
<b>OTHER</b>						
Linkwell Health, Inc.	C	\$6,000,000	13%	\$29,400,000	\$44,800,000	Up
Rustic Crust Inc.	E	\$600,000	4%	\$12,700,000	\$13,900,000	Up

In the two tables above, figures shown in the Amount Raised, Implied Pre-Money Valuation and Implied Post-Money Valuation columns have been rounded to the nearest hundred thousand. The analysis in these tables is inherently imprecise and is based on a number of general assumptions which may or may not be accurate. Among other things, the analysis depends in part on the relationship between the number of authorized shares of stock for the company receiving the financing and the number of shares of its stock that are outstanding. For example, if the number of authorized shares of common stock significantly exceeds the number of fully diluted shares, the implied pre-money

and post-money valuations would be overstated and the percentage of the company owned by the preferred stock investors would be understated. In a typical situation however, we believe that our analysis yields an approximation of the valuation placed on the company at the time of financing, and therefore may be of interest to our readers.

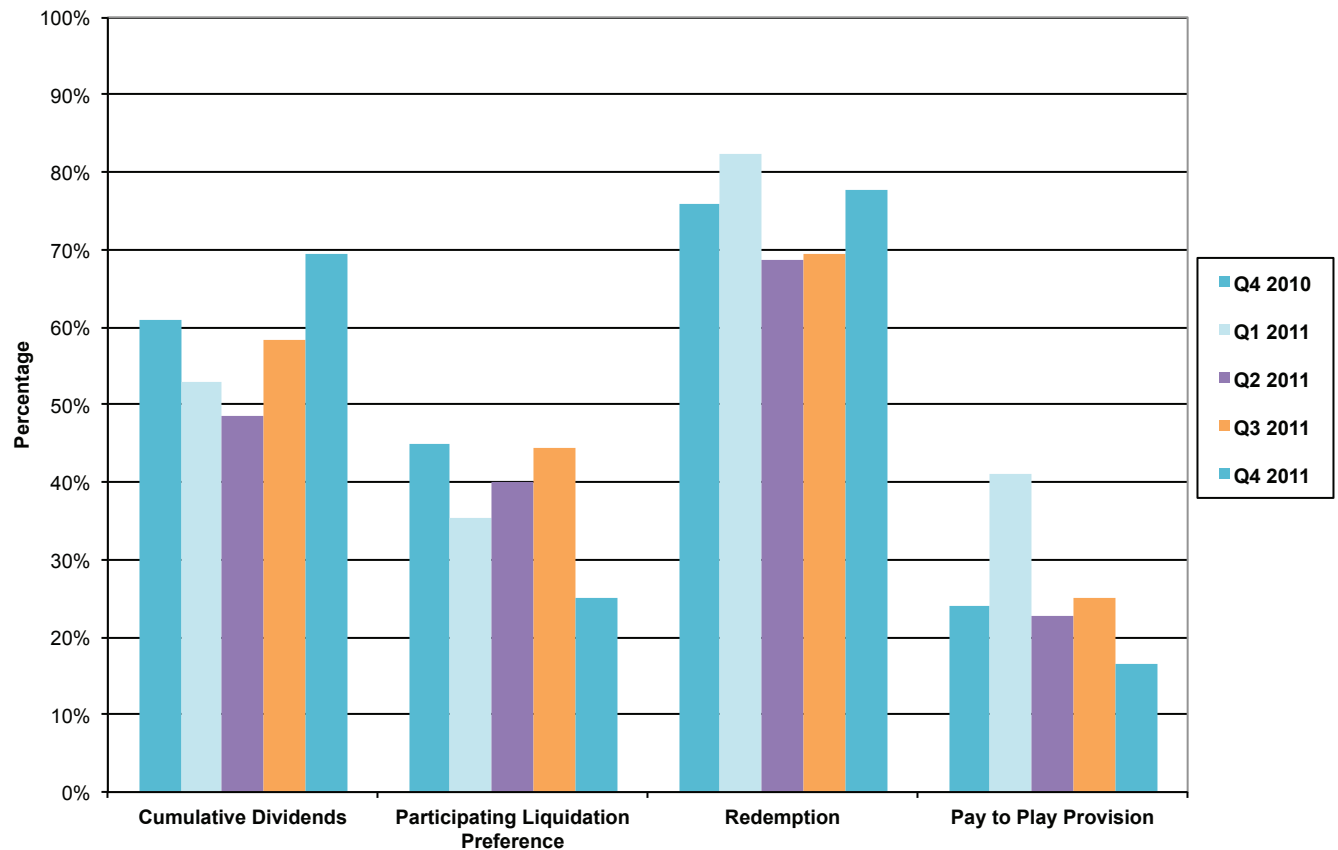
We can prepare a similar analysis across any group of transactions that our clients are interested in. For example, we could prepare analysis for a group of competitive companies so you can see what the implied valuations of your competitors are. If you would like additional information on this service, please contact your lawyer at Foley Hoag or one of our Emerging Enterprise Center lawyers listed at the end of this publication.

## Terms of Selected New England Series A Round Transactions 2010-2011





## Terms of Selected New England Series B and Later Round Transactions 2010-2011



The two charts above summarize publicly available information about various terms included in the Certificates of Incorporation for Series A and Series B/Later Round financings for companies headquartered in New England. For the purposes of these charts we have focused solely on transactions that appeared to us, from the public filings, to be identifiable as Series A or Series B/Later Round financings. We have excluded transactions that appeared to us to involve considerations and concerns different from those applicable in a typical Series A or Series B/Later Round transaction, such as might occur, for example, in the case of a recapitalization. We have selected terms to report on that we believe will be of particular interest to entrepreneurs. A definition of each of these terms can be found on our website, [www.emergingenterprise.com](http://www.emergingenterprise.com). Information included in the table above is based on information made publicly available by participants in the relevant transactions and is not comprehensive.

We can prepare a similar analysis across any group of transactions that our clients are interested in. For example we could prepare analysis by industry so you can see what terms are prevalent in your industry. If you would like additional information on this service, please contact your lawyer at Foley Hoag or one of our Emerging Enterprise Center lawyers listed at the end of this publication.

## The National Activity Level Summary

### National Series A Transactions by Industry\*

Industry	2010				2011				Year ended December 31, 2010	Year ended December 31, 2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Life Sciences										
Biopharma	13	16	8	15	13	26	24	20	52	83
Medical Device	12	10	13	18	11	21	13	14	53	59
Cleantech	6	4	2	7	9	2	6	6	19	23
Technology	34	34	47	62	53	61	69	76	177	273
Other	85	97	65	101	85	98	123	124	348	416
<b>Total</b>	<b>150</b>	<b>161</b>	<b>135</b>	<b>203</b>	<b>171</b>	<b>208</b>	<b>235</b>	<b>240</b>	<b>649</b>	<b>854</b>

\* Source: Dow Jones VentureSource

### National Series B and Later Round Transactions by Industry\*

Industry	2010				2011				Year ended December 31, 2010	Year ended December 31, 2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Life Sciences										
Biopharma	41	66	56	59	36	43	40	55	222	174
Medical Device	47	58	46	51	45	53	49	43	202	190
Cleantech	24	29	18	25	21	25	30	21	96	97
Technology	116	146	121	132	93	108	131	120	515	483
Other	137	180	152	172	188	219	169	181	641	726
<b>Total</b>	<b>365</b>	<b>479</b>	<b>393</b>	<b>439</b>	<b>383</b>	<b>448</b>	<b>419</b>	<b>420</b>	<b>1676</b>	<b>1670</b>

\* Source: Dow Jones 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 key members of the Foley Hoag legal team resident at the EEC:



**Gil Arie**  
Partner  
garie@foleyhoag.com  
617 832 1781



**Dave Broadwin**  
Partner  
dbroadwin@foleyhoag.com  
781 895 5905



**Hemmie Chang**  
Partner  
hchang@foleyhoag.com  
617 832 1175



**Matt Eckert**  
Associate  
meckert@foleyhoag.com  
617 832 3057



**Mark Haddad**  
Partner  
mhaddad@foleyhoag.com  
617 832 1724



**Kanasha Herbert**  
Associate  
kherbert@foleyhoag.com  
617 832 1173



**Pia Owens**  
Associate  
powens@foleyhoag.com  
617 832 1739



**Dave Pierson**  
Partner  
dpierson@foleyhoag.com  
617 832 1146



**Paul Sweeney**  
Partner  
psweeney@foleyhoag.com  
617 832 1296



**Prithvi Tanwar**  
Associate  
ptanwar@foleyhoag.com  
617 832 3045



**Amanda Vendig**  
Associate  
avendig@foleyhoag.com  
781 895 5960



**Bob Warren**  
Partner  
rwarren@foleyhoag.com  
617 832 3075

### ▶ **Lawyers driven to help you succeed**

**The Emerging Enterprise Center at Foley Hoag (the “EEC”)** is the centerpiece of Foley Hoag’s long-standing and market-leading legal practice representing early-stage technology companies and their founders and investors. At the EEC, we work closely with start-up and emerging companies in a variety of technology industries throughout their entire lifecycle, from inception through financing, growth and maturity. In addition, the EEC team and the events we host provide opportunities for entrepreneurs and investors to learn and to connect with potential partners. We are proud to be a sponsor of and an active participant in the vibrant New England entrepreneurial community that has brought so many successful companies and innovative technologies to the world. Visit the EEC at [www.emergingenterprisecenter.com](http://www.emergingenterprisecenter.com).

**Foley Hoag** is a dynamic law firm that represents public and private clients in a wide range of disputes and transactions worldwide. We have expertise in industries such as life sciences and healthcare, technology, energy and renewables, investment management, and professional services. We also offer our clients market-leading international litigation and arbitration and corporate social responsibility services. From our offices in Boston, Washington, D.C. and Paris, and our Emerging Enterprise Center in Waltham, Massachusetts, we provide strategic legal advice that is tailored to each of our clients’ unique goals. Foley Hoag combines powerful regional, national and international practices that share a common emphasis on client service. We are focused on what we do best: helping our clients succeed through the delivery of exceptional legal service. For more information, visit [www.foleyhoag.com](http://www.foleyhoag.com).

*This publication is for information purposes only and should not be construed as legal advice or legal opinion on any specific facts or circumstances. You are urged to consult your own lawyer concerning your own situation and any specific legal questions you may have. United States Treasury Regulations require us to disclose the following: Any tax advice included in this publication and its attachments is not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.*

*This communication is intended for general information purposes and as a service to clients and friends of Foley Hoag LLP. This communication should not be construed as legal advice or a legal opinion on any specific facts or circumstances, and does not create an attorney-client relationship.*

*Attorney advertising. Prior results do not guarantee a similar outcome. © 2012 Foley Hoag LLP. All rights reserved.*