

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.¹
- 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%).

¹ 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:

Description	1Q05	2Q05
Technology	67%	69%
Life Science	13%	8%
Other	20%	23%

Financings rounds broke down as follows:

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

Price Change:

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

Senior Liquidation Preferences:

Total	1Q05	2Q05
	33%	77%

By Series:

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

Capping:

Description	2Q05
Utilized	61.5%
Average Amount	1.5x

Multiple Liquidation Preferences:

Total	1Q05	2Q05
	27%	7.7%

By Series:

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

Amount of Multiple:

Description	2Q05
Average Multiple	5x

Participation in Liquidation after recovery of dividends and principal:

Total	1Q05	2Q05
	80%	85%

By Series:

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

Cumulative Dividends:

Total	1Q05	2Q05
	67%	67%

By Series:

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

Anti-Dilution Provisions:

Total	1Q05	2Q05
	87%	69%

By Series:

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

Type:

Calculation	2Q05
Full Ratchet	11%
Weighted Average	89%

Pay to Play:

Total	1Q05	2Q05
	None	None

Redemption Rights:

Total	1Q05	2Q05
	60%	61.5%

By Series:

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

Corporate Reorganizations, Recapitalizations or Refinancings:

Total	1Q05	2Q05
	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. 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.

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