

Venture Capital Deal Terms: Life Sciences

Set forth below are our findings based on a review of the legal terms of a random sampling of recently consummated venture capital financings in the Life Sciences sector (as categorized by Thomson Financial/VC Experts) on a national basis.

Financing Round

The financings we reviewed were Series A through Series D, with the majority being later-stage rounds.

Series A	13%
Series B	13%
Series C or later	73%

Price Direction

Three-Quarters of the deals were up rounds; very few were down rounds, with the remainder being at lower or equal price per share as the previous round.

Price Change	
Down	8%
Unchanged	15%
Up	77%

Cumulative Dividends

Cumulative dividends were present in a minority of deals. We typically see cumulative dividends more often on the East Coast than the West Coast.

Yes	23%
No	77%

Participation

Half of deals included participation for the most senior preferred stock; of those, only a few included a cap on participation.

Yes	50%
No	50%

Liquidation Preference Multiples

All financings had a one-time Liquidation Preference which was at least *pari passu* with previous rounds. The preference multiples had the following distribution:

Liquidation Pref	
1X	100%
>1X-2X	0%
>2X-3X	0%

Redemption

Mandatory or Voluntary redemption was present in a number of deals. This provision tends to be more prevalent on the East Coast.

Yes	40%
No	60%

Anti-Dilution

All deals included some form of anti-dilution protection, with full-ratchet protection being used in a minority of transactions.

Anti-Dilution Type	
Full Ratchet	13%
Weighted Average	87%

Pay-to-Play

Twenty percent of deals reviewed contained Pay-to-Play provisions

Yes	20%
No	80%

Conclusion

Our random sampling of transactions in this sector resulted in a large number of later-stage rounds. Overall, the survey reflects a healthy market for life sciences venture investments. Most deals reviewed were completed at a higher valuation than the last round of financing. Additionally, our review of the transactions showed that many terms that we consider to be “investor friendly” -- i.e., cumulative dividends, redemption and full-ratchet anti-dilution protection -- only appear in a relatively small number of deals. Similarly, only half of the deals contained a participating liquidation preference and no deals contained a multiple liquidation preference. Looking at the survey as a whole, terms seem to be a bit more favorable to issuers as compared to what we are seeing, nationally, across other industry sectors. This is generally in line with anecdotal evidence that shows that the life sciences market, and the healthcare space generally, are holding up well in a challenging economic environment.

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