

**The Kesselman & Kesselman PricewaterhouseCoopers Israel
MoneyTree™ Report for the third quarter of 2009**

**The scale of investments in the Israeli hi-tech industry continues to plunge,
Despite the minor increase in the third quarter of Q3 2009**

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report indicates that venture capital-backed high-tech companies raised \$178 million in Israel during the third quarter of 2009, a 10% increase compared with the previous quarter, when \$162 million was raised, and a 55% drop compared to the corresponding quarter last year, when \$393 million was raised.

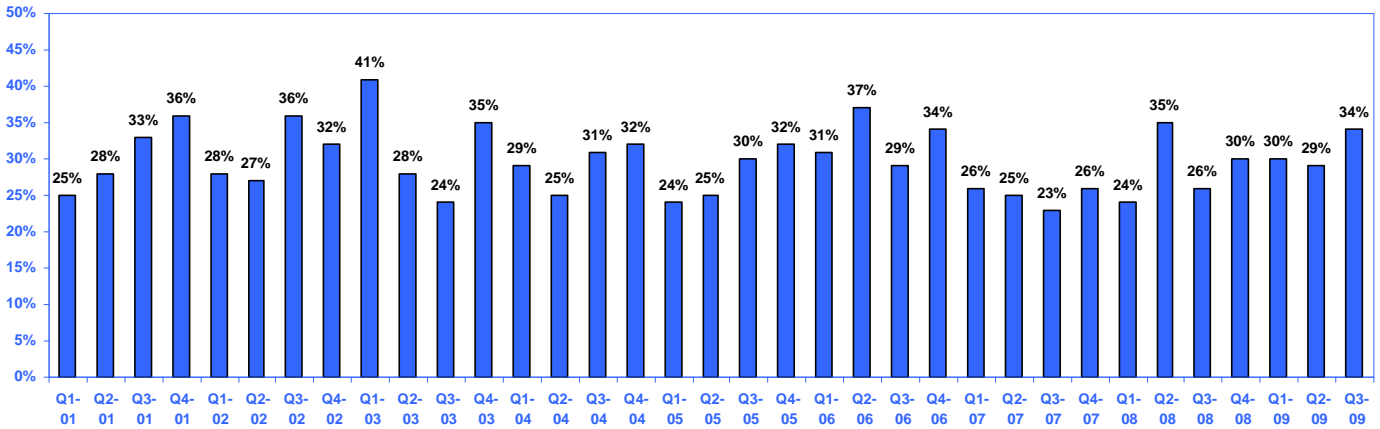
The Report also reveals that 55 Israeli high-tech companies raised capital in the third quarter of 2009, compared to 61 in the preceding quarter and 78 in the corresponding quarter of last year. The average investment per company in the quarter under review was \$3.2 million, compared with \$2.7 million in the preceding quarter and \$5 million in the corresponding quarter of last year.

The data included in the report indicates that there is a sharp decrease in the level of investments in the software sector compared with previous quarters. The investment in this sector is the lowest in more than ten years. The investment in the life science sector, on the other hand, increased compared with previous quarters in 2009. The level of investment in this sector in the third quarter of 2009 is the second largest for the last four years. Also, in the third quarter of 2009 is the investment in the cleantech sector – totaling \$ 27 million.

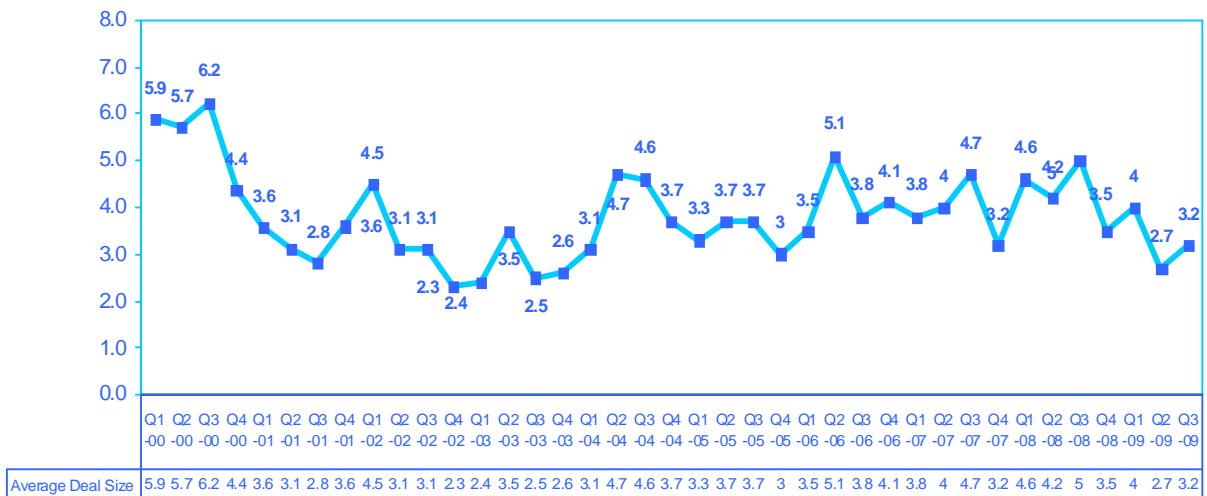
Rubi Suliman, Partner, High-Tech Assurance Practice at Kesselman and Kesselman PwC Israel, commented on the findings: "The findings of the current survey strengthen the conclusion that the current crisis in the High-Tech sector is far from being over. The level of investments in this quarter is one of the lowest levels in the last decade. Moreover, an analysis of the data shows that the share of the Israeli funds in this quarter has decreased to \$ 70 million, which is the lowest amount since the first quarter of 2003. The increase in investments this quarter is mostly attributed to increase in investments made by foreign funds".

"Another interesting point is the strength of the bioscience sector, especially the field of medical devices raising the highest amounts this quarter. This data, as well as the fact that during the last year the most significant exits have taken place in this field, show the increasing strength and importance of the field in Israel as well as the strength of this industry in hard times".

Percentage of funds making no investment



Average investment per company (in millions of dollars)



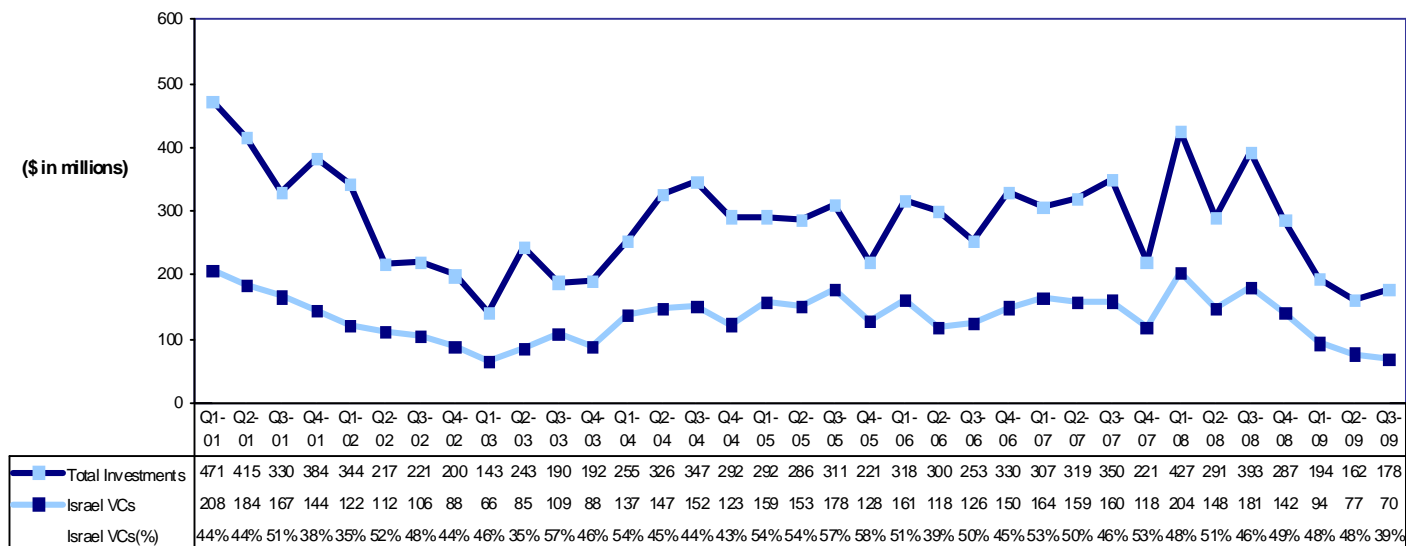
Slice of Israel Venture Capital Funds in high-tech cake

The domestic venture capital funds invested \$70 million or 39% of total investment for the third quarter of 2009. This investment compares with similar \$77 million, or 48% of total investment, in the previous quarter and \$181 million, or 46%, in the corresponding quarter last year.

In addition to investment in high-tech companies with operations in Israel, local venture capital funds also invested approximately \$2 million in 5 overseas high-tech companies that have no

operations in Israel, compared with \$15 million invested in 7 foreign companies in the previous quarter and \$35 million invested in 16 foreign companies in last year's third quarter.

Average investment per company (in millions of dollars)



Analysis by Geographic Location of Company Registration

44 companies, representing 80% of companies raising capital in the third quarter of 2009, are registered in Israel. These companies raised \$129 million or 72% of total investment. The remaining companies are mostly incorporated in the US.

Companies Receiving Grants from the Chief Scientist

25 companies, representing 45% of all companies raising capital in the third quarter of 2009, received grants from the Israel Office of the Chief Scientist. Some \$80 million of total investment funds went to these companies.

Analysis by Leading Technological Sector

The **Life Sciences** sector, incorporating Medical Devices and Biotechnology, exhibited an increase compared with the preceding quarter. This sector raised the highest amounts this quarter. During the course of this quarter of 2009, 8 companies operating in the sector raised approximately \$65 million. This situation may be compared to an investment of approximately \$32 million in 13 companies in the preceding quarter and of approximately \$28 million in 11 companies in the corresponding quarter of last year. In the present quarter, the average investment per company was \$8 million, as compared to \$2.5 million in the preceding quarter and \$2.6 million in the

corresponding quarter of last year. In monetary terms, this performance is equivalent to a sharp increase of approximately 101% in comparison with the preceding quarter and of approximately 130% in comparison with the corresponding quarter of last year.

During the course of the quarter under review, 9 companies operating in the **Software** sector raised approximately \$5 million. This situation may be compared to an investment of approximately \$47 million in 19 companies in the preceding quarter and of approximately \$123 million in 28 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent to a sharp decrease of approximately 88% in comparison with the preceding quarter and of approximately 96% in comparison with the corresponding quarter of last year. In the present quarter, the average investment per company was \$0.6 million, as compared to \$2.5 million in the preceding quarter and \$4.4 million in the corresponding quarter of last year.

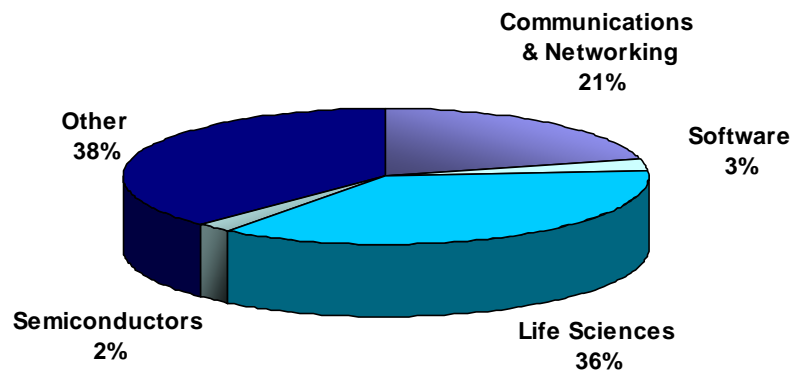
During the course of the quarter 15 companies in the **Communications and Networking** sector raised approximately \$37 million. This situation may be compared with 14 companies raising approximately \$29 million in the preceding quarter and with 16 companies raising approximately \$99 million in the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$2.5 million, as compared to \$2 million in the preceding quarter and to \$6.2 million in the corresponding quarter of last year. In monetary terms, this performance is equivalent to an increase of approximately 30% in comparison with the preceding quarter and a decrease of approximately 63% in comparison with the corresponding quarter of last year.

During the course of the third quarter of 2009, 4 companies operating in the **Semiconductor** sector raised approximately \$4 million. This situation may be compared to an investment of approximately \$1 million in 1 company in the preceding quarter and of approximately \$62 million in 7 companies in the corresponding quarter of last year. In the present quarter, the average investment per company in this sector was \$0.9 million, as compared to \$1 million in the preceding quarter and \$8.9 million in the corresponding quarter of last year.

During the course of the third quarter of 2009, 4 companies operating in the **Internet** sector raised approximately \$24 million, which is an increase compared with the previous quarter. This situation may be compared with 3 companies raising \$9 million in the previous quarter and 5 companies raising approximately \$34 million in the corresponding quarter last year. The average investment per company in this sector for the present quarter was \$6 million, as compared to \$3 million in the preceding quarter and to \$6.7 million in the corresponding quarter of last year. In monetary terms, this performance is equivalent to a sharp increase of approximately 174% in comparison with the preceding quarter and a decrease of approximately 27% in comparison with the corresponding quarter of last year.

Amongst the companies operating in the **Miscellaneous** sectors category are companies operating in the clean-tech sector, the media sector and others. Sixteen companies classified under this category raised approximately \$43 million in the present quarter, this sum representing approximately 24% of the total investment for the quarter. This situation may be compared to an investment of approximately \$44 million in 11 companies in the preceding quarter and of approximately \$47 million in 11 companies in the corresponding quarter of last year.

Total investment by sector



Analysis by Investment Round

Early round

In the third quarter of 2009, 16 companies raised approximately \$48 million in the early round (the first and second rounds combined). This compares to 22 companies that raised early round investment funds of approximately \$83 million in the preceding quarter and to 30 companies that raised early round investment funds of approximately \$179 million in the corresponding quarter of last year.

The average early round investment per company for the third quarter was \$3 million, as compared to \$3.8 million for the preceding quarter and \$6 million for the corresponding quarter of last year.

Third round

In the third quarter of 2009, 7 companies raised approximately \$40 million in the third round. This compares to 5 companies that raised third round investment funds of approximately \$14 million in the preceding quarter and to 9 companies that raised third round investment funds of approximately \$77 million in the corresponding quarter of last year. The average third round investment per company for the third quarter was \$5.7 million, as compared to \$2.9 million for the preceding quarter and \$8.6 million for the corresponding quarter of last year.

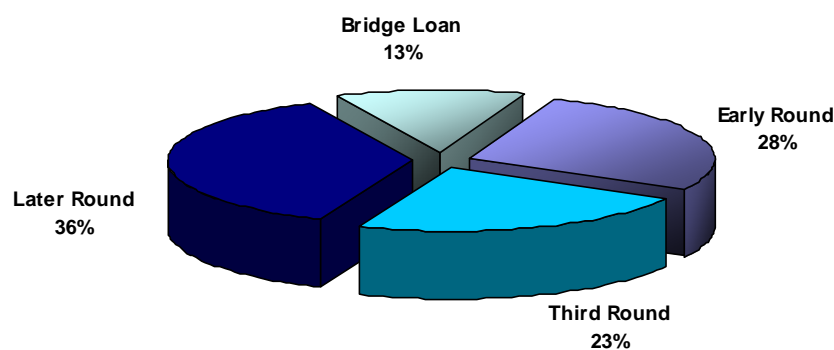
Later round

During the course of the third quarter of 2009, 8 companies raised approximately \$64 million by means of transactions undertaken within the context of later investment rounds (i.e., commencing with the fourth investment round). This compares to 10 companies that raised later round investment funds of approximately \$38 million in the preceding quarter and to 6 companies that raised later round investment funds of approximately \$82 million in the corresponding quarter of last year. The average later round investment for the third quarter was \$8 million, as compared to \$3.8 million for the preceding quarter and \$13.7 million for the corresponding quarter of last year.

Bridge loans

In the third quarter of 2009, 23 companies raised approximately \$22 million through the medium of bridge loans. This compares to 23 companies that raised bridge loan finance of approximately \$26 million in the preceding quarter and to 30 companies that raised bridge loan finance of approximately \$50 million in the corresponding quarter of last year. In the present quarter, the average amount of a company bridge loan was \$0.9 million, as compared to approximately \$1.1 million in the preceding quarter and to approximately \$1.7 million in the corresponding quarter of last year.

Total investment by investment round



Analysis by Company Development Stage

Seed/start-up stage

Four companies at the start-up stage raised approximately \$4 million during the third quarter of 2009, this representing just 2% of total investment for the quarter. This may be compared to situations in which 6 such companies raised approximately 7 million in the preceding quarter and 13 such companies raised approximately \$17 million in the corresponding quarter of last year. In the third quarter, the average investment per company at this stage of development was \$1.1 million, as compared to \$1.2 million in the preceding quarter and \$1.3 million in the corresponding quarter of last year.

Intermediate stage (early/expansion stage)

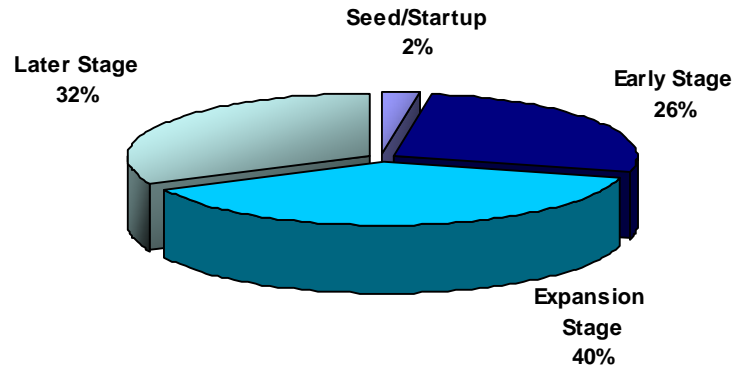
In the third quarter of 2009, 43 companies at the intermediate stage of development raised approximately \$116 million. This compares to 50 such companies that raised approximately \$141 million in the preceding quarter and to 58 such companies that raised approximately \$338 million in the corresponding quarter of last year. The average investment for the quarter was \$2.7 million, as compared to \$2.9 million for the preceding quarter and to \$5.8 million for the corresponding quarter of last year.

An internal analysis of intermediate stage investment reveals that 25 companies at the early stage of development raised approximately \$47 million during the quarter under review, with 18 companies at the expansion stage of development raising approximately \$69 million during that same quarter.

Later stage

In the third quarter of 2009, 7 companies at the later stage of development raised approximately \$57 million. This compares to 5 such companies that raised approximately \$14 million in the preceding quarter and to 7 such companies that raised approximately \$37 million in the corresponding quarter of last year. The average investment for the quarter was \$8.1 million, as compared with \$2.7 million for the preceding quarter and to \$5.3 million for the corresponding quarter of last year.

Total investment by company development stage



The **MoneyTree™ Report** is published quarterly by Kesselman & Kesselman, Israel, in conjunction with the reports published in the United States and Europe by the world's largest accounting and professional services firm, PricewaterhouseCoopers. This quarter, 41 venture capital firms participated in the production of the report. Its findings are widely used each quarter by Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions both in Israel and abroad, and by high-tech companies, government agencies, the Office of the Chief Scientist among others.

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