

**The Kesselman and Kesselman PricewaterhouseCoopers
MoneyTree™ Report**

**Approximately \$291 million invested in Israel in high-tech companies
backed by venture capital funds in second quarter of 2008**

\$717 million invested in 161 high-tech companies in first half of 2008

The latest Kesselman and Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that, during the course of the second quarter of 2008, venture capital-backed high-tech companies raised approximately \$291 million, a decrease of approximately 32% in comparison with the previous quarter (which was a record quarter in which approximately \$427 million was raised), and a decrease of approximately 9% in comparison with the corresponding quarter of last year, in which approximately \$320 million was raised.

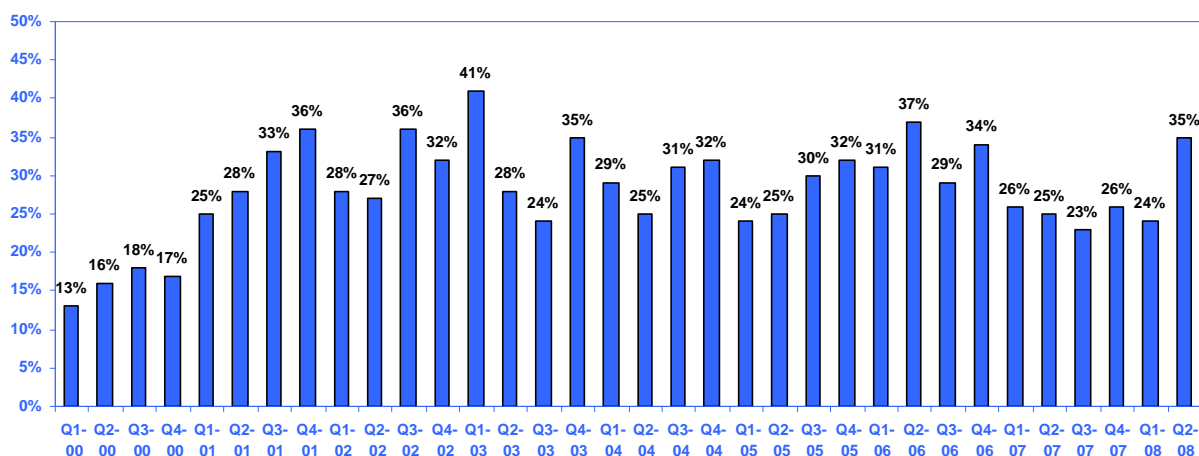
The report also reveals that 69 Israeli high-tech companies raised capital in the second quarter of 2008, as compared to 92 companies that raised capital in the previous quarter and 80 companies that raised capital in the corresponding quarter of last year. The average investment per company in the present quarter was \$4.2 million, as compared to \$4.6 million in the previous quarter and \$4 million in the corresponding quarter of last year.

Investment for the first half of 2008 totaled approximately \$717 million (\$1.4 billion on an annualized basis), this comparing with a level of investment of approximately \$626 million for the first half of 2007. The total investment in high-tech companies for the first half of 2008 is the highest level of such investment in the first half of any year since the first half of 2001. The number of companies raising capital during the first half of 2008 reached 161, a number similar to that for the first half of 2007. During the first half of 2008, the average investment per company was \$4.4 million, as compared to \$3.9 million for the first half of 2007.

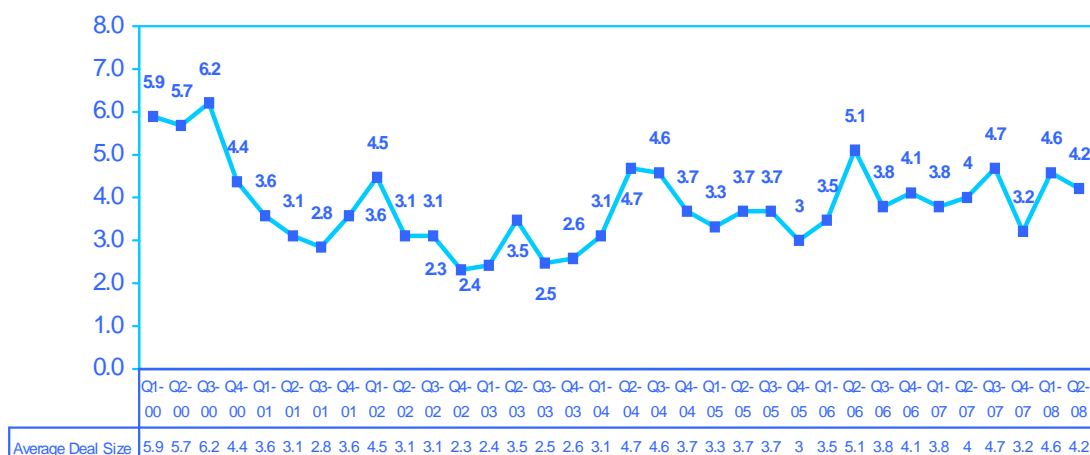
Joseph Fellus, Partner, Advisory & High-Tech Practice Leader at Kesselman and Kesselman PricewaterhouseCoopers, says that, when looking at recent quarters, it may be possible to discern a trend whereby venture capital funds have begun to focus on software-based sectors at the expense of other sectors. A continuation of this trend will inevitably lead to a structural change in the nature of the Israel high-tech industry.

Rubi Suliman, Partner, High-Tech Practice at Kesselman and Kesselman PricewaterhouseCoopers, adds that the unmistakable decline in the rate of investment in seed companies, companies at the initial stage of their development, is a continuation of the trend noticed in recent quarters whereby venture capital funds have, in the absence of financing opportunities in the financial markets, chosen to lend their support to companies whose operations are at a more mature stage of development. This trend opens the door wide for angels and other investment entities to fund seed companies.

Percentage of Funds that Made No Investment



Average Investment per Company (\$ million)

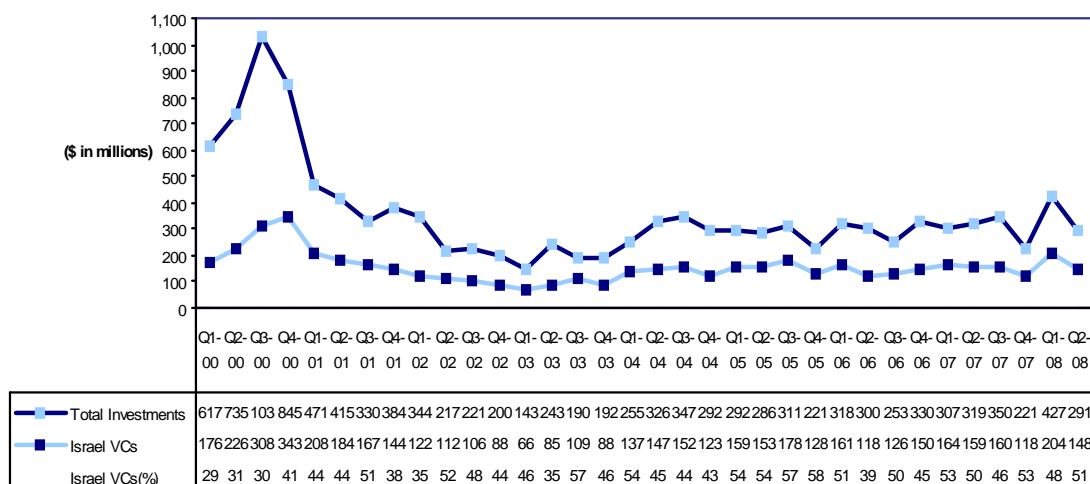


The Israeli Venture Capital Funds' Slice of the High-Tech Cake

The domestic venture capital funds invested approximately \$148 million, representing approximately 51% of total investment for the second quarter of 2008. This compares with approximately \$204 million in the previous quarter, representing approximately 48% of total investment for that quarter and of approximately \$159 million in the corresponding quarter of last year, representing approximately 50% of total investment for that quarter.

In addition to investment in high-tech companies with operations in Israel, local venture capital funds also invested approximately \$8 million in 5 overseas high-tech companies that are not engaged in operations in Israel. This compares with approximately \$21 million invested in 10 non-Israeli companies in the previous quarter and with approximately \$24 million invested in 17 non-Israeli companies in the corresponding quarter of last year.

Israel VC's Investment Levels (\$ million)



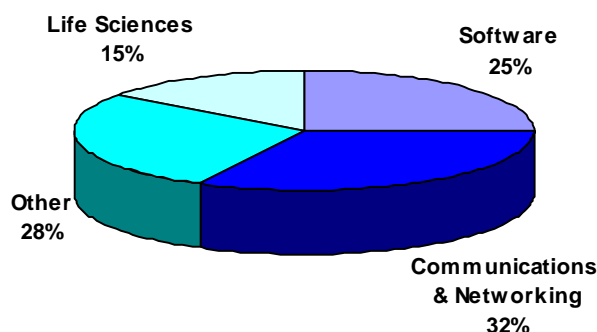
Analysis by Geographic Location of Company Registration

48 companies, representing 70% of the total number of companies raising capital in the second quarter of 2008, are registered in Israel. These companies raised approximately \$151 million, representing approximately 52% of total investment. The remaining companies are registered overseas, primarily in the United States.

Companies Receiving Grants from the Chief Scientist

23 companies, representing 33% of all companies raising capital in the second quarter of 2008, have received grants from the Office of the Chief Scientist in Israel. Approximately \$87 million of total investment funds has flowed into these companies.

Number of Companies Receiving Grants from the Chief Scientist by Sector



Analysis by Leading Technological Sector

The **Communications & Networking** sector takes first place in the second quarter of the year, with 22 companies raising approximately \$140 million, this representing 48% of total investment for the quarter. This is the highest quarterly investment in this sector for four years and the biggest slice of total quarterly investment for five and a half years. This compares with 22 companies that raised approximately \$104 million in the previous quarter and with 26 companies that raised approximately \$133 million in the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$6.4 million, as compared to \$4.7 million for the previous quarter and \$5.1 million for the corresponding quarter of last year. The present quarter saw five large transactions (investment in amounts exceeding \$10 million per company) in this sector in a total amount of approximately \$75 million, representing 54% of the total investment in the sector.

The increase in this sector in both the overall and average investment levels for the present quarter can be attributable to the fact that most of the companies operating in this sector that raised capital in the present quarter are currently operating at the intermediate or later stages

of their development. These stages of development are marked by a requirement for relatively high levels of investment – approximately \$131 million raised by 20 companies.

The **Software** sector takes second place in the present quarter, with \$59 million being invested in 17 companies. This compares with the amount of approximately \$115 million that was invested in 25 companies in the previous quarter and the amount of approximately \$73 million that was invested in 20 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent to a decrease of 48% in comparison with the previous quarter and of 18% in comparison with the corresponding quarter of last year. The average investment per company for the present quarter was \$3.5 million, as compared to \$4.6 million for the previous quarter and \$3.6 million for the corresponding quarter of last year.

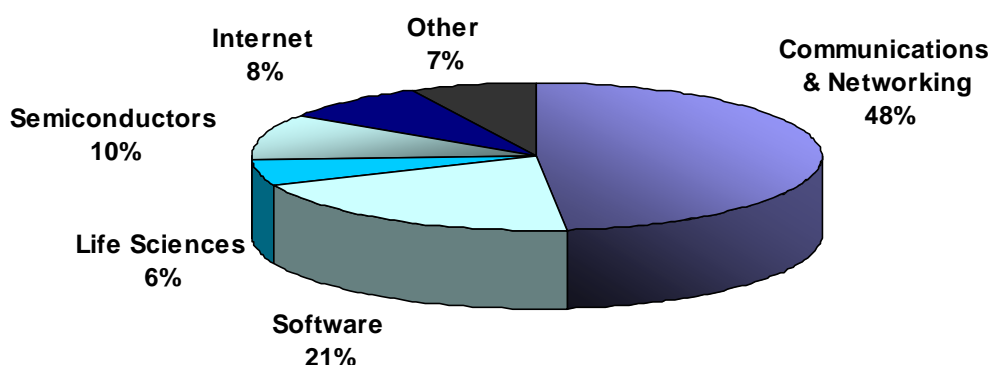
5 companies operating in the **Semiconductor** sector raised approximately \$30 million during the present quarter, as compared to 10 companies that raised approximately \$63 million in the previous quarter and 3 companies that raised approximately \$27 million in the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$6 million, as compared to \$6.3 million for the previous quarter and \$9 million for the corresponding quarter of last year.

The **Life Sciences** sector, which includes the fields of Medical Devices and Biotechnology, displayed a decrease in investment in the present quarter, with just 9 companies raising approximately \$16 million, representing 6% of total investment for the quarter. This is the lowest quarterly amount raised by this sector for about four and a half years and the smallest slice of total quarterly investment in about eight and a half years. This situation may be compared with 12 companies that raised approximately \$50 million in both the previous quarter and the corresponding quarter of last year. The average investment per company for this quarter was \$1.8 million, as compared to \$4.1 million for both the previous quarter and the corresponding quarter of last year.

Amongst the companies operating in the **Other** sectors category are companies operating in the internet sector, the cleantech sector and the media sector. 16 companies in this category raised approximately \$45 million in the present quarter – approximately 15% of total investment for the quarter. This compared with 23 companies that raised approximately \$95 million in the previous quarter and with 19 companies that raised approximately \$37 million in the corresponding quarter of last year.

With 8 companies raising approximately \$23 million, the **internet** sector attracted about 52 % of the total investment in this category for the present quarter and approximately 8% of the total overall investment for the quarter.

Total Investment by Sector



Analysis by Investment Round

Early round

In the present quarter, 23 companies raised approximately \$137 million in the early round (the first and the second rounds combined). This compares to 29 companies that raised early round investment funds of approximately \$151 million in the previous quarter and to 26 companies that raised early round investment funds of approximately \$128 million in the corresponding quarter of the previous year. The average early round investment per company for the present quarter was \$6 million, as compared to \$5.2 million for the previous quarter and \$4.9 million for the corresponding quarter of last year.

Third round

In the present quarter, 3 companies raised third round investment funds of approximately \$41 million. This compares to 8 companies that raised third round investment funds of approximately \$59 million in the previous quarter and to 6 companies that raised third round investment funds of approximately \$40 million in the corresponding quarter of last year. The average third round investment per company for the present quarter was \$13.8 million, as

compared to \$7.4 million for the previous quarter and \$6.6 million for the corresponding quarter of last year.

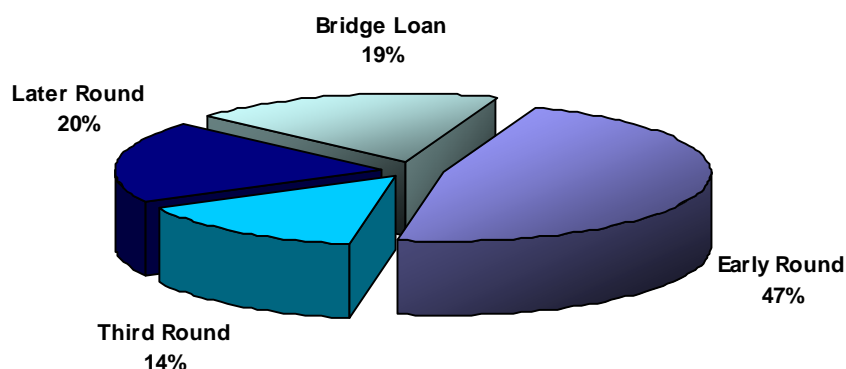
Later round

In the present quarter, 13 companies raised approximately \$57 million in later round investment (investment rounds from the fourth round to the mezzanine round inclusive). This compares to 23 companies that raised later round investment funds of approximately \$137 million in the previous quarter and to 19 companies that raised later round investment funds of approximately \$115 million in the corresponding quarter of last year. The average later round investment for the present quarter was \$4.4 million, as compared to \$5.9 million for the previous quarter and \$6 million for the corresponding quarter of last year.

Bridge loans

In the present quarter, 30 companies raised approximately \$55 million through the medium of bridge loans. This compares to 32 companies that raised bridge loan finance of approximately \$79 million in the previous quarter and to 29 companies that raised bridge loan finance of approximately \$36 million in the corresponding quarter of last year. In the present quarter, the average amount of a company bridge loan was \$1.8 million, as compared to approximately \$2.5 million in the previous quarter and to approximately \$1.2 million in the corresponding quarter of last year.

Total Investment by Investment Round



Analysis by Company Development Stage

Seed/start-up stage

8 companies at the start-up stage raised approximately \$12 million during the second quarter of 2008, this representing just 4% of total investment for the quarter. This is the lowest quarterly amount raised by companies at this stage of development for about seven and a half years and the smallest slice of total quarterly investment in about six years. This compared to 18 companies that raised approximately \$44 million in the previous quarter and 15 companies that raised approximately \$58 million in the corresponding quarter of last year. In the present quarter, the average investment per company at this stage of development was \$1.5 million, as compared to \$2.4 million in the previous quarter and \$3.9 million in the corresponding quarter of last year.

Intermediate stage (early/expansion stage)

In the present quarter, 51 companies at the intermediate stage of development raised approximately \$228 million. This compares to 57 such companies that raised approximately \$287 million in the previous quarter and to 58 such companies that raised approximately \$210 million in the corresponding quarter of last year. The second quarter of 2008 saw eight large transactions in a total amount of approximately \$114 million, this representing 50% of the total investment in intermediate stage companies. In the present quarter, the average investment per company at this stage of development was \$4.5 million, as compared to \$5 million in the previous quarter and to \$3.6 million in the corresponding quarter of last year.

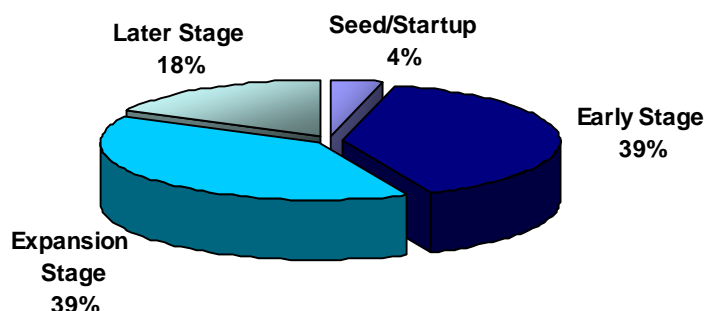
An internal analysis of transactions involving intermediate stage companies has revealed that 29 companies at the early stage of development raised approximately \$114 million during the course of the present quarter, an amount identical to the amount raised by 22 companies at the expansion stage of development.

Later stage

In the present quarter, 10 companies at the later stage of development raised approximately \$51 million. This compares to 17 such companies that raised approximately \$95 million in the previous quarter and to 7 such companies that raised approximately \$50 million in the corresponding quarter of last year. The average investment in this quarter was \$5.1 million, as compared to \$5.6 million in the previous quarter and to \$7.2 million in the corresponding quarter of last year.

The present quarter saw two large transactions (defined as investments in amounts exceeding \$10 million per company) that totaled approximately \$30 million and which involved companies at the later stage of development. These transactions represented 60% of the total investment in later stage companies.

Total investment by company development stage



The **MoneyTree™ Report** is issued quarterly by Kesselman & Kesselman, Israel, in conjunction with the reports issued in the United States and Europe by the world's largest accounting firm, PricewaterhouseCoopers. This quarter, 51 venture capital firms participated in the production of the Report. The findings of the Report 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 departments, the Office of the Chief Scientist and others.

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