

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

**The scale of investments in the Israeli hi-tech continues to plunge.
Lowest level of investment since the 2003 recession**

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel's MoneyTree™ Report indicates that venture capital-backed high-tech companies raised a total of \$162 million in Israel during the second quarter of 2009, a 16% decline compared to the previous quarter, when \$194 million was raised, and a 44% drop compared to the corresponding quarter last year, when \$291 million was raised.

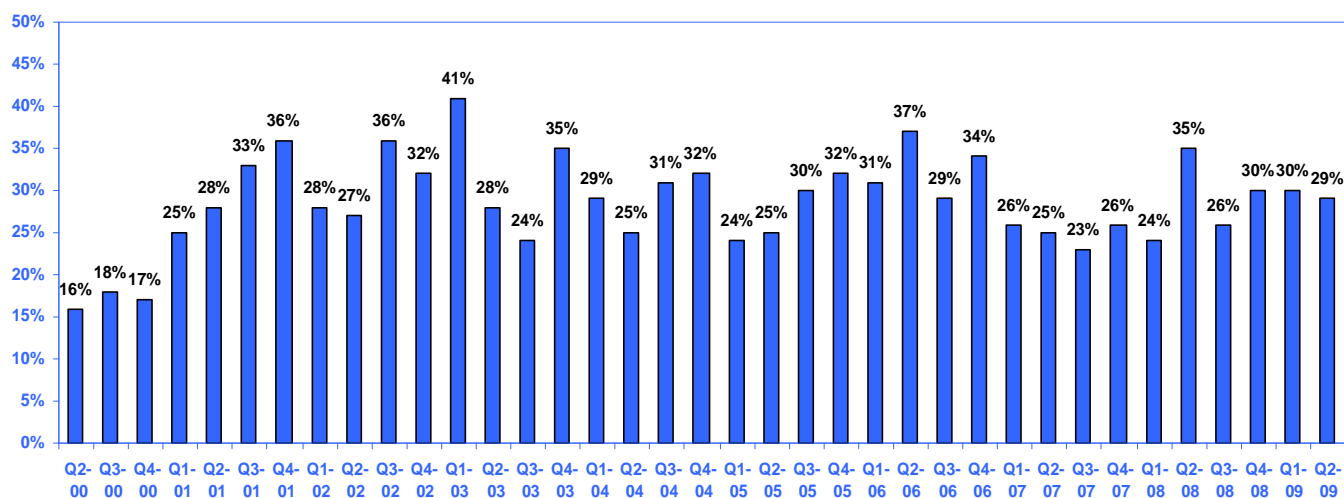
The report also reveals that 61 Israeli high-tech companies raised capital in the second quarter, compared to 49 in the first quarter and 69 in the corresponding quarter of last year. The average investment per company in the quarter under review was \$2.7 million, down from \$4 million in the preceding quarter and \$4.2 million in the same quarter of 2008. The average investment figure for this quarter is the lowest in 5 years.

The total investment in the first half of 2009 amounted to \$365 million (\$712 million in annual terms), compared to the first half of 2008 with \$717 million. The first six months of 2009 saw the lowest total investment in Israeli hi-tech during any comparable periods in the last decade. The number of companies that raised capital for the year to end of June was 110, down from 161 by mid-year 2008. The average investment per company in the first half of 2009 was \$3.2 million, down from \$4.4 million in the corresponding half of 2008.

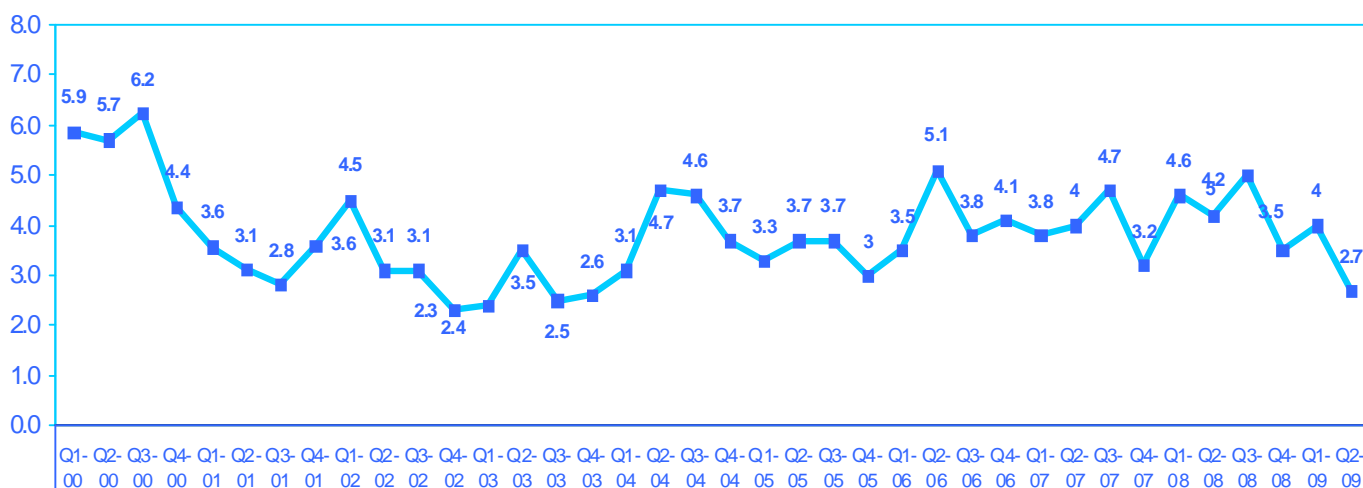
Rubi Suliman, Partner, High-Tech Assurance Practice at Kesselman and Kesselman PwC Israel, commented on the findings: "In line with the overall decline in investment this quarter, the average investment per company slumped to \$2.7 million, which can be explained by an investment mix where 65% of investment is concentrated in early-stage and seed companies. Looking more closely at this investment mix, there are some positive signs that interest in early-stage companies is improving slightly. The life science market, thanks to a few significant recent exist, presented a strong growth this quarter, diverging from the overall trend, in step with developments in this sector in the US.

"Expecting future developments, the improvement in the US markets is certainly encouraging. However, the global and Israeli venture capital industries are struggling to raise funds, and it is very likely that VC investments will stay low as long as these difficulties remain."

Percentage of funds making no investment



Average investment per company (in millions of dollars)



Average Deal Size	5.9	5.7	6.2	4.4	3.6	3.1	2.8	3.6	4.5	3.1	3.1	2.3	2.4	3.5	2.5	2.6	3.1	4.7	4.6	3.7	3.3	3.7	3.7	3	3.5	5.1	3.8	4.1	3.8	4	4.7	3.2	4.6	4.2	5	3.5	4	2.7
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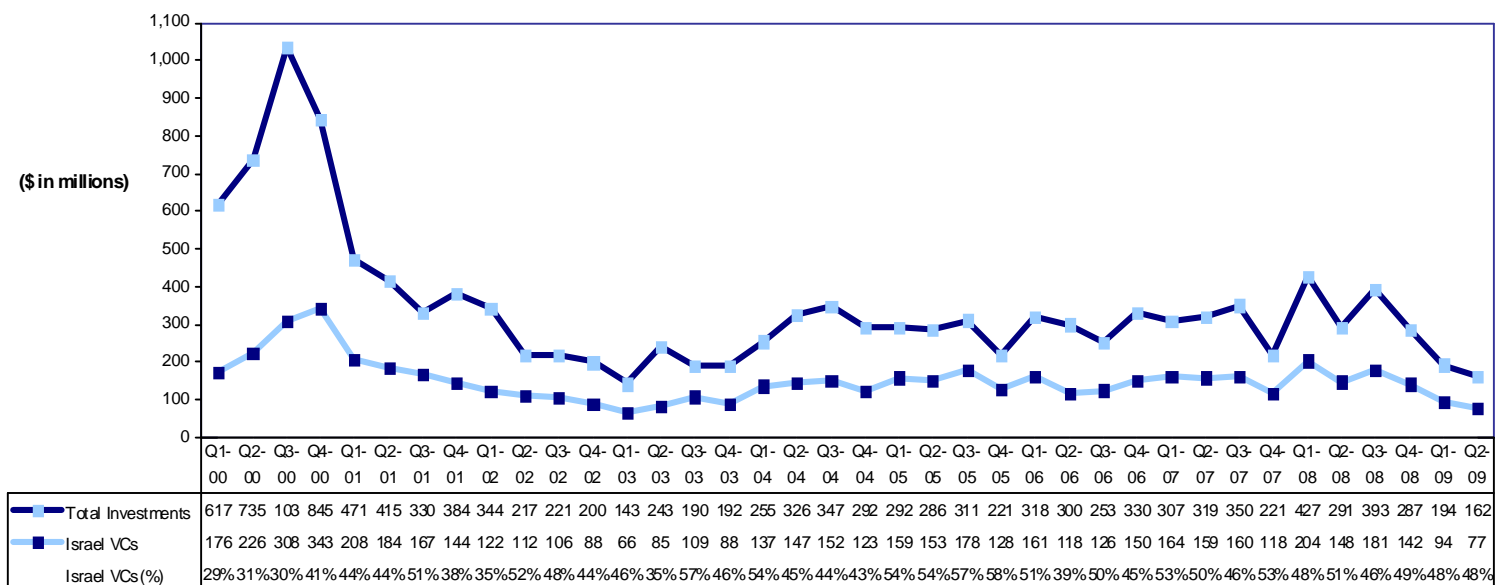
Slice of Israel Venture Capital Funds in high-tech cake

The domestic venture capital funds invested \$77 million or 48% of total investment for the second quarter of 2009. This investment compares with \$94 million, or 48% of total investment, in the previous quarter and \$148 million, or 51%, in the corresponding quarter last year.

In addition to investment in high-tech companies with operations in Israel, local venture capital funds also invested \$15 million in 7 overseas high-tech companies that have no

operations in Israel, compared with \$8 million invested in 4 foreign companies in the previous quarter and \$8 million invested in 5 foreign companies in last year's second quarter.

Investment levels of Israel Venture Capital Funds (in millions of dollars)



Analysis by Geographic Location of Company Registration

46 companies, representing 75% of companies raising capital in the second quarter of 2009, are registered in Israel. These companies raised \$101 million or 62% of total investment. The remaining companies are mostly incorporated in the US.

Companies Receiving Grants from the Chief Scientist

14 companies, representing 23% of all companies raising capital in the second quarter of 2009, received grants from the Israel Office of the Chief Scientist. Some \$23 million of total investment funds went to these companies.

Analysis by Leading Technological Sector

The **software** sector is ranked first in terms of capital raised in the second quarter of 2009 with 19 companies that raised \$47 million or 29% of investments for the quarter. This is compared with \$18 million that was invested in 11 companies last quarter and \$59 million invested in 17 companies in the corresponding quarter last year. In financial terms, this represents a sharp surge of 160% from last quarter's investment but a 20% drop from the figure for the second quarter of 2008. The average investment per company was \$2.5 million

in the current quarter, compared with \$1.7 million in the last quarter and \$3.5 million in the corresponding quarter of last years.

14 companies in the **communications and network** sector raised \$29 million, down from 17 companies that raised \$101 million in the previous quarter and 22 companies that raised \$140 million in the corresponding quarter of 2008. The average investment in this sector was \$2 million this quarter, a fall from \$6 million in the first quarter and \$6.4 million in the previous second quarter. In financial terms, this is a steep 71% decline compared with the preceding quarter and a 79% plunge from the second quarter last year.

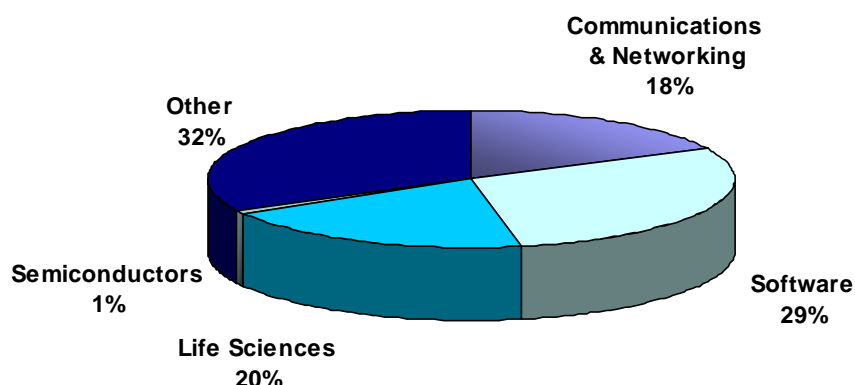
A single **semiconductors** company raised \$1 million this quarter, down from 3 companies that raised \$12 million in the first quarter and 5 companies that raised \$30 million in the corresponding quarter last year. The average investment tanked from \$6 million in last year's second quarter and \$4 million last quarter to \$1 million this quarter.

The **life sciences** sector, encompasses medical device and biotechnology companies. Unlike other sectors, life sciences gained this quarter. In the second quarter of 2009, 13 companies raised \$16 million, up from 5 companies that raised \$11 million in the first quarter and 9 companies that raised \$16 million in the second quarter of 2008. The average investment in the company of \$2.5 million this quarter is up from \$2.3 million in the last quarter and \$1.8 million in the same quarter in 2008. In financial terms, this represents a 191% jump from the previous quarter and a 100% gain over the same quarter in 2008.

Miscellaneous sectors include internet, clean-tech, media and others. A total of 14 companies in this category raised \$53 million this quarter or 33% of all investment for the quarter, compared with 13 companies raising \$51 million in the last quarter and 16 companies raising \$45 million in the corresponding quarter.

The **internet** sector has a 17% share of all investments in this category and 5% of overall investments for the quarter, with 3 companies that raised \$9 million.

Total investment by sector



Analysis by Investment Round

Early round

This quarter, 22 companies raised capital as part of their early, first and second rounds, in a combined amount of \$83 million. This is compared with 15 companies that raised \$97 million in the previous quarter in these rounds and 23 companies raising \$138 in the second quarter of 2008. The average investment per company in this round was \$3.8 million in the current quarter, down from \$6.5 million in the previous quarter and \$6 million in the corresponding quarter.

Third round

Five companies raised a total of \$14 million this quarter, compared with 5 companies that raised \$35 million in the first quarter of 2009 and 3 companies raising \$42 million in the second quarter of 2008. Average investment per company in this round was \$2.9 million for the quarter, down from \$7 million in the previous quarter and \$13.8 million in the corresponding quarter last year.

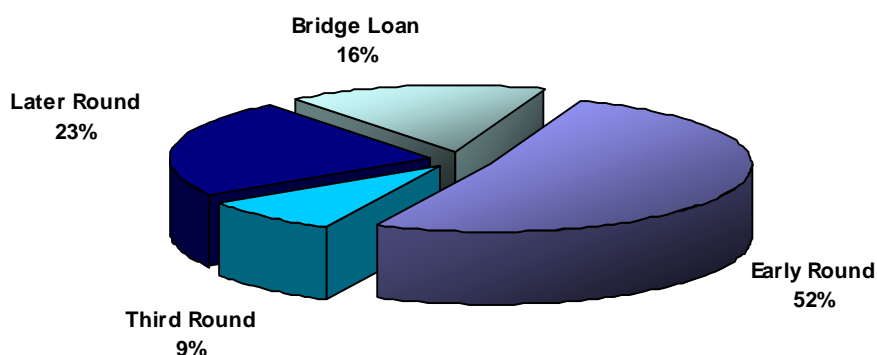
Later round

Ten companies raised \$38 million in the second quarter in later-round transactions (fourth round and thereafter), compared with 9 companies that raised \$41 million in the preceding quarter and 13 companies that raised \$57 million in the same period last year. The average investments for these rounds amounted to \$3.8 million in the current quarter, \$4.6 million in the previous quarter and \$4.4 million in the corresponding quarter in 2008.

Bridge loans

A total of 23 companies raised capital at \$26 million this quarter using bridge loans, compared to 18 companies that raised \$15 million in the previous quarter and 30 that raised \$55 million in the second quarter of 2008. The average loan per company was \$1.1 million this quarter, compared to \$0.9 million in the previous quarter and \$1.8 million in the corresponding quarter of 2008.

Total investment by investment round



Analysis by Company Development Stage

Seed/start-up stage

Six start up companies raised approximately \$7 million during the second quarter of 2009, accounting for 4% of total investment for the quarter. This is compared to 3 such companies that raised \$4 million in the preceding quarter and 8 companies that raised \$12 million in the corresponding quarter of last year. The average investment per company at this stage of development during this quarter was \$1.2 million, as compared to \$1.4 million in the preceding quarter and \$1.5 million in the corresponding quarter of last year.

Intermediate stage (early/expansion stage)

In the second quarter of 2009, 50 companies at the intermediate stage of development raised \$141 million. This compares to 37 companies that raised \$154 million in the preceding quarter and 51 companies that raised \$228 million in April-June 2008. The quarter under review also saw only three large transactions totaling \$38 million. All these transactions involved

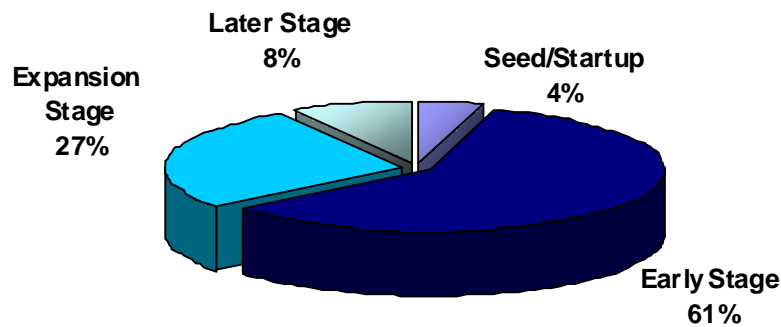
intermediate-stage companies. The average investment in this quarter was at \$2.8 million, down from \$4.2 million last quarter and \$4.5 million in the corresponding period of 2008.

An internal analysis of intermediate-stage investment reveals that 36 companies at the early stage of development raised \$102 million during the quarter under review, while 15 companies at the expansion stage raising \$44 million during that same quarter.

Later stage

In the second quarter of 2009, a total of 5 companies at the later stage of development raised \$14 million, compares to 9 such companies that raised approximately \$36 million in the quarter before and 10 companies that raised \$51 million in the same quarter of last year. The average investment for the quarter was \$2.7 million, as compared to \$4 million for the preceding quarter and to \$5.1 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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