



MONEY TREE™

Survey



\$ 292 million invested in companies backed by venture capital funds in the first quarter of 2005

\$ 159 million was raised from local venture capital funds, the highest amount in three years

After three consecutive quarters in which the Life Sciences sector gained strength and even peaked in the previous quarter, in the first quarter of 2005 this sector experienced a sharp drop of 65% in the volume of investments in monetary terms, down to its average level. \$46 million was invested in 16 companies, as compared to \$130 million invested in 27 companies in the preceding quarter. Biotechnology attracted only \$2 million.



Mr. Joseph Fellus,
Partner & High-Tech
Practice Leader

The results show that 87 of the high-tech companies that raised capital this quarter have operations in Israel, the largest number in three years. These companies raised approximately \$292 million, as in the previous quarter, and increase of 14% over the corresponding quarter last year (\$255 million). The average investment in a company was \$3.3 million, as compared to \$3.7 million in the previous quarter and \$ 3.1 million in the corresponding quarter in the previous year.

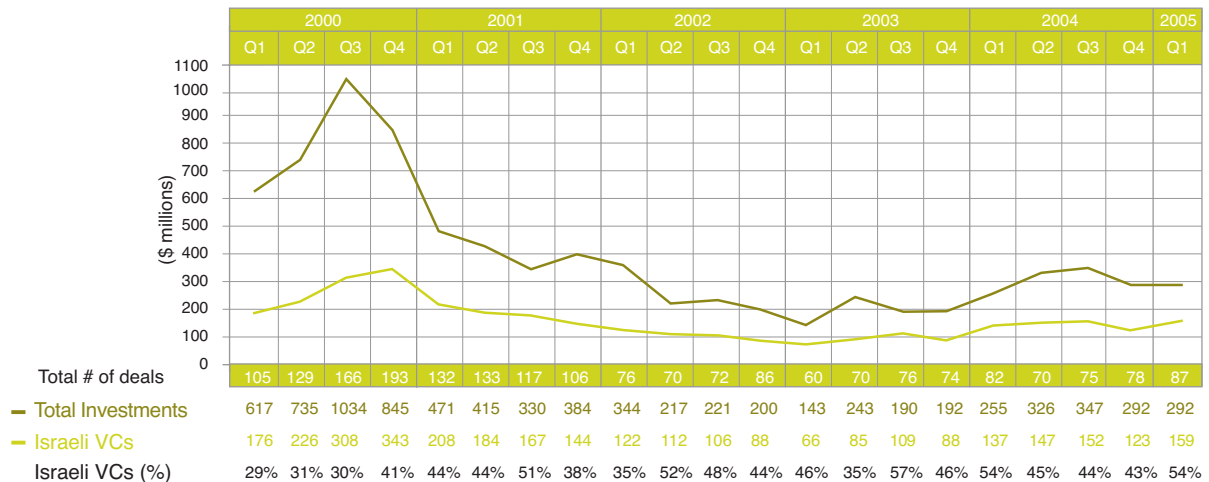


Mr. Yariv Azar,
Israeli MoneyTree
Project Manager

Analysis of the Survey findings further shows that the stability in the volume of investments in Israeli companies was accompanied by a significant increase in investments made by local venture capital funds. These funds invested at least \$159 million this quarter, the highest level in three and a half years.

According to Joseph Fellus, Senior Partner & High Tech Practice Leader at the accounting firm Kesselman & Kesselman PricewaterhouseCoopers, the market, which has been volatile in recent years, is showing stability both in the volumes invested and the distribution of the burden between local funds and foreign investors and in the regained equilibrium in the allocation of monies between the sectors, particularly as regards the high-tech industry: Communications, Software and Life Sciences.

Israeli VCs investment level



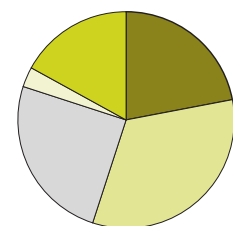
In the first quarter of 2005, the relative weight of the local venture capital funds amounted to \$ 159 million, representing 54% of the quarter's total investments in monetary terms, as compared to \$ 123 million and 42%, respectively, in the previous quarter.

In addition to the investments in companies with Israeli operations, local venture capital funds invested in 17 companies that have no operations in Israel, as compared to 13 companies in the previous quarter. The increase in the number of investments in companies overseas and the stability in the average investment in such companies- \$ 2.2 million, resulted in an increase in the volume of investments in monetary terms: \$ 36 million as compared to \$ 29 million infused into foreign companies in the previous quarter. Analysis of the Survey findings over the years reveals that the average share of an Israeli venture capital fund in the total amount invested in a foreign company is 25%-30%.

Companies Receiving Grants From The Chief Scientist

According to the Survey, 41% of all the companies that raised capital in the quarter have received grants from the Chief Scientist (36 companies), of which 26 are registered in Israel. The Survey further indicates that the Communications and Networking sector prevailed, with 12 companies receiving grants from the Chief Scientist.

Communications & Networking	33%
Medical Devices	25%
Software	22%
Other	17%
Biotechnology	3%



Venture capital investments by industry

The **Communications & Networking** sector regained the lead, attracting \$ 95 million infused into 28 companies, representing the highest number of deals in three years, as compared to \$67 million invested in 19 companies in the preceding quarter. This is the first increase for this sector, both in the volume of investments in monetary terms and in the number of deals, after three consecutive quarters of decline. Contrary to the large number of substantial deals of over \$10 million that characterized previous quarters, only one large deal took place this quarter. For the fourth consecutive quarter, the average investment per company in this sector continued to drop, amounting to \$3.3 million as compared to \$3.5 million in the preceding quarter and \$4.4 million in the corresponding quarter last year.

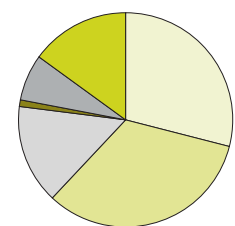
Following a successful quarter in which \$130 million was raised, the **Life Sciences** sector settled back into its average level, attracting \$46 million. The field of **Biotechnology** registered a sharp decrease, with 3 companies raising only \$2 million, as compared to 10 companies and \$41 million in the preceding quarter and \$ 17 million raised by 10 companies in the corresponding quarter last year. The decrease in the volume of investments in this sector followed six consecutive quarters of climbs. The field of **Medical Devices** attracted investments of at least \$44 million infused into 13 companies, as compared to \$89 million and 17 companies in the previous quarter.

The average investment in the **Life Sciences** sector was \$2.8 million, as compared to \$4.8 million in the preceding quarter. The significant decrease in the average investment in this sector, despite the decrease in the number of companies that raised capital, is due to the reduction in the number of large deals of over \$10 million. This quarter, only one large deal took place, as compared to 4 large deals accounting for \$80 million in the previous quarter.

The **Software** sector registered an increase in the volume of investments in monetary terms this quarter. 22 companies raised \$86 million, as compared to 14 companies and \$51 million in the preceding quarter. The average investment per company in this sector was \$3.9 million, as compared to \$3.6 million in the previous quarter.

The volume of investments in monetary terms in the **Semiconductors** sector remained stable, with 4 companies raising \$20 million. The quarter's average investment in a semiconductor company was \$5 million, as compared to \$2.9 million last quarter.

VC Investments by Industry
Q1-2005 (% of total)



Communications & Networking	33%
Software	29%
Medical Devices	15%
Other	15%
Semiconductors	7%
Biotechnology	1%



Analysis by place of registration

The findings of the Money Tree™ Survey show that of the 87 companies that raised capital this quarter, 44 are registered in Israel (51%), and the rest are registered as foreign companies (mostly in the US). In monetary terms, Israeli registered companies comprised only 29% of the quarter's total investments, the lowest share in 5 years, as compared to 53% in the previous quarter and 44% in the corresponding quarter last year.

Venture capital investments by round of financing

Early rounds

The early stage (the first and second stages together) attracted 27% of the volume of investments in monetary terms. 27 companies raised \$79 million in the quarter, as compared to 31 companies and \$108 million in the previous quarter. The average investment in this round continued to drop, amounting to \$2.9 million as compared to \$3.5 million in the previous quarter and \$3.2 million in the corresponding quarter last year.

Third round

12 companies in this round raised \$51 million, as compared to 14 companies and \$77 million in the previous quarter. The average investment in this round was \$4.2 million. 41% of the deals in this round were carried out by companies in the Communications & Networking sector.

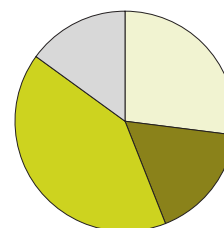
Later rounds

Deals carried out in later stage rounds (fourth to mezzanine) increased significantly this quarter, in line with the upward trend registered in 2004. This quarter, these rounds attracted \$119 million, representing 41% of total investments in monetary terms, as compared to \$63 million (22%) in the preceding quarter and \$55 million (22%) in the corresponding quarter last year. The increase in the overall investment in these rounds was due to the record number of companies that raised capital in later rounds (19) alongside the stability in the average investment per company. The average investment remained unchanged from the last quarter, amounting to \$6.3 million.

Bridge loans

In the first quarter of 2005, 29 companies raised \$43 million by way of bridge loans, the highest amount in four years and almost twice the amount raised in the previous quarter.

VC Investments by Round
Q1-2005 (% of total)



Later Round	41%
Early Round	27%
Third Round	17%
Bridge	15%

Venture capital investments by Stages of development

Seed/start-up stage

Following the dramatic increase registered last quarter in the volume of investments in monetary terms in this stage, companies in the preliminary stage (Seed/ Start-up) managed to maintain this level, with \$50 million invested in 18 companies - both figures unchanged from the previous quarter. The average investment for the quarter was \$2.7 million, as compared to \$1.3 million in the corresponding quarter last year.

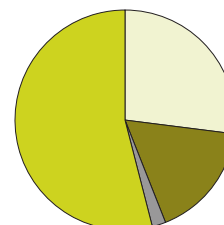
Intermediary stage (early/expansion stage)

This stage maintained the level recorded in the final quarter of 2004. 67 companies in this stage raised \$237 million, with an average investment of \$3.5 million. A breakdown of this stage reveals that the expansion stage regained the lead, with \$158 million, representing 67% of total investments in the intermediary stage. All large deals (4 deals of over \$10 million) involved companies in this stage.

Advanced stage (later stages)

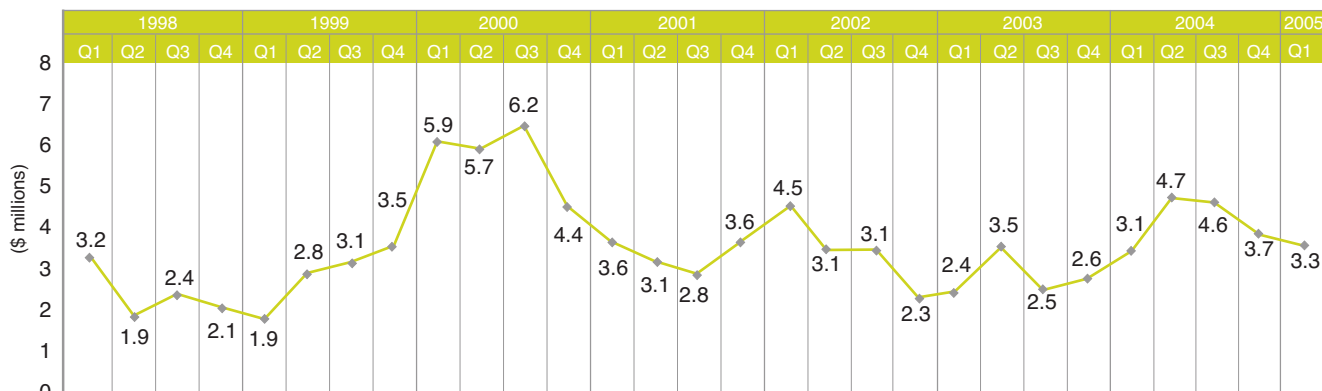
In the first quarter of 2005, \$5 million was invested in 2 companies in this stage.

VC Investments by Stage
Q1-2005 (% of total)



Expansion stage	54%
Early stage	27%
seed / start-up	17%
Later stage	2%

Average deal size (by Millions \$)



Participating Israeli Venture Capitalists in the MoneyTree Survey Q1-2005
(listed alphabetically)

Ag-Tech Fund
Aig Orion Fund LP
Alon Technology Ventures Ltd.
Apax Partners Ventures (Israel) Ltd.
Argoquest, Inc
Ascend Technology Ventures
Atara Technologies Ventures Ltd
Benchmark Israel
BioMedical Innovations Management
Bio-Medical Investments (clal)
BRM Capital Management Inc.
Carmel Ventures
Catalyst Fund L.P
Cedar (Israel) Financial Advisors
Clal Biotechnology Industries Ltd.
Columbine Ventures
Concord Venture Fund
Corex Industries Management Ltd.
D.Z. Israel Associates Ltd.
Delta Ventures Ltd.
Denali Ventures LLC
Edmond De Rothshchild
Venture Capital Management
Eucalyptus Ventures
Eurofund L.P.
Evergreen Partners
First IsraTech Fund L.P.
Formula Ventures Ltd
Gemini Israel Venture Funds Ltd

Genesis Partners L.P.
Genius Technologies
Gilbridge Holdings
Giza Venture Capital
Israel Healthcare Ventures Ltd.
Israel Infinity Venture Capital
Management Ltd.
Israel Seed Partners
Jerusalem Global Ventures
Jerusalem Venture Partners
Koor Corporate VC
Magnum Communications fund
Medica Venture Partners
Millenium Materials Fund Management
Mofet Venture Capital
Fund Management (1992) Ltd.
Montefyori Partner
Ofar Technologies Ltd.
Orbotech Ltd.
Pamot Asset Management Add-on Ltd.
Pitango Venture Capital (previously Polaris)
Platinum Venture Capital
Poalim Capital Markets
Portview Communications Partners
Sequoia Capital Seed Fund
Shrem, Fudim, Kelner & Co. Ltd.
StageOne Ventures
STI Ventures
SVM Star Ventures Capital Management Ltd.

Tamar Technology Ventures
Tamir Fishman Ventures(ii)
Technoplus Ventures
Teuza - A Fairchild Technology Venture Ltd.
The Challenge Fund - Etgar L.P.
Vectory Investment Company Ltd.
Veritas Venture Partners
Vertex Management (III) Ltd.
Vitalife Life Science Ventures
Walden Israel Ltd.
Yozma Management & Investments Ltd.

About the Israeli MONEYTREE™

Kesselman & Kesselman PricewaterhouseCoopers conducts the Israeli Money Tree™ Survey quarterly to promote investments in Israeli start-up ventures. We appreciate the support of the Venture Capital industry in this endeavor. The Israeli survey, initiated in 1997, has become the definitive source for Israeli venture investment data.

For more information on PricewaterhouseCoopers' Money Tree™ Survey, please call Yariv Azar, at 972-3-7954975 e-mail: yariv.azar@il.pwc.com Visit our web site: <http://www.pwcmoneytree.com>