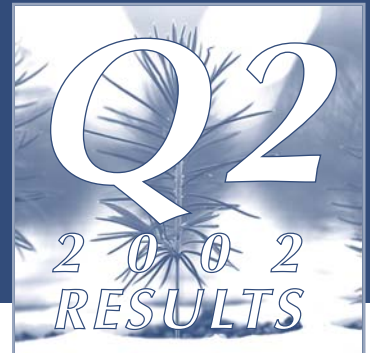


MONEYTREETM Survey

ISRAEL REPORT

Substantial increase in the share of Israeli venture capital funds in total investments - 52% in the second quarter of 2002, as compared to 35% in the previous quarter

Venture capital investments in Israel aggregated a minimum of \$217 million in the second quarter of 2002, the lowest level since the second quarter of 1999 (\$228 million)



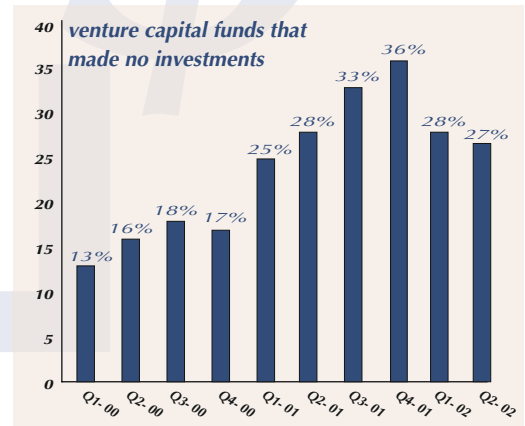
Mr. Joseph Fellus,
Partner & High-Tech
Practice Leader



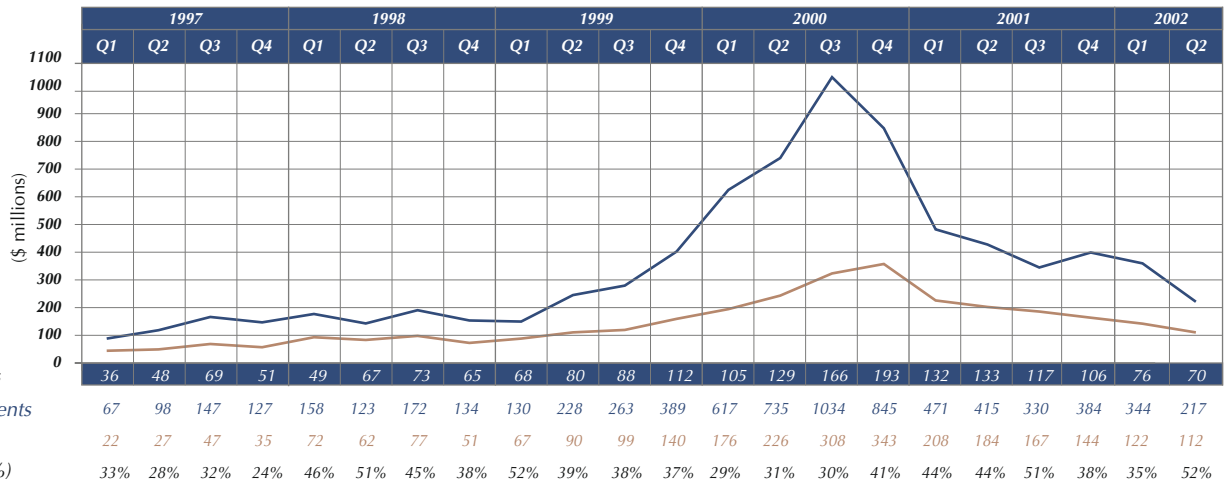
Ms. Adi Bengal,
Israeli MoneyTree
Project Manager

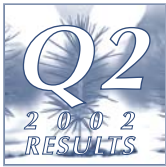
The second quarter of 2002 showed a decrease of 37% in the volume of venture capital investments in Israel (investments where at least one of the investors is a venture capital firm) as compared to the previous quarter (\$344 million), aggregating \$217 million and 48% as compared to the corresponding period in the previous year (\$415 million). According to Fellus, in the first half of 2002, high-tech companies raised an aggregate of \$561 million, a decrease of 37% as compared to the corresponding period in the previous year and 60% as compared to the first half of 2000. In addition, there was an 8% decrease in the number of companies (70) that raised capital during the quarter as compared to the previous quarter (76), which resulted in the lowest number of transactions since the first quarter of 1999 (68). The average investment per company in this quarter was \$3.1 million, as compared to \$4.5 million in the previous quarter (net of the effect of three major investments that were made in the previous quarter - \$2.4 million), and remained unchanged as compared to the corresponding quarter in the previous year.

The survey further shows that the number of venture capital funds that made no investments during the quarter (neither in new companies nor in their portfolio companies) remained almost unchanged as compared to the previous quarter: 20 venture capital funds this quarter, as compared to 21 venture capital funds in the previous quarter, constituting 27% and 28%, respectively, of the venture capital funds participating in the survey.



Israeli VC's investment level



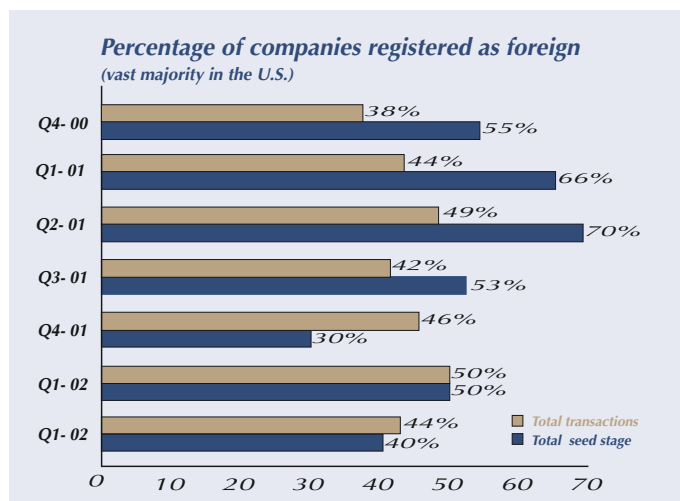


The findings of the survey show a significant increase (in monetary terms) in the relative weight of local venture capital funds in total investments for the quarter (52% as compared to 35% in the previous quarter). This reinforces the belief that the financing burden is distributed between fewer and fewer local funds.

At the same time, the decrease in the volume of investments made by local venture capital funds continues: \$112 million as compared to \$122 million in the previous quarter (a decrease of 8%). The remaining part was invested both by foreign venture capital funds and by other investors. According to the survey, the average investment made by a local venture capital fund in the second quarter of 2002 is similar to the level reported in the previous quarter: \$1.2 million as compared to \$1.1 million, respectively.

ANALYSIS BY PLACE OF REGISTRATION

The findings show that of the 70 companies that raised capital this quarter, 44% are registered as foreign companies (the vast majority of which are registered in the United States) and the rest are registered as Israeli companies. In addition, the survey shows that 2 of the 5 seed stage companies that raised capital are registered as foreign companies (40%), as compared to 19 out of the 27 seed stage companies that raised capital in the corresponding quarter in the previous year (70%).



VENTURE CAPITAL INVESTMENTS BY ROUND OF FINANCING

The survey's analysis of investments by rounds shows a continuing decrease in investments in the **seed round**: only 5 seed stage companies raised capital this quarter, aggregating approximately \$7.5 million, as compared to 6 companies and approximately \$7 million in the previous quarter.

The **early stage rounds** (the first and second stages together) registered an increase both in the volume of investments (in monetary terms) and in the number of transactions, constituting 54% of the volume of investments and 46% of the number of transactions for the quarter. In this round, 32 companies raised \$118 million, as compared to 25 companies and \$85 million in the previous quarter. The average investment in this round was \$3.7 million, as compared to \$3.4 million in the previous quarter.

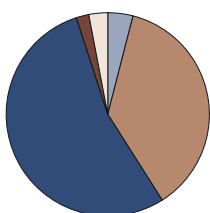
The **third round** accounted for 37% of the volume of investments (in monetary terms) and 19% of the number of transactions: \$80 million was invested in 13 companies in this round, as compared to \$109 million (including two major transactions in the aggregate amount of \$90 million) and 6 companies in the previous quarter.

This quarter showed a sharp decrease both in the volume of investments (in monetary terms) and in the number of transactions made in **later stage rounds** (from fourth round to Mezzanine round).

The volume of capital raised by way of **bridge loans** in this quarter was only 3%, as compared to 9% in the previous quarter. 17 companies raised \$7 million through bridge loans this quarter, a decrease of 47% in the number of companies and 78% in the volume of investments (in monetary terms) as compared to the preceding quarter.

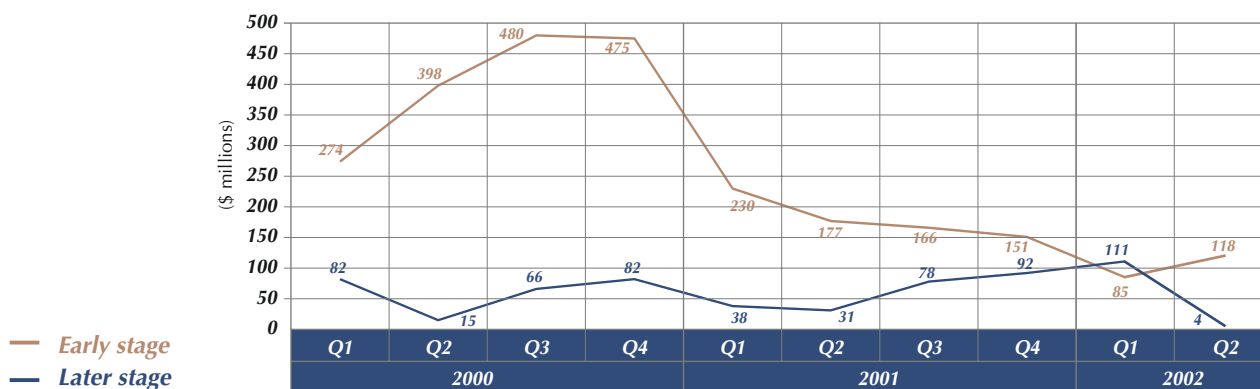
Fellus adds that bridge loans are usually granted in later rounds. Therefore, the drop that characterized the investments in later stages also affected bridge loans in this quarter.

VC Investments by Round of Financing Q2-2002 (% of Total)



- Early Stage 54%
- Third 37%
- Seed 4%
- Bridge 3%
- Late/Mezzanine 2%

Investment level- early stage vs. later stage (\$ millions)



According to Fellus, a possible explanation for the drop in the level of later stage investments is the funds' disappointment with the delay in the recovery of the Nasdaq, on both the primary and the secondary markets which causes them to change their investment strategy to support investments in early stage companies at lower prices, based on the anticipation that by the time these companies mature the markets will start recovering.

VENTURE CAPITAL INVESTMENTS BY INDUSTRY

The field of **communications & networking** continues to lead the investments in the second quarter of 2002, despite the sharp decrease in the volume of investments due to two large investments (\$110 million) that were made in the previous quarter. In the second quarter of 2002, 21 companies in this field raised \$59 million, as compared to \$175 million which was infused into 22 companies in this field in the previous quarter. The communications field took a hard blow in this quarter, attracting only 27% of total investments (in monetary terms), as compared to 51% in the previous quarter. However, the number of transactions in this field remained almost unchanged from the previous quarter (30% as compared to 29%, respectively).

Investments in the **software** industry (both in monetary terms and in terms of the number of transactions) were similar to the levels recorded in the previous quarter: \$42 million (19%) was infused into 21 software companies (30%), as compared to \$48 million (14%) and 22 companies (29%) in the previous quarter.

The **semiconductors** field attracted 16% of total investments made in the second quarter of 2002. During the quarter, 6 companies in this field raised \$34 million, as compared to 7 companies that raised \$84 million in the previous quarter (including a large investment of approximately \$56 million).

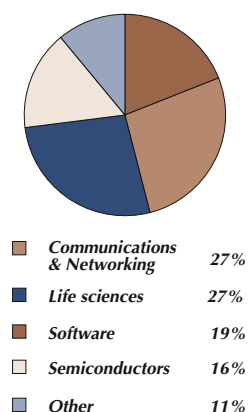
The **life sciences** sector registered a significant increase in the second quarter of the year, constituting 27%, in monetary terms, of total investments for the quarter, as compared to 7% in the previous quarter and attracting investments in the volume of \$59 million, which were infused into 19 companies this quarter (as compared to only \$24 million, which was invested in 15 companies in the preceding quarter). The field of medical devices led the investments in life sciences, with investments in the volume of \$38 million, which was invested in 13 companies. 6 biotechnology companies raised \$21 million.

COMPANIES RECEIVING GRANTS FROM THE CHIEF SCIENTIST

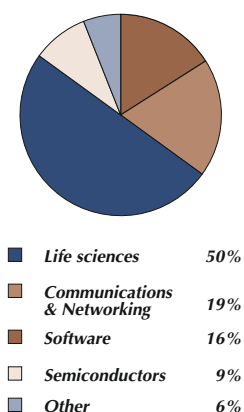
32 companies out of the total number of companies that raised capital in the aggregate amount of \$86 from venture capital funds during the quarter received grants from the Chief Scientist.

The survey also shows that 27 (84%) of the companies that received grants from the Chief Scientist are registered as Israeli companies, as compared to only 5 that are registered as foreign companies.

VC Investments by Industry - Q2-2002 (% of Total)



Companies Receiving Grants from the Chief Scientist by Industry - Q2-2002 (% of Total)



Average Deal Size



Participating Israeli Venture Capitalists in the MoneyTree Survey Q2-2002 (listed alphabetically)

Ag-Tech Fund
Aig Orion Fund L.P.
Alon Technology Ventures Ltd.
Apax Partners Ventures (Israel) Ltd.
Argoquest, Inc
Ascend Technology Ventures
Astra Technological
Investments Ltd.
Atara Technologies Ventures Ltd.
Benchmark Israel
Bio-Medical Investments
BRM Capital Management Inc.
Carmel Software Fund
Catalyst Fund L.P.
Cedar (Israel) Financial Advisors
Clal Biotechnology Industries Ltd.
Concord Venture Fund
Corex Industries Management Ltd.
D.Z. Israel Associates Ltd.
Decima Ventures
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 Capital Fund Management Ltd.
Genesis Partners L.P.
Genius Technologies
Gilbridge
Giza Venture Capital
Global Catalyst Partners, L.P.
Inventech Investments Company Ltd.
Israel Infinity Venture Capital
Management Ltd.
Jerusalem Global Ventures
Jerusalem Venture Partners
Kaptech Holdings Ltd.
Koor Corporate VC
Magnum Communications Fund
Marathon Venture Capital Fund Ltd.
Millenium Materials Fund Management
Mofet Venture Capital Fund
Management (1992) Ltd.
Neurone Venture Capital Fund
Orbotech
Pamot Asset management Ltd.
Peregrine Ventures
Pitango Venture Capital
(previously Polaris)
Platinum Venture Capital
Portview Communications Partners
Proseed Venture Capital Fund

Sadot R&D Fund Ltd.
Seed Management Associates, Ltd.
Sequoia Capital Seed Fund
Shalom Equity Fund
Shrem, Fudim, Kelner & Co. Ltd.
Spring Technologies
Stageone Venuters
Steps Venuters
STI Ventures
SVM Star Ventures Capital
Management Ltd.
Tamar Technology Ventures
Tamir Fishman Ventures(II)
Technoplus Ventures
Technorov Holding (1993) Ltd.
Telesoft Partners
Teuza - A Fairchild Technology
Venture Ltd.
The Challenge Fund - Etgar L.P.
Vectory Investment Company Ltd.
Veritas Venture Capital Management Ltd.
Vertex Management (III) Ltd.
Walden Israel Ltd.
Yozma Management & Investments Ltd.

ABOUT THE ISRAELI MONEYTREE™

Kesselman & Kesselman PricewaterhouseCoopers conducts the Israeli **MONEYTREE™** 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 and has become the definitive source for Israeli venture investment data.

For more information on PricewaterhouseCoopers **MONEYTREE™** survey, please call Adi Bengal, Israeli **MONEYTREE™** Project Manager, at 972-3-7954619, e-mail: adi.bengal@il.pwcglobal.com or visit our web site: <http://www.pwcmoneytree.com>.

Your worlds



Our people