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MONEYTREE™ Survey

The highest level of investment in high-tech companies over the past four years – $347 million

The average investment grew 84% in comparison to the same quarter of last year

Q3 2004 results
Israel report

The results show that the level of investment in high-tech companies backed by venture capital funds (where at least one of the investors in the financing round is a venture capital fund) was the highest since the fourth quarter of 2000. According to the Survey, at least $347 million was raised by high-tech companies in the third quarter of 2004. This represents a 6% increase over the previous quarter ($326 million) and a whopping 83% over the same quarter last year ($190 million). So far 2004 has registered at least $927 million in capital raised while all of 2003 saw only $768 million raised.

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

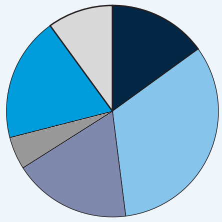
The third quarter of 2004 registered a slight increase in the number of companies that attracted capital as opposed to last quarter with 75 companies' versus 70 companies. The average invesment in each company remained more or less stable with $4.6 million in the current quarter and $4.7 million in the previous quarter. However, the average investment in the third quarter of 2004 grew 84% over the same quarter in 2003 ($2.5 million) with a similar number of companies.

Ms. Sarit Gayle Fried, Senior Associate Israeli MoneyTree

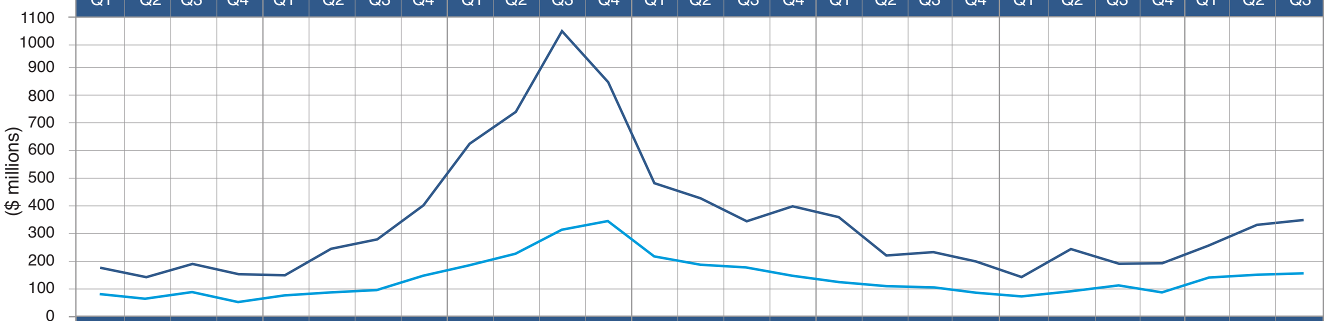
Joseph Fellus, Senior Partner & High Tech Practice Leader at the accounting and consulting firm Kesselman & Kesselman PwC, notes that this quarter shows the highest figures in the past four years and reflects the optimism prevailing in the venture capital market. According to Fellus, this optimism is due to the interest that multi-national companies are showing in the acquisition of technology in general and from Israeli companies in particular. The optimism is also bolstered by the number of follow-on investments in certain funds, the anticipated completion of financing rounds in other funds, and the successful IPOs of companies backed by venture capital funds in international and specifically U.S. markets - despite their higher requirements.

Companies receiving grants from the Chief Scientist (% of total)

53% of all the companies that raised capital in the quarter have received grants from the Chief Scientist. Of these 40 companies, 31 are registered in Israel with the rest registered mainly in the US.



Israeli VCs investment level



	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
Total # of deals	49	67	73	65	68	80	88	112	105	129	166	193	132	133	117	106	76	70	72	86	60	70	76	74	82	70	75
Total Investments	158	123	172	134	130	228	263	389	617	735	1034	845	471	415	330	384	344	217	221	200	143	243	190	192	255	326	347
Israeli VCs	72	62	77	51	67	90	99	140	176	226	308	343	208	184	167	144	122	112	106	88	66	85	109	88	137	147	152
Israeli VCs (%)	46%	51%	45%	38%	52%	39%	38%	37%	29%	31%	30%	41%	44%	44%	51%	38%	35%	52%	48%	44%	46%	35%	57%	46%	54%	45%	44%

In the third quarter of 2004 the relative weight of the local venture capital funds remained near the average with $152 million invested for a 44% share of the quarter's total investments, in absolute terms, as compared to $147 million, representing 45% of the total investments in previous quarter.

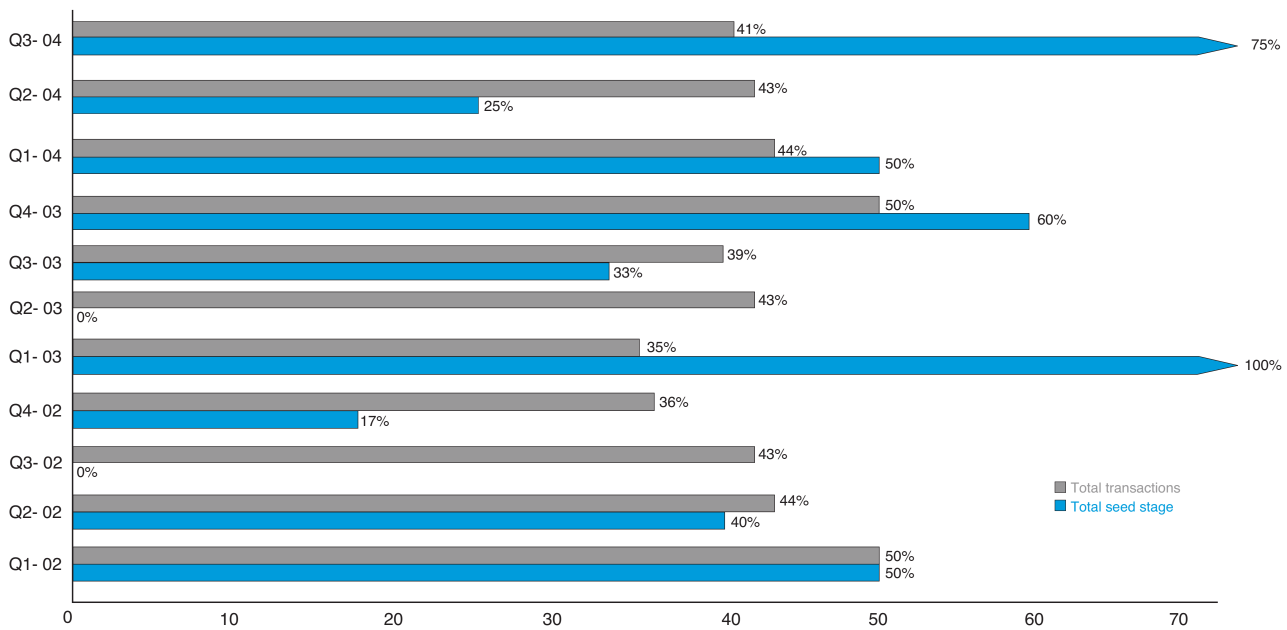
In addition to the investments in companies with Israeli operations, local venture capital funds invested in 16 companies that have no operations in Israel. This accounted for 21% of the total number of companies, as compared to 23% in the previous quarter. $19 million was invested in overseas companies, representing nearly 6% of the total venture capital invested, as compared to $32 million infused into overseas companies in the preceding quarter, constituting approximately 9% of total investments in monetary terms.

Analysis by place of registration

The findings of the Money Tree™ Survey show that of the 75 companies that raised capital this quarter, 44 are registered in Israel (59%), with the rest registered elsewhere, mainly in the US. In monetary terms, both the Israeli and US registered companies comprised approximately 49% of the quarter's total investments. The average investment in a US registered company was 54% more than in an Israeli registered company, with $6 million and $3.9 million respectively.

Analysis of seed stage investments shows that 3 out of the 4 companies that closed seed financing in the quarter are registered in the US.

Percentage of companies registered as foreign
(vast majority in the U.S.)



Analysis by geographical area

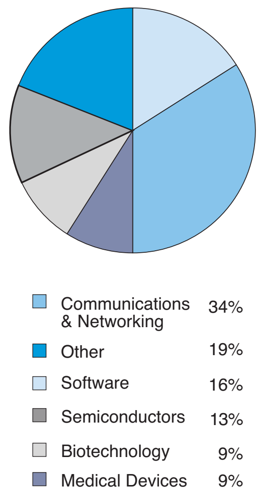
In the third quarter, $294 million was invested in 57 companies based in Tel Aviv and the central area, 76% of the number of investments and 85% in absolute monetary terms. 13 companies in the North (including Haifa) raised $34 million, and 4 companies in Jerusalem raised nearly $19 million. There were no investments in the south during the quarter.

Venture capital investments by industry

Despite the decline in both the number of transactions and in the volume of investments, the ***Communications & Networking*** field continued to lead the investments. In the quarter 21 companies raised $118 million, 34% of the total amount invested, as compared to $140 million injected into 24 companies last quarter, 43% of the total amount invested in Q2. The average investment in a Communications & Networking company remained almost unchanged, with $ 5.6 million in Q3, as compared to $ 5.8 million in the preceding quarter.

The ***Life Sciences*** sector moved up to second place with 18% of the quarter's total monetary investments with $63 million, as compared to last quarter's $44 million. Both the ***Biotechnology and Medical Devices*** fields each had 9% of the quarter's total investments, $32 million and $31 million respectively; however, 16 medical device companies received funding while only 6 biotechnology companies did. Of the 6 investments in biotechnology, 2 investments were for $10 million or more while none of the investments in medical devices were over $5 million.

VC Investments by Industry
Q3-2004 (% of total)



Over the past quarter the ***Software*** sector registered a 41% decrease in the volume of investments in monetary terms from $94 million to $55 million. 11 software companies raised $55 million this quarter as opposed to 18 software companies raising $94 million in the previous quarter. However, as compared to last quarter, the average investment in a software firm remained stable at $5.2 million.

The quarter saw the largest investment in the ***Semiconductors*** sector since the first quarter of 2002 with $46 million invested in 6 companies, comprising 13% of the total investments in monetary terms. The average investment in a company in the Semiconductors sector was $ 7.7 million, as compared to $ 2.7 million in the previous quarter.

Venture capital investments by round of financing

Seed round

In the quarter, 4 companies attracted seed capital totaling $20 million; however, $16 million was injected into a single company. The average investment in the quarter for seed round was $5 million, although negating the largest investment the average falls to $1.4 million, similar to last quarter's average seed investment.

Early stage rounds

The early stage (the first and second stages together) continues to hold its relative share and attracted 34% of the volume of investments in monetary terms. 24 companies raised $118 million, while 17 companies raised the same amount in the previous quarter. Due to this, the average investment was $4.9 million, as compared to $6.9 million in the second quarter. Negating the 3 largest investments (each $15 million or more, totaling $53 million), the average investment in an early stage company fell to $3 million.

Third round

The third stage saw a dramatic increase in the volume of investments in monetary terms from $46 million in the second quarter to $99 million in the third quarter. In the third quarter 11 companies raised an average of $9 million as compared to the previous quarter's 14 companies raising an average of $3.3 million. The third quarter's three largest investments totaled $63 million, and without these investments the average investment is $4.4 million.

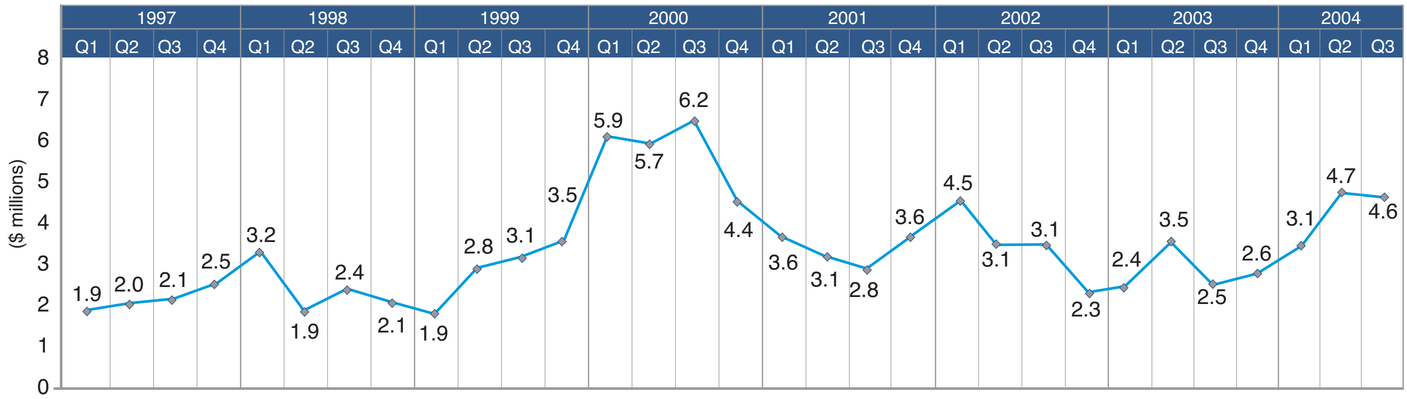
Later stages

Transactions carried out in later stage rounds (fourth to mezzanine) accounted for 25% of the volume of investments in monetary terms with 14 companies raising $85 million. In absolute terms the average investment fell 49% to $6 million; however, last quarter saw 4 investments over $15 million each (totaling $94 million) while this quarter did not have a single later stage investment over $14 million. Negating the four largest investments, the second quarter's average later stage investment was $5.5 million, 9% lower than the third quarter's average investment in a later stage round.

Bridge loans

29% of the quarter's investments were raised by way of bridge loans. 22 companies raised $24 million by way of bridge loans, as compared to 24 companies that raised the same amount in the preceding quarter.

Average deal size



Participating Israeli Venture Capitalists in the MoneyTree Survey Q3-2004 (listed alphabetically)

Ag-Tech Fund
Aig Orion Fund LP
Apax Partners Ventures (Israel) Ltd.
Argoquest, Inc
Ascend Technology Ventures
Atara Technologies Ventures Ltd
Benchmark Israel
Bio-Medical Investments
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.
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
Kaptech Holdings Ltd.
Koor Corporate VC
Magnum Communications fund
Marathon Venture Capital Fund Ltd.
Medica Venture Partners
Millenium Materials Fund Management
Mofet Venture Capital Fund Management (1992) Ltd.
Montefyori Partner
Ofer 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)
Technorov Holding (1993) Ltd.
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 Sarit Gayle Fried, Senior Associate at 972-3-7954764, e-mail: sarit.fried@il.pwc.com Visit our web site: http://www.pwcmoneytree.com

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