

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

**Approximately \$427 million invested in Israel in high-tech companies
backed by venture capital funds in first quarter of 2008**

The highest quarterly investment for seven years

The latest Kesselman and Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that, during the course of the first quarter of 2008, venture capital-backed high-tech companies raised approximately \$427 million in Israel, the highest quarterly investment since the first quarter of 2001. In monetary terms, this is an increase of approximately 93% in comparison with the previous quarter, in which approximately \$221 million was raised, and an increase of approximately 39% in comparison with the corresponding quarter of last year, in which approximately \$307 million was raised.

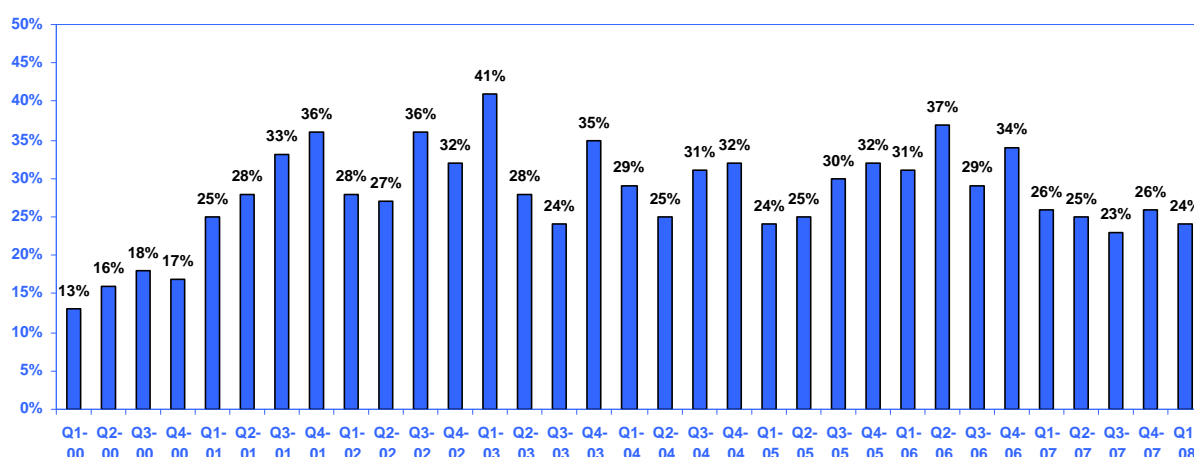
The report also reveals that 92 Israeli high-tech companies raised capital in the first quarter of 2008, as compared to 69 such companies that raised capital in the previous quarter and 81 companies that raised capital in the corresponding quarter of last year. The average investment per company was \$3.2 million this quarter, as compared to \$3.8 million in the previous quarter and \$3.8 million in the corresponding quarter last year.

The data contained in the report point to a move towards investment in companies currently in the intermediate and later stages of their development. 74 such companies raised approximately \$382 million, the highest amount of capital raised in a single quarter since 2000. This amount represents approximately 90% of the total investment for the present quarter. For the overwhelming majority of funds investing in these companies, the investments for this quarter constitute follow-on investments.

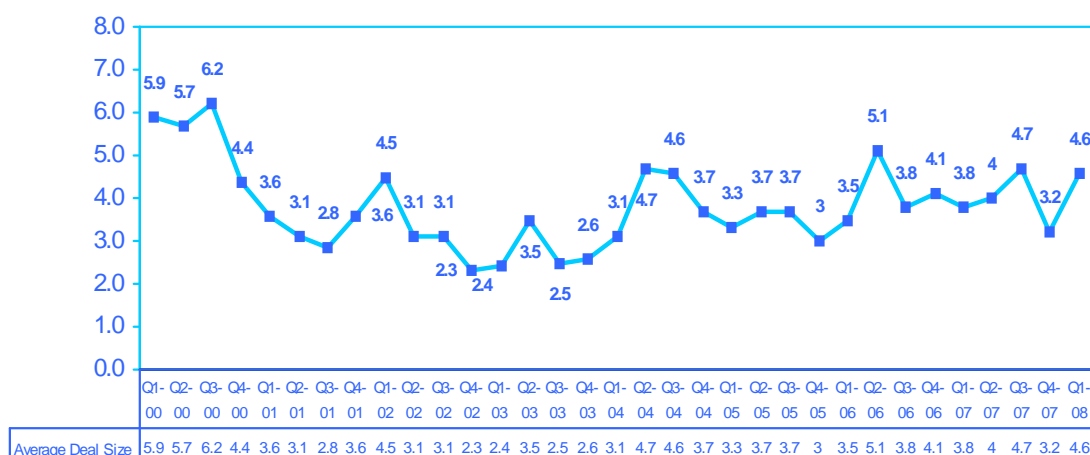
Joseph Fellus, Partner, Advisory & High-Tech Practice Leader at Kesselman and Kesselman PricewaterhouseCoopers, says that, when we take into account the growth in the software sector and the levels at which deals in this sector have been closed in the first quarter of the year, and when we also look at the growth in the communications and internet sectors, which sectors are also reliant upon a strong software infrastructure, it can be seen that the software sector and its offshoots have become the engine driving the Israel high-tech industry forward.

Robi Suliman, Partner, High-Tech Practice at Kesselman and Kesselman PricewaterhouseCoopers adds that, at a time when the raising of capital on the stock exchange is difficult, most of the financing of companies in the later stages of development comes through follow-on investments by funds that have invested in these companies in the past. It may be expected that this trend will continue throughout 2008 and for such time as the crisis in the financial markets continues.

Percentage of Funds that made no Investment



Average Investment per Company (\$ million)



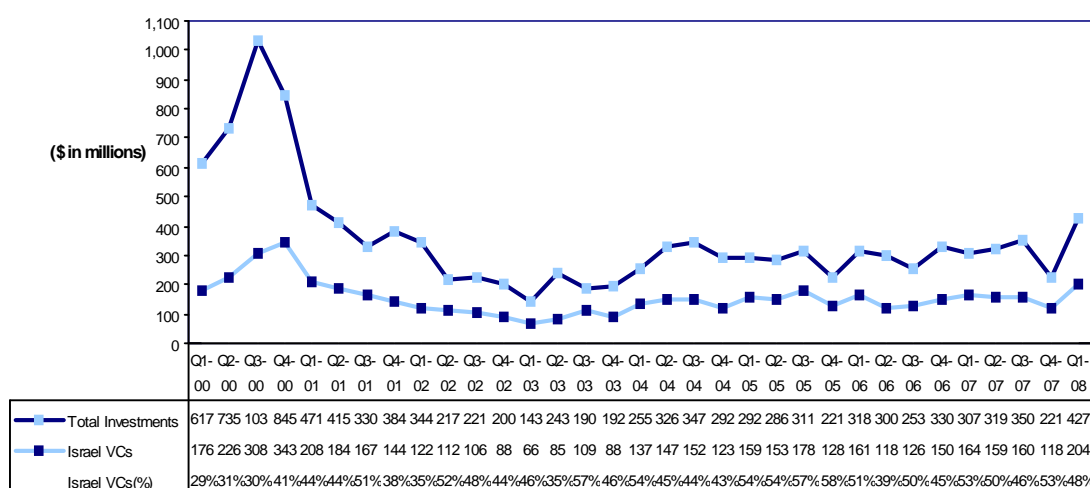
The Israeli Venture Capital Funds' Slice of the High-Tech Cake

The domestic venture capital funds invested approximately \$204 million, this sum representing approximately 48% of total investment for the first quarter of 2008. This

compares with approximately \$118 million in the previous quarter representing 53% of total investment for that quarter, and \$164 million in the corresponding quarter last year also representing 53% 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 \$21 million in 10 overseas high-tech companies that are not engaged in operations in Israel. This compares with approximately \$15 million invested in 10 non-Israeli companies in the previous quarter and with approximately \$16 million invested in 16 non-Israeli companies in the corresponding quarter of last year.

Israel VC's Investment Levels (\$ million)



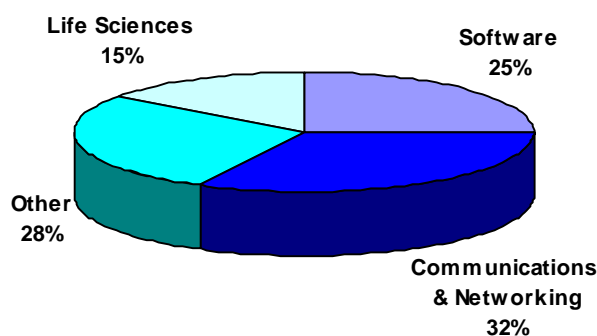
Analysis by Geographic Location of Company Registration

57 companies, representing 62% of the total number of companies raising capital in the first quarter of 2008, are registered in Israel. These companies raised approximately \$208 million, this sum representing approximately 49% of total investment. The remaining companies are registered overseas, primarily in the United States.

Companies Receiving Grants from the Chief Scientist

40 companies, representing 43% of all companies raising capital in the first quarter of 2008, have received grants from the Office of the Chief Scientist in Israel. Approximately \$182 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 **Software** sector takes first place in the first quarter of 2008, with 25 companies raising approximately \$115 million, the highest amount raised by this sector in a single quarter for seven years. This compares with approximately \$47 million invested in 18 companies in the previous quarter and with approximately \$39 million invested in 19 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent to an increase of approximately 145% in comparison with the previous quarter and of approximately 193% in comparison with the corresponding quarter of last year. The average investment per company for the present quarter was \$4.6 million, as compared to \$2.6 million for the previous quarter and \$2.1 million for the corresponding quarter of last year.

The increase in this sector in both the overall and average investment levels for the present quarter is attributable to the fact that most of the companies operating in this sector that raised capital in the present quarter are currently at the intermediate or later stages of their development. These stages of development are marked by a requirement for relatively high levels of investment – 19 companies raising approximately \$92 million.

The **Communications and Networking** sector takes second place with 22 companies raising approximately \$104 million in the present quarter. This compares with 14 companies that raised approximately \$58 million in the previous quarter and with 26 companies that raised approximately \$111 million in the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$4.7 million, as compared to \$4.2 million in the previous quarter and \$4.3 million for the corresponding quarter of last year.

The **Semiconductor** sector shows an increase in the present quarter, with 10 companies raising approximately \$63 million. This compares with 5 companies that raised approximately \$51 million in the previous quarter and with 5 companies that raised approximately \$54 million in the corresponding quarter of last year. In monetary terms, this performance is equivalent to an increase of approximately 24% in comparison with the previous quarter and of approximately 16% in comparison with the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$6.3 million, as compared to \$10.1 million in the previous quarter and \$10.8 million in the corresponding quarter of last year.

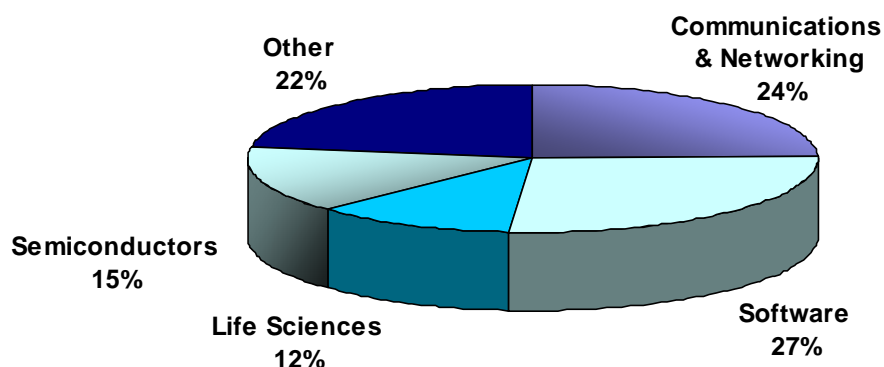
The present quarter saw two large transactions (investment in amounts exceeding \$10 million per company) in this sector in a total amount of approximately \$34 million, this representing 54% of the total investment in the sector.

12 companies operating in the **Life Sciences** sector, which also covers Medical Devices and Biotechnology, raised approximately \$50 million in the present quarter. This compares with 15 companies that raised approximately \$32 million in the previous quarter and 10 companies that raised approximately \$50 million in the corresponding quarter of last year. The average investment per company for the present quarter was \$4.1 million, as compared to \$2.1 million in the previous quarter and \$5 million in the corresponding quarter of last year.

Amongst the companies operating in the **Other** sectors category are companies operating in the internet sector, the clean tech sector and the media sector. This category recorded an increase in total investment levels, with 23 companies raising approximately \$95 million, the highest amount raised in a single quarter by companies classified within this category for seven years. In monetary terms, this performance is equivalent to an increase of approximately 184% in comparison with the previous quarter, in which 17 companies raised approximately \$34 million, and of approximately 79% in comparison with the corresponding quarter of last year, in which 21 companies raised approximately \$53 million.

The present quarter saw two large transactions (investment in amounts exceeding \$10 million per company) in relation to companies classified within this category. These transactions, totaling approximately \$38 million, represented 40% of the total investment in this category.

Total Investment by Sector



Analysis by Investment Round

Early round

In the present quarter, 29 companies raised approximately \$151 million in the early round (the first and the second rounds combined). This compares to 24 companies that raised early round investment funds of approximately \$99 million in the previous quarter and to 32 companies that raised early round investment funds of approximately \$145 million in the corresponding quarter of the previous year. The average early round investment per company for the present quarter was \$5.2 million, as compared to \$4.1 million for the previous quarter and \$4.5 million for the corresponding quarter of last year.

Third round

In the present quarter, 8 companies raised third round investment funds of approximately \$59 million. This compares to 10 companies that raised third round investment funds of approximately \$48 million in the previous quarter and to 8 companies that raised third round investment funds of \$30 million in the corresponding quarter of last year. The average third round investment per company for the present quarter was \$7.4 million, as compared to \$4.8 million for the previous quarter and \$3.7 million for the corresponding quarter of last year.

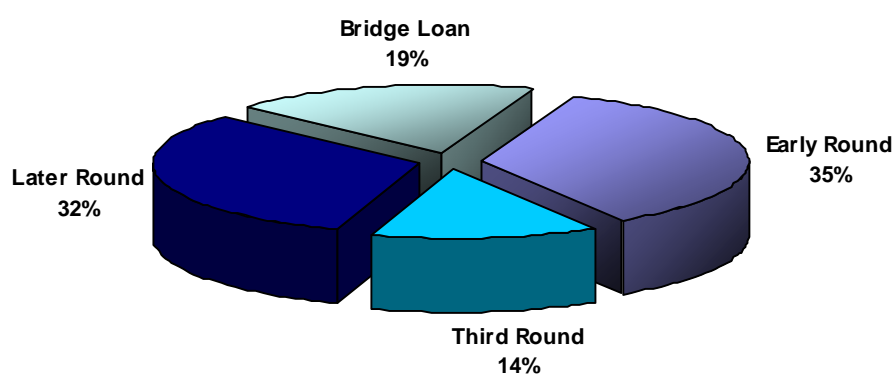
Later round

In the present quarter, transactions executed in the context of later round investment (investment rounds from the fourth round to the mezzanine round inclusive) reflected approximately 32% of total investment, with 23 companies raising approximately \$137 million. This compares to 8 companies that raised later round investment funds of approximately \$24 million in the previous quarter and to 13 companies that raised later round investment funds of \$98 million in the corresponding quarter of last year. The average later round investment for the present quarter was \$5.9 million, as compared to \$3 million for the previous quarter and \$7.5 million for the corresponding quarter of last year.

Bridge loans

In the present quarter, 32 companies raised approximately \$79 million through bridge loans, the highest amount raised through this investment avenue since 2000. This compares to 27 companies that raised bridge loan finance of approximately \$50 million in the previous quarter and to 28 companies that raised bridge loan finance of approximately \$35 million in the corresponding quarter of last year. In the present quarter, the average amount of a company bridge loan was \$2.5 million, as compared to approximately \$1.9 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

18 companies at the start-up stage raised approximately \$44 million during the first quarter of 2008. In monetary terms, this represents an increase of approximately 116% in comparison with the previous quarter, when 10 start-up companies raised just \$20 million. In the corresponding quarter of last year, 20 companies raised approximately \$55 million. In the present quarter, the average investment per company at this stage of development was \$2.4 million, as compared to \$2 million in the previous quarter and \$2.8 million in the corresponding quarter of last year.

Intermediate stage (early/expansion stage)

57 companies at the intermediate stage of development raised approximately \$287 million, the highest amount raised in a single quarter by companies at this stage of development for three years. This compares to 49 such companies that raised approximately \$170 million in the previous quarter and to 55 such companies that raised approximately \$212 million in the corresponding quarter of last year. The first quarter of 2008 saw eight large transactions (investment in amounts exceeding \$10 million per company) in a total amount of approximately \$122 million, this representing 42% of total investment in intermediate stage companies. The average investment in this quarter was \$5 million, as compared to \$3.5 million in the previous quarter and to \$3.9 million in the corresponding quarter of last year.

An internal analysis of transactions involving intermediate stage companies has revealed that the expansion stage has been the most prominent stage of development in the present quarter, with 24 companies raising approximately \$160 million, this representing 56% of total investment in companies at the intermediate stage of development. One half (\$74 million) of the large transactions involving companies at the intermediate stage of development related to expansion stage companies.

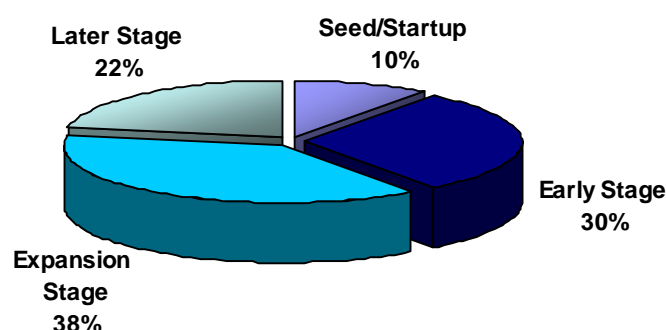
Later stage

In the present quarter, 17 companies at the later stage of development raised approximately \$95 million, the highest amount raised by companies at this stage of development in a single quarter for seven years. This compares to 10 such companies that raised approximately \$30 million in the previous quarter and to 6 such companies that raised approximately \$40 million

in the corresponding quarter of last year. The average investment in this quarter was \$5.6 million, as compared to \$3 million in the previous quarter and to \$6.6 million in the corresponding quarter of last year.

The present quarter saw four large transactions (investment in amounts exceeding \$10 million per company) involving companies at this stage of development in a total amount of approximately \$48 million, this representing 50% of 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 and consulting firm, PricewaterhouseCoopers. This quarter, 50 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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