

**The Kesselman & Kesselman PricewaterhouseCoopers  
MoneyTree™ Report:**

**In the third quarter of 2007, approximately \$350 million invested in Israel  
in high-tech companies backed by venture capital funds**

**Highest quarterly investment for five-and-a-half years**

Tel Aviv, October 21, 2007 – The latest Kesselman & Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that venture capital-backed high-tech companies (companies in which at least one of the investors in a financing round is a venture capital fund) raised approximately \$350 million in Israel during the third quarter of 2007, the highest quarterly investment since the fourth quarter of 2001. In monetary terms, this is an increase of 10% in comparison with the previous quarter in which approximately \$319 million were raised, and an increase of 39% in comparison with the corresponding quarter last year in which approximately \$253 million were raised.

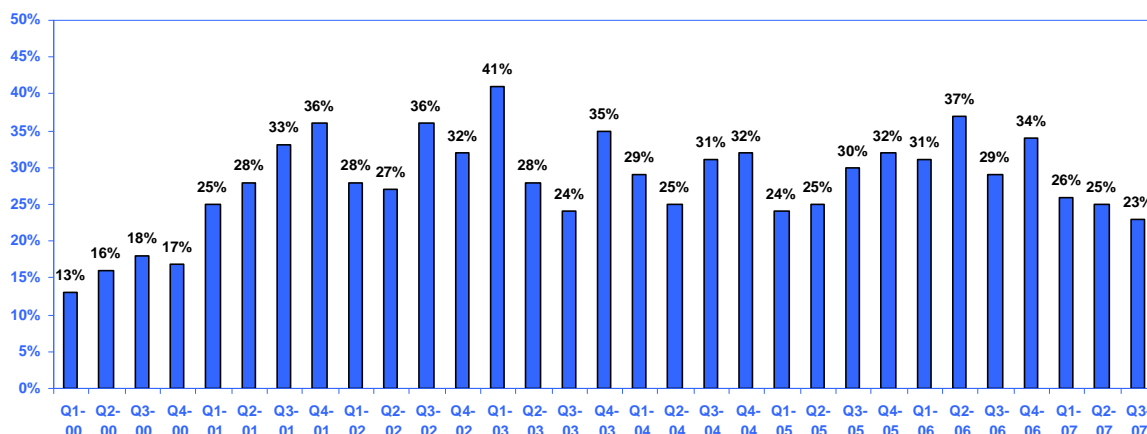
The Report further reveals that 74 Israeli high-tech companies raised capital in the third quarter of 2007, as compared to 80 companies raising capital in the previous quarter and 66 companies raising capital in the corresponding quarter last year. The average investment per company was \$4.7 million this quarter, as compared to \$4 million in the previous quarter and \$3.8 million in the corresponding quarter last year.

The Report also points to a slowdown in investment in start-up companies this quarter, insofar as it would appear that investors have switched to investment in intermediate-stage companies and to companies in advanced stages of development. 61 companies in these stages of development together raised approximately \$314 million, the highest quarterly investment in eleven quarters (i.e., since the third quarter of 2004). This sum represents 90% of total investment for the present quarter. For the overwhelming majority of the funds investing in these companies, this is a follow-on investment in a company in which the fund has previously invested.

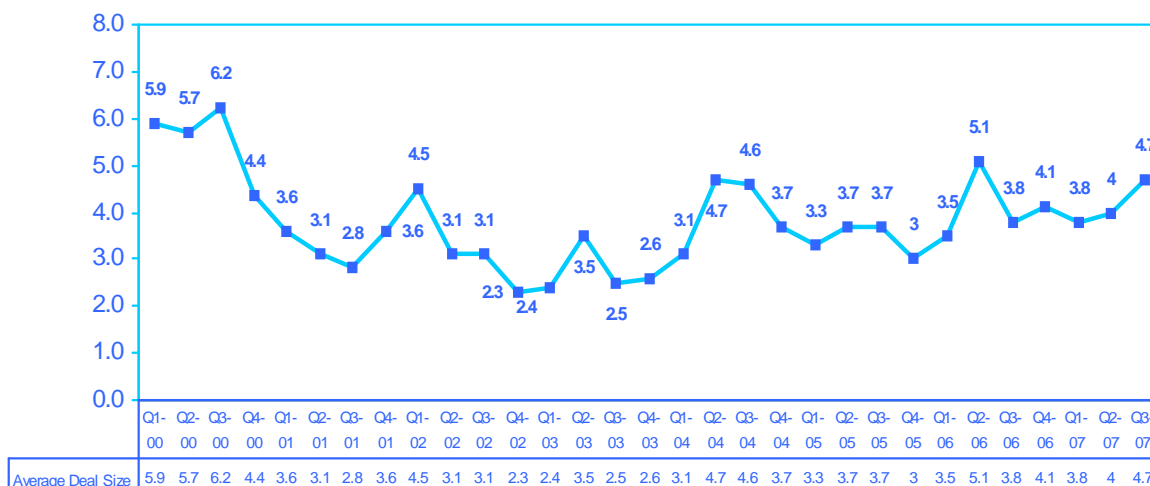
Joseph Fellus, Partner, Advisory & High-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers says that the extent of the investment in Israeli high-tech companies and the slicing of the investment by technological sector, investment round and company development stage attest to the strength of the venture capital market in Israel and to the fact that the money invested by the funds is spread out in the right proportions. These results are compatible with the success of some of the

venture capital funds in raising follow-on funds and the possibility, standing on the horizon, of other funds to take similar steps.

### Percentage of Funds that Made No Investment



### Average Investment per Company (\$ in millions)

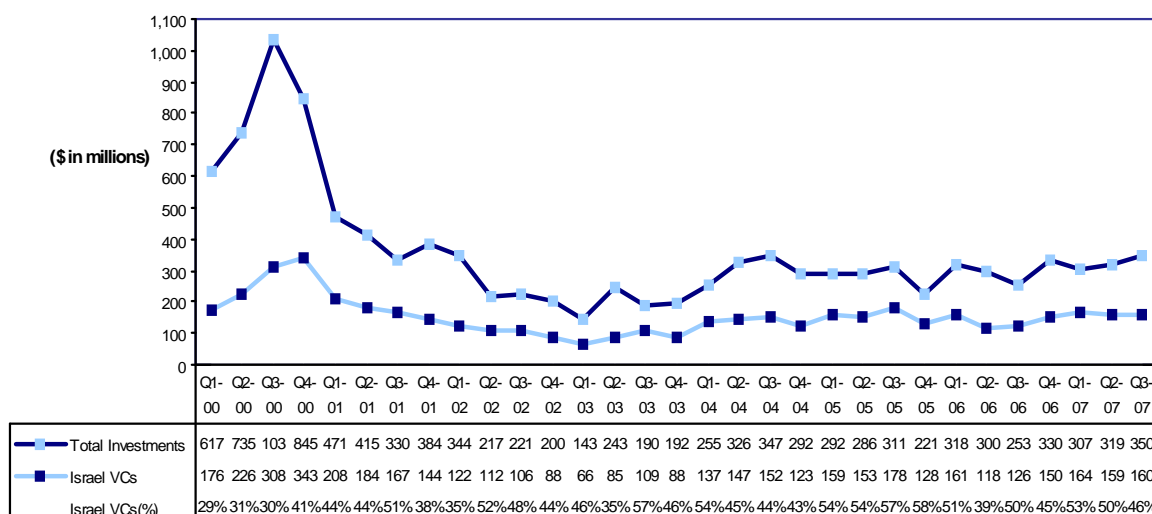


### **The Israeli Venture Capital Funds' Slice of the High-Tech Cake**

In the third quarter of 2007, local venture capital funds invested approximately \$160 million, representing 46% of total investment in the quarter. This compares with approximately \$159 million in the previous quarter representing 50% of total investment for that quarter, and \$126 million in the corresponding quarter last year also representing 50% of total investment for that quarter.

In addition to investment in high-tech companies with operations in Israel, local venture capital funds invested, during the present quarter, approximately \$13 million in 13 overseas high-tech companies that are not engaged in operations in Israel. This compares with approximately \$24 million invested in 17 non-Israeli companies in the previous quarter and \$19 million invested in 10 non-Israeli companies in the corresponding quarter last year.

### Israel VC's Investment Levels (\$ in millions)



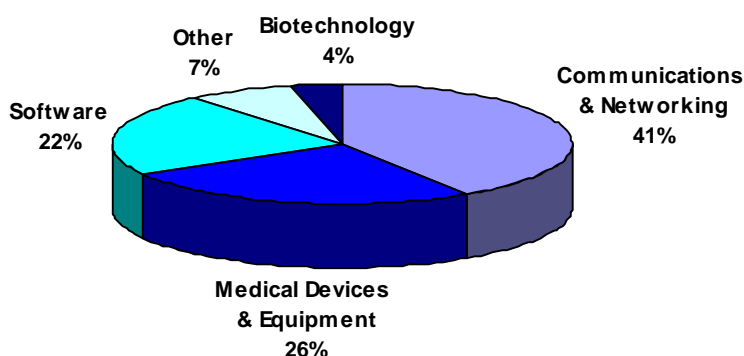
### Analysis by Geographic Location of Company Registration

48 companies, representing 65% of the total number of companies raising capital in the third quarter of 2007, are registered in Israel. These companies raised approximately \$179 million, representing 51% of the total amount invested. The remaining companies are registered overseas, primarily in the United States.

### Companies Receiving Grants from the Chief Scientist

27 companies, which constitute 36% of all companies raising capital in the third quarter of 2007, have received grants from the Israel Chief Scientist. Approximately \$104 million of total investment have 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 third quarter of 2007, with 20 companies raising approximately \$83 million, the highest quarterly sum raised by this sector in three quarters. This compares with approximately \$73 million invested in 20 companies in the previous quarter and approximately \$88 million invested in 19 companies in the corresponding quarter last year. In monetary terms, the above represents an increase of 14% in comparison with the previous quarter and a decrease of 6% in comparison with the corresponding quarter last year. In the present quarter, the average investment per company was \$4.1 million, as compared to \$3.6 million in the previous quarter and \$4.6 million in the corresponding quarter last year.

The increase in both total investment and average investment in this sector for the present quarter can be attributed to the fact that most of the companies that raised funds during the present quarter are currently at the intermediate or later stages of their development. These stages are marked by the need for a relatively large amount of investment, with 18 companies together raising approximately \$70 million.

The **Life Sciences** sector, which includes the fields of Medical Devices and Biotechnology, strengthened during the present quarter, with 14 companies raising approximately \$72 million, the highest quarterly sum raised by this sector in two-and-a-half years. This represents, in monetary terms, an increase of 44% in comparison with the previous quarter, in which 12 companies raised approximately \$50 million, and an increase of 13% in comparison with the corresponding quarter last year, in which 13 companies raised approximately \$64 million. The average investment per company was \$5.2 million in the present quarter,

as compared to \$4.1 million in the previous quarter and \$4.9 million in the corresponding quarter last year.

This sector saw, in the present quarter, three large transactions (investment in excess of \$10 million per company) in a total amount of approximately \$45 million, representing 62% of total investment in this sector. Excluding the three large transactions, the average investment per company for the quarter was \$2.5 million.

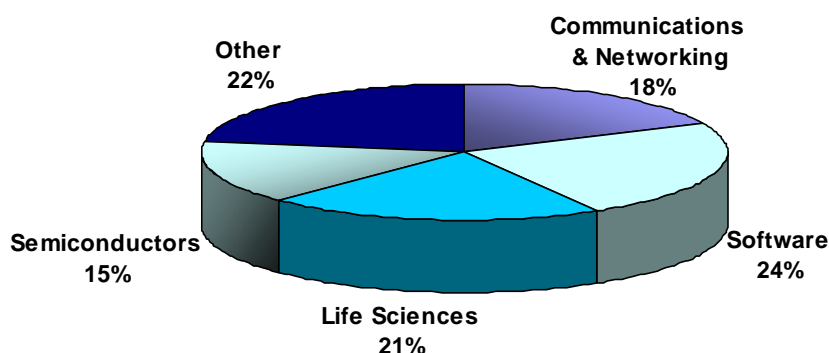
The **Communications & Networking** sector weakened, with 18 companies raising \$63 million in the present quarter. This compares with 26 companies that raised approximately \$133 million in the previous quarter and 19 companies that raised approximately \$55 million in the corresponding quarter last year. The average investment per company in this sector was \$3.5 million in the present quarter, as compared to \$5.1 million in the previous quarter and \$2.9 million in the corresponding quarter last year.

The **Semiconductors** sector shows an increase in investment in the current quarter, with 6 companies raising approximately \$53 million. This compares with 3 companies that raised approximately \$27 million in the previous quarter and 3 companies that raised approximately \$25 million in the corresponding quarter last year. The average investment per company in this sector was \$8.8 million in the present quarter, as compared to \$9 million in the previous quarter and \$8.3 million in the corresponding quarter last year.

Amongst the **Other** sectors category are companies operating in the internet sector, the media sector and the clean tech sector. This category as a whole recorded an increase in investment, with 16 companies raising approximately \$79 million, the highest quarterly amount for this category in six-and-a-half years. In monetary terms, this represents an increase of 114% in comparison with the previous quarter in which 19 companies raised approximately \$37 million, and an increase of 285% in comparison with the corresponding quarter last year in which 12 companies raised approximately \$20 million.

The increase in total investment in this category may be attributed to the fact that the quarter saw two large transactions (investment in amounts exceeding \$10 million per company) in a total amount of approximately \$40 million (approximately \$30 million being invested in an internet company), this representing 51% of total investment in this category.

**Total Investment by Sector**



**Analysis by Investment Round**

**Early Round**

In the present quarter, 33 companies raised approximately \$164 million in the early round (the first and the second rounds combined), the highest quarterly sum raised in this round in five quarters. This compares with 26 companies that raised approximately \$128 million in this round in the previous quarter, and with 21 companies that raised approximately \$84 million in the corresponding quarter last year. The average investment per company in this round was \$5 million in the present quarter, as compared to \$4.9 million in the previous quarter and \$4 million in the corresponding quarter last year.

**Third Round**

In the present quarter, 7 companies raised approximately \$66 million in the third round. This compares with 6 companies that raised approximately \$40 million in this round in the previous quarter, and with 7 companies that raised approximately \$57 million in this round in the corresponding quarter last year. The average investment per company in this round was \$9.4 million in the present quarter, as compared to \$6.6 million in the previous quarter and \$8.1 million in the corresponding quarter last year.

**Later Round**

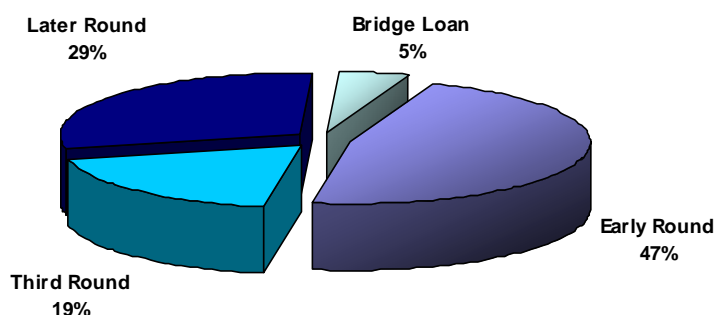
Transactions executed in later rounds (fourth round to mezzanine) represented 29% of total investment in the current quarter, with 19 companies attracting approximately \$103 million. This compares with 19 companies that raised approximately \$115 million in the previous quarter and with 16 companies that raised approximately \$83 million in the corresponding quarter last year. In the present quarter, the

average investment in this round was \$5.4 million, as compared to \$6 million in the previous quarter and \$5.2 million in the corresponding quarter last year.

### Bridge Loans

In the present quarter, 15 companies raised approximately \$16 million through bridge loans, the amount thus raised being the lowest quarterly amount raised in this manner during the course of the last four years. This compares with 29 companies that raised approximately \$36 million in this manner in the previous quarter, and with 22 companies that raised approximately \$28 million in this manner in the corresponding quarter last year. The average bridge loan per company was \$1.1 million in the present quarter, as compared to approximately \$1.2 million in the previous quarter and approximately \$1.3 million in the corresponding quarter last year.

### Total Investment by Investment Round



### Analysis by Company Development Stage

#### Seed/Start-Up Stage

13 companies at the start-up stage raised approximately \$36 million during the third quarter of 2007, the lowest quarterly amount raised by companies at this stage in a year. In monetary terms, the total amount of funds raised in this quarter represents a decrease of 38% in comparison with the funds raised in the previous quarter, in which 15 companies at this stage raised approximately \$58 million. In the corresponding quarter last year, 12 companies raised approximately \$36 million. The average investment per company at this stage was \$2.8 million in the present quarter, as compared to \$3.9 million in the previous quarter and \$3 million in the corresponding period last year.

### **Intermediate Stage (Early/Expansion Stage)**

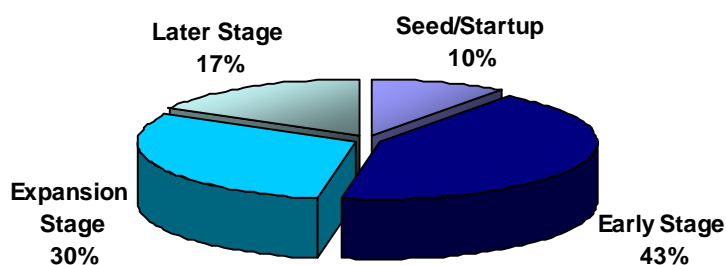
During the course of the current quarter, 54 companies at the intermediate stage raised approximately \$254 million, the highest quarterly amount raised by companies at this stage in three years. This compares with 58 companies that raised approximately \$210 million in the previous quarter and with 44 companies that raised approximately \$142 million in the corresponding quarter last year. The third quarter of 2007 saw ten large transactions (investment in amounts exceeding \$10 million per company) in a total amount of approximately \$141 million, this comprising 55% of the total investment in companies at the intermediate stage. The average investment in this quarter was \$4.7 million, as compared to \$3.6 million in the previous quarter and \$3.2 million in the corresponding quarter last year.

An internal analysis of the intermediate stage reveals that, in the present quarter, the early stage has been the leading stage, with 33 companies raising approximately \$149 million, representing 58% of total intermediate stage investment. Six of the ten large transactions involving companies at the intermediate stage were executed by companies at the early stage.

### **Later Stage**

7 later-stage companies raised approximately \$59 million during the present quarter. This compares with 7 companies that raised approximately \$50 million in the previous quarter and with 10 companies that raised approximately \$74 million in the corresponding quarter last year. The average investment in this quarter was \$8.5 million, as compared to \$7.2 million in the previous quarter and \$7.4 million in the corresponding quarter last year.

### **Total Investment by Company Development Stage**





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**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 (PricewaterhouseCoopers). This quarter, 53 venture capital firms participated in 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, high-tech companies, government departments, the Office of the Chief Scientist and others.

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