

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

**Despite the crisis in the financial markets, an increase in the rate of
investment in high-tech companies**

**Approximately \$393 million in Israel in high-tech companies backed by
venture capital funds in third quarter of 2008**

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report shows that, during the course of the third quarter of 2008, venture capital-backed high-tech companies raised approximately \$393 million in Israel, an increase of approximately 35% in comparison with the previous quarter, in which approximately \$291 million was raised, and an increase of approximately 12% in comparison with the corresponding quarter of last year, in which approximately \$350 million was raised.

The report also reveals that 78 Israeli high-tech companies raised capital in the third quarter of 2008, as compared to 69 companies that raised capital in the previous quarter and 74 companies that raised capital in the corresponding quarter of last year. The average investment per company in the present quarter was \$5 million, as compared to \$4.2 million in the previous quarter and \$4.7 million in the corresponding quarter of last year.

The report reveals an increase in the number of large transactions (investment in excess of \$10 million per company) implemented during the quarter under review. During the course of the quarter, there were ten large transactions totaling approximately \$217 million (55% of total investment for the quarter), as compared to ten large transactions totaling approximately \$144 million in the previous quarter (50% of total investment for that quarter) and to thirteen large transactions totaling approximately \$183 million in the corresponding quarter of last year (52% of total investment for that quarter).

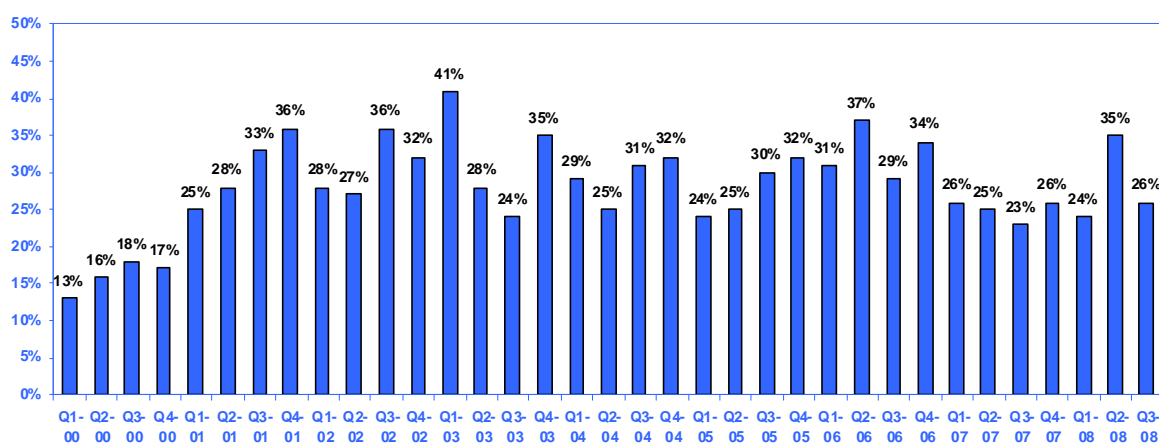
Joseph Fellus, Partner and Advisory & High-Tech Practice Leader at Kesselman and Kesselman PricewaterhouseCoopers Israel, “we are talking about a quarter in which the level of investment was high, this investment being marked by a number of especially large transactions – two transactions together exceeding \$40 million and four transactions together exceeding \$20 million. In our view, this level of investment cannot be sustained in the coming quarters and we accordingly expect to see a decline in the level of investment in the

foreseeable future.” Fellus added that “the absence of availability of capital in the financial markets and the difficulties faced by the funds and the portfolio companies in their efforts to raise capital together lead to a situation in which, instinctively, the funds invest in, and protect, their existing portfolios.”

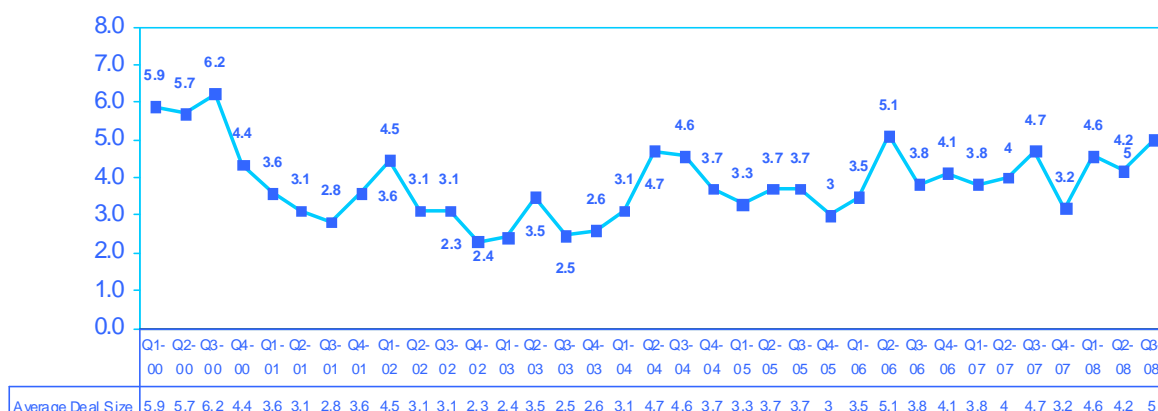
Robi Suliman, High-Tech Practice Partner at Kesselman and Kesselman PricewaterhouseCoopers Israel noted that “the high level of investment in the third quarter of 2008 is consistent with the solidity of the simultaneous \$7 billion venture capital investment in the United States. Nevertheless, when comparing the mix of investments in Israel during the present quarter with the venture capital investment in the United States for the same quarter, one can see that each country’s approach to investment in companies operating in the

cleantech sector is quite different, insofar as, in the United States, a total of \$1.2 billion was invested in the cleantech sector, whereas, in Israel, despite the existing appetite amongst venture capital funds for investment in the growing clean-tech sector, investment in the sector, both in the present quarter and in the previous quarter, was minimal. There is no doubt that this situation will change and that the cleantech sector will become one of the leading sectors for venture capital investment.”

Percentage of funds making no investment



Average investment per company (in millions of dollars)

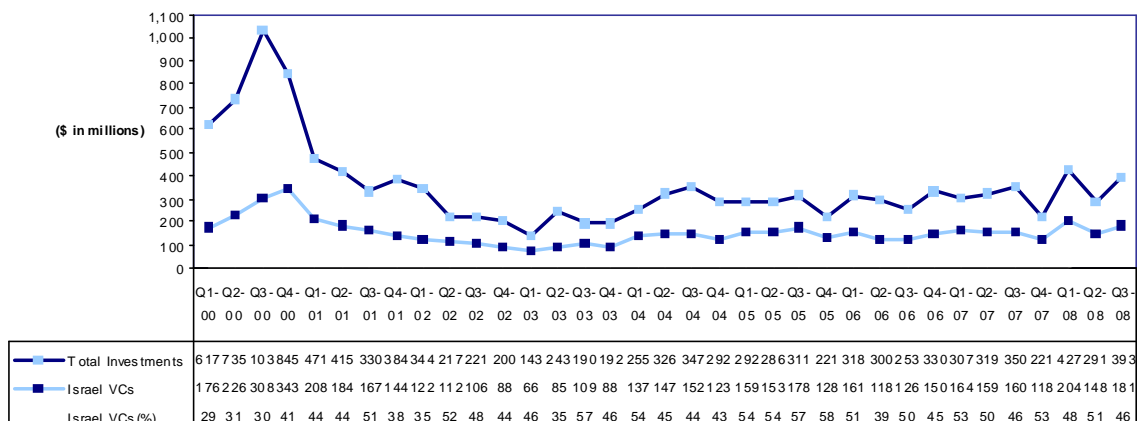


Slice of Israel Venture Capital Funds in high-tech cake

The domestic venture capital funds invested approximately \$181 million, this sum representing approximately 46% of total investment for the third quarter of 2008. This investment for the present quarter compares with similar investment of approximately \$148 million for the previous quarter (approximately 51% of total investment for that quarter) and of approximately \$160 million for the corresponding quarter of last year (approximately 46% 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 \$35 million in 16 overseas high-tech companies that are not engaged in operations in Israel. This compares with approximately \$8 million invested in 5 non-Israeli companies in the previous quarter and with approximately \$13 million invested in 10 non-Israeli companies in the corresponding quarter of last year.

Israel VC's Investment Levels (\$ million)



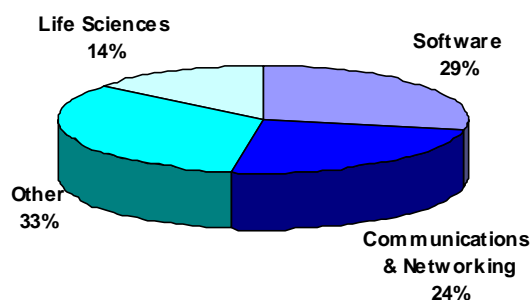
Analysis by Geographic Location of Company Registration

57 companies, representing 73% of the total number of companies raising capital in the third quarter of 2008, are registered in Israel. These companies raised approximately \$265 million, this sum representing approximately 67% of total investment. The remaining companies are registered overseas, primarily in the United States.

Companies Receiving Grants from the Chief Scientist

21 companies, representing 27% of all companies raising capital in the third quarter of 2008, have received grants from the Office of the Chief Scientist. Approximately \$133 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 took first place in the third quarter of 2008, with 28 companies raising approximately \$123 million, this representing 31% of total investment for the quarter. This situation compares with approximately \$59 million invested in 17 companies in the previous quarter and with approximately \$83 million invested in 20 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent to a sharp increase of approximately 107% in comparison with the previous quarter and an increase of approximately 48% in comparison with the corresponding quarter of last year. In the present quarter, the average investment per company was \$4.4 million, as compared to \$3.5 million in the previous quarter and \$4.1 million in the corresponding quarter of last year.

In the **Communications and Networking** sector, 16 companies raised approximately \$99 million in the third quarter of 2008. This situation compares with 22 companies that raised approximately \$140 million in the previous quarter and with 18 companies that raised approximately \$63 million in the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$6.2 million, as compared to \$6.4 million in the previous quarter and \$3.5 million in the corresponding quarter of last year. The present quarter saw three large transactions in this sector in a total amount of approximately \$74 million, this representing 74% of total investment in this sector.

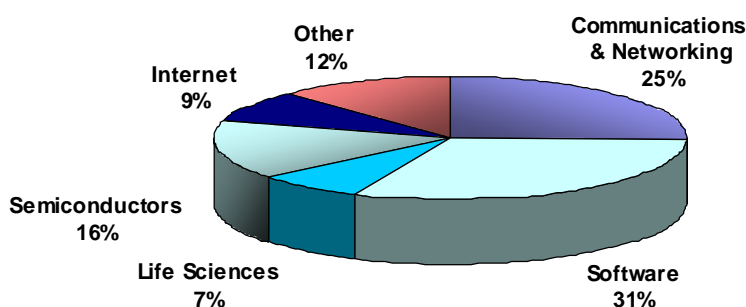
In the **Semiconductor** sector, 7 companies raised approximately \$62 million in the present quarter. This situation compares with 5 companies that raised approximately \$30 million in the previous quarter and with 6 companies that raised approximately \$53 million in the corresponding quarter of last year. The average investment per company in this sector for the present quarter was \$8.9 million, as compared to \$6 million in the previous quarter and \$8.8 million in the corresponding quarter of last year. The present quarter saw three large transactions in this sector in a total amount of approximately \$52 million, this representing 83% of total investment in this sector.

The **Life Sciences** sector, which also covers Medical Devices and Biotechnology, displayed an increase in investment in comparison with that of the previous quarter, with 11 companies raising approximately \$28 million. This situation may be compared with 9 companies that raised approximately \$16 million in the previous quarter and with 14 companies that raised approximately \$72 million in the corresponding quarter of last year. The average investment per company for the present quarter was \$2.6 million, as compared to \$1.8 million for the previous quarter and \$5.2 million for the corresponding quarter of last year.

Amongst the companies operating in the **Miscellaneous** sectors category are companies operating in the internet sector, the cleantech sector and the media sector. 16 companies in this category raised approximately \$80 million in the present quarter, this representing approximately 20% of total investment for the quarter. This situation may be compared with the 16 companies that raised approximately \$50 million in the previous quarter and with the 16 companies that raised approximately \$79 million in the corresponding quarter of last year.

With 5 companies raising approximately \$34 million, the **internet** sector attracted about 42 % of the total investment in this category for the present quarter and approximately 9% of the total overall investment for the quarter.

Total Investment by Sector



Analysis by Investment Round

Early round

In the present quarter, 30 companies raised approximately \$179 million in the early round (the first and the second rounds combined). This compares to 23 companies that raised early round investment funds of approximately \$137 million in the previous quarter and to 33 companies that raised early round investment funds of approximately \$164 million in the corresponding quarter of last year. The average early round investment per company for the present quarter was \$6 million, as compared to a similar sum for the previous quarter and \$5 million for the corresponding quarter of last year.

Third round

In the present quarter, 9 companies raised third round investment funds of approximately \$77 million. This compares to 3 companies that raised third round investment funds of approximately \$42 million in the previous quarter and to 7 companies that raised third round investment funds of approximately \$66 million in the corresponding quarter of last year. The average third round investment per company for the present quarter was \$8.6 million, as compared to \$13.8 million for the previous quarter and \$9.4 million for the corresponding quarter of last year.

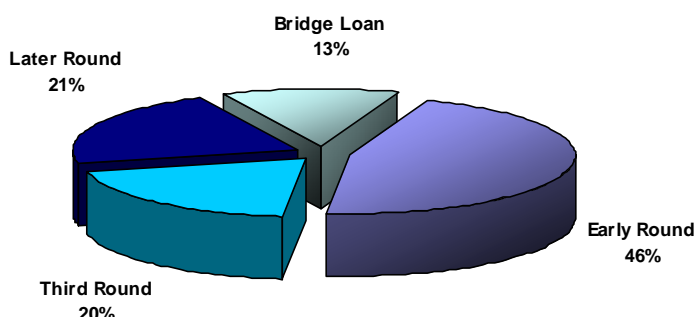
Later round

In the present quarter, 6 companies raised approximately \$82 million in the context of later round investment (investment rounds from the fourth round to the mezzanine round inclusive). This compares to 13 companies that raised later round investment funds of approximately \$57 million in the previous quarter and to 19 companies that raised later round investment funds of approximately \$103 million in the corresponding quarter of last year. The average later round investment for the present quarter was \$13.7 million, as compared to \$4.3 million for the previous quarter and \$5.4 million for the corresponding quarter of last year.

Bridge loans

In the present quarter, 30 companies raised approximately \$50 million through the medium of bridge loans. This compares to 30 companies that raised bridge loan finance of approximately \$55 million in the previous quarter and to 15 companies that raised bridge loan finance of approximately \$16 million in the corresponding quarter of last year. In the present quarter, the average amount of a company bridge loan was \$1.7 million, as compared to approximately \$1.8 million in the previous quarter and to approximately \$1.1 million in the corresponding quarter of 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 \$17 million during the third quarter of 2008, this representing just 4% of total investment for the quarter. This may be compared to situations in which 8 companies raised approximately \$12 million in the previous quarter and 13 companies raised approximately \$36 million in the corresponding quarter of last year. In the present quarter, the average investment per company at this stage of development was \$1.3 million, as compared to \$1.5 million in the previous quarter and \$2.8 million in the corresponding quarter of last year.

Intermediate stage (early/expansion stage)

In the present quarter, 58 companies at the intermediate stage of development raised approximately \$338 million. This compares to 51 such companies that raised approximately \$228 million in the previous quarter and to 54 such companies that raised approximately \$254 million in the corresponding quarter of last year. The third quarter of 2008 saw nine large transactions in a total amount of approximately \$196 million, this representing 58% of the total investment in intermediate stage companies. In the present quarter, the average investment per company at this stage of development was \$5.8 million, as compared to \$4.5 million in the previous quarter and to \$4.6 million in the corresponding quarter of last year.

An internal analysis of transactions involving intermediate stage companies has revealed that 39 companies at the early stage of development raised approximately \$195 million during the

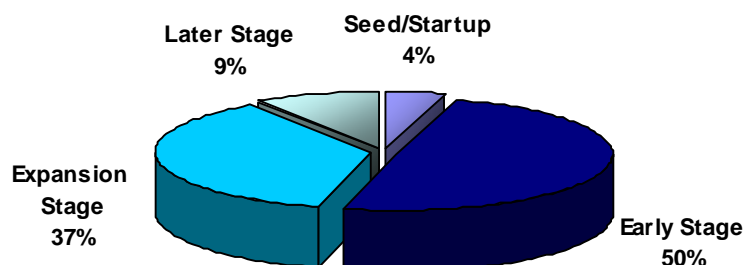
course of the present quarter, and that 19 companies at the expansion stage of development raised approximately \$143 million.

Later stage

In the present quarter, 7 companies at the later stage of development raised approximately \$37 million. This compares to 10 such companies that raised approximately \$51 million in the previous quarter and to 7 such companies that raised approximately \$60 million in the corresponding quarter of last year. The average investment in this quarter was \$5.3 million, as compared to \$5.1 million in the previous quarter and to \$8.5 million in the corresponding quarter of last year.

The present quarter saw one large transaction involving companies at this stage of development. This transaction, in an amount of approximately \$21 million, represented 56% of the 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 firm, PricewaterhouseCoopers. This quarter, 43 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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