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ADVOCATES & NOTARIES עורכי דין ונוטריונים
SHIBOLETH YISRAELI ROBERTS ZISMAN & Co.
AND MOSHE H. NE'EMAN, BEN ARTZI & Co.

Dear Clients and Friends,

Re: **Survey On Legal Terms of Venture Capital Transactions – Fourth Quarter of 2006/First Quarter of 2007**

We are pleased to present the results of our survey for the fourth quarter of 2006/first quarter of 2007, analyzing the legal terms commonly used in venture capital financings in Israeli and "Israeli related" hi-tech companies and comparing these terms to those commonly used in the Silicon Valley, United States.

This survey relates to a six–month period, rolling one quarter forward in comparison to our previous survey, and provides an analysis of the legal terms of venture capital transactions closed during the fourth quarter of 2006 and the first quarter of 2007, as compared to the results covered by our earlier surveys .

In preparing our survey for the fourth quarter of 2006/first quarter of 2007, we examined the terms of 49 venture capital investment transactions of Israeli and "Israeli-related" hi-tech companies, each for an investment amount in excess of US $500,000. The survey relates only to equity transactions in which venture capital funds participated, and not bridge loan transactions or investments made solely by "angels".

The number of surveyed Israeli transactions constitutes approximately 50% of the relevant transactions that closed during the covered period and that met our qualifying criteria, and includes a majority of the more significant transactions in terms of funds invested.

As always, this survey was produced in coordination with Fenwick & West LLP., a leading Silicon Valley law firm. Our cooperation with Fenwick & West in producing this survey has enabled us also to present to you the results of their corresponding survey covering Silicon Valley venture capital investment transactions during the covered period, and, thus, to draw an interesting comparison between the terms commonly used in Israel and those commonly used in the Silicon Valley.

Conclusions:

The results of this survey indicated a sharp increase in the number of "Up-rounds"; for the first time since we began conducting this survey the "Up-rounds" constituted more than three quarters out of all the surveyed investment rounds reaching 79% of the number of the investment rounds surveyed!

The results of the Silicon Valley survey for the same period as presented in the Israeli survey also indicated an additional increase in the number of "Up-rounds" which constituted 73% of the number of Silicon Valley surveyed transactions. The results of the Silicon Valley survey with respect only to the first quarter of 2007 showed the highest ratio of the number of "Up-rounds" compared to the number of "Down-rounds" since the beginning of publication of the Silicon Valley survey results (79% "Up-rounds" compared to 9% "Down-rounds").

NEW YORK AFFILIATE: Empire State Building, 350 Fifth Avenue, 60th Floor, New York, N.Y. 10118, Phone: (212)244-4111, Fax: (212)563-7108

ISRAELI-CHINESE LEGAL DESK: Bank of China Tower, 200 Yincheng Road Central, Pudong, Shanghai 200120, Phone: 86-21-5037-2668 (ext. 217)
Fax: 86-21-5037-2178, Mobile: 86-136-0163-2314, E-mail: michelletzhori@zhonglun.com (in cooperation with the Zhong Lun Law Firm)

Another expression of the optimistic atmosphere in the Israeli VC industry is reflected in the continuing decrease in the usage of the "Senior Liquidation Preference" right by VC funds; compared to rates of 72%-82% to which we have "grown accustomed" since we began our survey of VC transactions, the rate of usage of the "Senior Liquidation Preference" right according to the results of this survey is a mere 60%! It is worth noting that the results of the Silicon Valley survey indicated the lowest levels regarding the usage of this "Senior Liquidation Preference" right since first publication of the Silicon Valley survey results.

However, the Israeli VC investors continue to make a vast usage of the "Participation" right while on the contrary the Silicon Valley survey results for the first quarter of 2007 indicated that there was a decrease in the usage of the "Participation" right by the Silicon Valley VC industry to the lowest levels since the survey began being published. On this point is seems that the Israeli VC industry has not made the transition witnessed in changes being made to other investment terms. It is interesting to see whether these changes will be manifested in the upcoming surveys.

We hope that you find this survey useful and interesting. **To be placed on an email list for future editions of this survey, please go to www.shibolet.com.**

To receive a copy of the Fenwick & West Venture Capital Survey summarizing venture capital terms in the Silicon Valley, please go to www.fenwick.com/vctrends.htm.

For additional information about this report, please contact Mr. Lior Aviram at L.Aviram@shibolet.com or Ms. Limor Peled at L.Peled@shibolet.com, Tel: +972 (3) 7778333.

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FENWICK & WEST LLP

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in cooperation with
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Trends in Legal Terms in Venture Financings in Israel (Fourth Quarter of 2007 & First Quarter of 2006)

- **Background** – We have analyzed the terms of venture financings for 49 Israeli and Israeli-related technology companies that reported raising money in the fourth quarter of 2006 and in the first quarter of 2007. Our survey does not include financing rounds of less than US $500,000. The tables below also show, for purposes of comparison, the results of our previously released surveys.

- **Financing Round** – The financings closed in the fourth quarter of 2006/first quarter of 2007 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
A	29%	35%	21%	34%	28%	35%	20%	22%
B	33%	27%	28%	27%	22%	21%	36%	30%
C	18%	24%	19%	12%	26%	25%	26%	22%
D	10%	7%	19%	17%	9%	11%	8%	19%
E and higher	10%	7%	13%	10%	15%	8%	10%	7%

- **Price Change** – The financings closed in the fourth quarter of 2006/first quarter of 2007 and in the periods covered by our previous surveys may be broken down by the directions of the change in price as compared to each company's respective previous round, as follows:

Price Change	Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
Down	21%	32%	26%	30%	19%	43%	42%	62%
Flat	0%	6%	9%	4%	16%	12%	3%	28%
Up	79%	62%	65%	66%	65%	45%	55%	10%

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:

Series	Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
B	14%	7%	31%	36%	0%	25%	24%	73%
C	11%	54%	27%	20%	33%	56%	62%	55%
D	20%	25%	18%	29%	25%	43%	0%	56%
E and higher	60%	50%	14%	25%	14%	40%	80%	50%

- **Liquidation Preference** – Senior liquidation preferences were used in the following percentages of financings:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
60%	72%	80%	81%	76%	80%	78%	82%

The percentages of financing transactions with senior liquidation preference, broken down by series, were as follows:

Series	Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
B	69%	67%	75%	73%	80%	85%	61%	82%
C	44%	77%	73%	100%	75%	75%	92%	75%
D	60%	75%	91%	71%	75%	71%	75%	82%
E and higher	60%	75%	86%	100%	71%	100%	100%	100%

- **Multiple-Based Liquidation Preferences** - The percentage of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
9%	4%	9%	18%	16%	24%	23%	44%

Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:

Range of multiples	Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
>1x- 2x	0%	100%	100%	75%	25%	88%	100%	88%
>2x - 3x	100%	0%	0%	0%	75%	0%	0%	6%
> 3x	0%	0%	0%	25%	0%	12%	0%	6%

- **Participation in Liquidation** - The percentage of transactions, out of the total number of financing transactions, which included participation rights in liquidation were as follows:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
88%	89%	93%	85%	91%	79%	90%	91%

Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors right to participation were as follows:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
67%	51%	57%	57%	69%	60%	67%	59%

- **Cumulative Dividends and/or Accrued Interest as Part of the Liquidation Preference** – Cumulative dividends and/or accrued interest constituted part of the liquidation preferences in the following percentages of financings:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
61%	56%	56%	68%	78%	52%	62%	54%

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in the fourth quarter of 2006/first quarter of 2007 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
Full Ratchet	27%	18%	28%	39%	31%	30%	28%	38%
Weighted Average	71%	82%	65%	61%	65%	64%	66%	55%
None	2%	0%	7%	0%	4%	6%	6%	7%

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in the fourth quarter of 2006/first quarter of 2007 and in the periods covered by our previous surveys may be broken down as follows:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
6%	2%	9%	15%	0%	13%	14%	9%

- **Redemption** – The percentage of transactions in the fourth quarter of 2006/first quarter of 2007 and the periods covered by our previous surveys, out of the total number of financings in each respective period, in which the terms provided for mandatory redemption or redemption at the option of the venture capitalist was as follows:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
12%	18%	14%	20%	17%	21%	26%	27%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in the fourth quarter of 2006/first quarter of 2007 and the periods covered by our previous surveys, out of the total number of financings in each respective period, which involved the conversion of senior securities into more junior securities was as follows:

Q4/06 +Q1/07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
6%	2%	2%	2%	7%	2%	10%	14%

For additional information about this report please contact Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at SHIBOLETH, 972-3-7778333; or Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West. To be placed on an email list for future editions of this survey please go to www.shibolet.com or to www.fenwick.com/vctrends.htm.

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Analysis of Legal Terms of Venture Financings of Israeli Companies and a Comparison of Those Terms with the Terms of Venture Financings in the Silicon Valley

(Fourth Quarter of 2006 & First Quarter of 2007)

- **Background** – We have analyzed the terms of venture financings for 49 Israeli based/related technology companies that reported raising at least $500,000 in the fourth quarter of 2006 and in the first quarter of 2007, and compared those terms to the terms of venture financings for 230 technology companies headquartered in the Silicon Valley (the San Francisco Bay Area) that reported raising money in the same period.

- **Financing Round** – The Israeli financings may be broken down according to type of round as follows:

  Series A –29% (compared to 20% in the Silicon Valley)
  Series B – 33% (compared to 34% in the Silicon Valley)
  Series C – 18% (compared to 22% in the Silicon Valley)
  Series D – 10% (compared to 11% in the Silicon Valley)
  Series E and higher – 10% (compared to 13% in the Silicon Valley)

- **Price Change** – The financings during the fourth quarter of 2006/first quarter of 2007 may be broken down by the directions of the change in price as compared to the each company's respective previous round, as follows:

Price Change	Israel	Silicon Valley
Down	21%	15%
Flat	0%	12%
Up	79%	73%

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:

Series	Israel	Silicon Valley
B	14%	6%
C	11%	10%
D	20%	19%
E and higher	60%	45%

- **Liquidation Preference** – Senior liquidation preferences were used in the following percentages of post-Series A financings:

Israel	Silicon Valley
60%	38%

The percentages of financing transactions senior liquidation preference, broken down by series, were as follows:

Series	Israel	Silicon Valley
B	69%	27%
C	44%	32%
D	60%	54%
E and higher	60%	66%

- **Multiple-Based Liquidation Preference** – The percentages of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

Israel	Silicon Valley
9%	14%

Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:

Range of Multiples	Israel	Silicon Valley
>1x - 2x	0%	70%
>2x - 3x	100%	30%
>3x	0%	0%

- **Participation in Liquidation** –The percentage of transactions, out of the total number of financing transactions, that provided for participation rights in liquidation were as follows:

Israel	Silicon Valley
88%	66%

Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors right to participation were as follows:

Israel	Silicon Valley
67%	59%

- **Cumulative Dividends/Interest Accrual** – Cumulative dividends or interest accruals (which is an Israeli concept similar to cumulative dividends) constituted part of the liquidation preferences under the terms of the following percentages of financings:

Israel	Silicon Valley
61%	6%

- **Anti-dilution Provisions** – The use of anti-dilution provisions in the financings were as follows:

Type of Provision	Israel	Silicon Valley
Full Ratchet	27%	5%
Weighted Average	71%	94%
None	2%	1%

- **Pay-to-Play Provisions** – The use of pay-to-play provisions in the financings was as follows:

Israel	Silicon Valley
6%	9%

- **Redemption** – The percentages of financings providing for either mandatory redemption or redemption at the option of the venture capitalist were as follows:

Israel	Silicon Valley
12%	24%

- **Corporate Reorganizations** – The percentages of post-Series A financings involving a corporate reorganization (conversion of senior securities) were as follows:

Israel	Silicon Valley
6%	6%

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West; or Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at SHIBOLETH 972-3-7778333. To be placed on an email list for future editions of this survey please go to www.fenwick.com/vctrends.htm or to www.shibolet.com.

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