

SHIBOLET
in cooperation with
FENWICK & WEST LLP

Trends in Legal Terms in Venture Financings
in Israel

(First Half of 2008)

- **Background** – We have analyzed the terms of venture financings for 56 Israeli and Israeli-related technology companies that reported raising money in the first half of 2008. 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 first half of 2008 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
A	36%	36%	46%	35%	21%	34%	28%	35%	20%
B	27%	32%	18%	27%	28%	27%	22%	21%	36%
C	20%	14%	16%	24%	19%	12%	26%	25%	26%
D	12%	11%	8%	7%	19%	17%	9%	11%	8%
E and higher	5%	7%	12%	7%	13%	10%	15%	8%	10%

- **Price Change** – The financings closed in the first half of 2008 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	H1'08	H2'07	H1'07	H 2'06	H 1'06	H 2'05	H 1'05	H 2'04	H 1'04
Down	18%	9%	31%	32%	26%	30%	19%	43%	42%
Flat	0%	6%	4%	6%	9%	4%	16%	12%	3%
Up	82%	85%	65%	62%	65%	66%	65%	45%	55%

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

Series	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
B	7%	0%	44%	7%	31%	36%	0%	25%	24%
C	0%	25%	25%	54%	27%	20%	33%	56%	62%
D	57%	17%	25%	25%	18%	29%	25%	43%	0%
E and higher	33%	0%	17%	50%	14%	25%	14%	40%	80%

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

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
75%	75%	63%	72%	80%	81%	76%	80%	78%

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

Series	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
B	73%	78%	56%	67%	75%	73%	80%	85%	61%
C	73%	63%	50%	77%	73%	100%	75%	75%	92%
D	71%	67%	75%	75%	91%	71%	75%	71%	75%
E and higher	100%	100%	83%	75%	86%	100%	71%	100%	100%

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

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
7%	22%	6%	4%	9%	18%	16%	24%	23%

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	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
>1x- 2x	100%	83%	100%	100%	100%	75%	25%	88%	100%
>2x - 3x	0%	17%	0%	0%	0%	0%	75%	0%	0%
> 3x	0%	0%	0%	0%	0%	25%	0%	12%	0%

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

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
86%	82%	84%	89%	93%	85%	91%	79%	90%

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:

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
58%	54%	47%	51%	57%	57%	69%	60%	67%

- **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:

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
64%	63%	58%	56%	56%	68%	78%	52%	62%

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in the first half of 2008 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
Full Ratchet	9%	16%	14%	18%	28%	39%	31%	30%	28%
Weighted Average	91%	82%	78%	82%	65%	61%	65%	64%	66%
None	0%	2%	8%	0%	7%	0%	4%	6%	6%

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in the first half of 2008 and in the periods covered by our previous surveys may be broken down as follows:

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
2%	2%	8%	2%	9%	15%	0%	13%	14%

- **Redemption** – The percentage of transactions in the first half of 2008 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:

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
11%	25%	8%	18%	14%	20%	17%	21%	26%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in the first half of 2008 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:

H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04
2%	0%	4%	2%	2%	2%	7%	2%	10%

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FENWICK & WEST LLP
SHIBOLET
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
(First Half of 2008)

- **Background** – We have analyzed the terms of venture financings for 56 Israeli based/related technology companies that reported raising at least \$500,000 in the first half of 2008, and compared those terms to the terms of venture financings for 215 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 – 36% (compared to 16% in the Silicon Valley)
 - Series B – 27% (compared to 30% in the Silicon Valley)
 - Series C – 20% (compared to 21% in the Silicon Valley)
 - Series D – 12% (compared to 16% in the Silicon Valley)
 - Series E and higher – 5% (compared to 17% in the Silicon Valley)
- **Price Change** – The financings during the first half of 2008 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	18%	16%
Flat	0%	14%
Up	82%	70%

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

Series	Israel	Silicon Valley
B	7%	9%
C	0%	24%
D	57%	20%
E and higher	33%	14%

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

Israel	Silicon Valley
75%	43%

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

Series	Israel	Silicon Valley
B	73%	30%
C	73%	39%
D	71%	51%
E and higher	100%	61%

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

Israel	Silicon Valley
7%	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	100%	91%
>2x - 3x	0%	9%
>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
86%	59%

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
58%	56%

- **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
64%	5%

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	9%	2%
Weighted Average	91%	98%
None	0%	0%

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

Israel	Silicon Valley
2%	7%

- **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
11%	24%

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

Israel	Silicon Valley
2%	4%

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 Shibolet & Co. 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.