

Dear Clients and Friends,

Re: **Survey On Legal Terms of Venture Capital Transactions – Second Quarter & Third Quarter of 2007**

We are pleased to present the results of our survey for the second and third 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.

The survey examines a period of six-months, rolling one quarter ahead in comparison with our earlier survey, and refers to the analysis of the legal terms of venture capital transactions closed during the second and third quarter of 2007, as compared with the results covered by our earlier surveys.

In preparing our survey for the second and third quarter of 2007, we examined the terms of 54 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 were closed during the covered period and that met our qualifying criteria, and includes a majority of the more significant transactions in terms of scope of amounts 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 indicate **a high increase in the number of “Up Round” investments, which comprised 85% of all the investment rounds surveyed by us - the highest rate of all periods surveyed by us since 2003!** Down Rounds comprised only 11% of such surveyed investment rounds! The results of the survey covering the Silicon Valley also indicate a similar relation between Up Rounds and Down Rounds – 80% Up Rounds as opposed to 13% Down Rounds.

An additional expression of the optimistic atmosphere in the venture capital industry in Israel is reflected by the continued high rate of first round investments, as is also reflected in the results of this survey – 47%.

In addition, the trend indicated in our previous surveys of increase usage of the anti-dilution protection formula on the basis of “Weighted Average”, as compared to the “Full Ratchet” formula (which provides for full protection) has continued - with a rate of usage of 83% of the Weighted Average formula compared to the rate of usage of only 11% of the Full Ratchet formula. In the Silicon Valley, the rates of usage of the Full Ratchet formula stand at a mere 5%!

The trend limiting the participation right of the funds in distributions after receiving the preference (“cap on the participation right”) has also continued - according to the results of this survey, 68% of the investment rounds surveyed included a cap on the participation right (only 42% did not include a cap).

The main differences between the use of terms in Israel and the Silicon Valley continue to appear in the use of Senior Liquidation Preference (preference in distribution of preferred shares of the new round compared with the preferred shares of the previous round) – 79% in Israel as opposed to only 47% in the Silicon Valley; the use of interest provisions or cumulative dividends that are to be paid to investors as preferential payments in distributions – 65% in Israel as opposed to only 5% in the Silicon Valley!; and in the use of participation rights in distributions after receiving the preference – 89% in Israel as opposed to 51% in the Silicon Valley.

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.

SHIBOLET
in cooperation with
FENWICK & WEST LLP

**Trends in Legal Terms in Venture Financings
in Israel**

(Second Quarter + Third Quarter of 2007)

- **Background** – We have analyzed the terms of venture financings for 54 Israeli and Israeli-related technology companies that reported raising money in the second and third 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 second and third 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	Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
A	47%	46%	35%	21%	34%	28%	35%	20%	22%
B	22%	18%	27%	28%	27%	22%	21%	36%	30%
C	13%	16%	24%	19%	12%	26%	25%	26%	22%
D	9%	8%	7%	19%	17%	9%	11%	8%	19%
E and higher	9%	12%	7%	13%	10%	15%	8%	10%	7%

- **Price Change** – The financings closed in the second and third 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	Q2/07+ Q3/07	H1'07	H 2'06	H 1'06	H 2'05	H 1'05	H 2'04	H 1'04	H 2'03
Down	11%	31%	32%	26%	30%	19%	43%	42%	62%
Flat	4%	4%	6%	9%	4%	16%	12%	3%	28%
Up	85%	65%	62%	65%	66%	65%	45%	55%	10%

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

Series	Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
B	8%	44%	7%	31%	36%	0%	25%	24%	73%
C	29%	25%	54%	27%	20%	33%	56%	62%	55%
D	0%	25%	25%	18%	29%	25%	43%	0%	56%
E and higher	0%	17%	50%	14%	25%	14%	40%	80%	50%

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

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
79%	63%	72%	80%	81%	76%	80%	78%	82%

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

Series	Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
B	92%	56%	67%	75%	73%	80%	85%	61%	82%
C	57%	50%	77%	73%	100%	75%	75%	92%	75%
D	60%	75%	75%	91%	71%	75%	71%	75%	82%
E and higher	100%	83%	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:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
4%	6%	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	Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
>1x- 2x	100%	100%	100%	100%	75%	25%	88%	100%	88%
>2x - 3x	0%	0%	0%	0%	0%	75%	0%	0%	6%
> 3x	0%	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:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
89%	84%	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:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
42%	47%	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:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
65%	58%	56%	56%	68%	78%	52%	62%	54%

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

Type of Provision	Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
Full Ratchet	11%	14%	18%	28%	39%	31%	30%	28%	38%
Weighted Average	83%	78%	82%	65%	61%	65%	64%	66%	55%
None	6%	8%	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 second and third quarter of 2007 and in the periods covered by our previous surveys may be broken down as follows:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
2%	8%	2%	9%	15%	0%	13%	14%	9%

- **Redemption** – The percentage of transactions in the second and third 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:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
18%	8%	18%	14%	20%	17%	21%	26%	27%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in the second and third 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:

Q2/07+ Q3/07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04	H1'04	H2'03
0%	4%	2%	2%	2%	7%	2%	10%	14%

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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
(Second Quarter & Third Quarter of 2007)

- **Background** – We have analyzed the terms of venture financings for 54 Israeli based/related technology companies that reported raising at least \$500,000 in the second and third 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 – 47% (compared to 14% in the Silicon Valley)
 - Series B – 22% (compared to 36% in the Silicon Valley)
 - Series C – 13% (compared to 26% in the Silicon Valley)
 - Series D – 9% (compared to 16% in the Silicon Valley)
 - Series E and higher – 9% (compared to 9% in the Silicon Valley)
- **Price Change** – The financings during the second and third 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	11%	13%
Flat	4%	7%
Up	85%	80%

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

Series	Israel	Silicon Valley
B	8%	9%
C	29%	12%
D	0%	14%
E and higher	0%	30%

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

Israel	Silicon Valley
79%	47%

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

Series	Israel	Silicon Valley
B	92%	35%
C	57%	43%
D	60%	67%
E and higher	100%	70%

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

Israel	Silicon Valley
4%	17%

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%	88%
>2x - 3x	0%	12%
>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
89%	51%

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
42%	47%

- **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
65%	5%

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	11%	5%
Weighted Average	83%	94%
None	6%	1%

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

Israel	Silicon Valley
2%	12%

- **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
18%	24%

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

Israel	Silicon Valley
0%	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 – laviram@shibolet.com or Limor Peled – lpeled@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.