

Dear Clients and Friends,

Re: Survey on Legal Terms of Venture Capital Transactions – First Half of Year 2014

We are pleased to present the results of our survey for the first half of the year 2014, which analyzes legal terms of venture capital (VC) investments in Israeli and "Israeli related" hi-tech companies, and comparing these terms to those common in the Silicon Valley, United States.

As always, this survey was produced in coordination with Fenwick & West LLP., one of the leading Silicon Valley law firms. Our cooperation with Fenwick & West in producing this survey enables us to also present an interesting comparison, using the same tools and terminology, between the terms commonly practiced in Israel and those commonly practiced in the Silicon Valley.

Conclusions:

The survey points to an additional increase in the transactions of first round financing, which is an indication that the industry is continuing to grow and fund new-companies – 40% of the transactions surveyed were of the first round. It is important to note that this is the highest figure with respect to first round financing since we first began conducting this survey!

This figure indicates a positive sense of security in the industry, which leads the industry into financing new companies and not only supporting the existing ones.

Alongside the increase in the rate of first round financing, a decline has been observed regarding the terms of the traditional protection mechanisms which were customary at a high rate in the domestic venture capital industry, indicating both a stronger sense of security of the investors in their investments and nearing the terms used in Silicon Valley, which can possibly be explained by the fact that a significant portion of the funding of the local high-tech industry currently originates from foreign investors.

Thus, we observed a further decrease in the rate of rounds with "participation rights" of preferred shares which reached the lowest level surveyed by us - 55% (compared with levels above the rate of 80% until 2009 (inclusive) and levels at the rate of around 70% until 2012 (inclusive)) and a further decline in the rate of rounds with accrued interest on the investment amounts for the purpose of preferential distributions (whether as interest or as accumulated dividends that is distributed in the event of "exit") to the lowest rate surveyed by us - 32%. Both with respect to participation rights and rights to accrued interest, the terms in Israel are trailing the terms in Silicon Valley, there the rates are even significantly lower - 25% for participation rights and only 5% for accrued interest.

It is interesting to note that the rate of down rounds went up this time to 29%, this is despite the fact that most of the rounds were still up rounds. In Silicon Valley on the other hand - up rounds continued to strengthen to the high rate of 78%! In all the previous surveys conducted we usually found a correlation between an increase in the rate of first rounds, to a decrease in legal protection mechanisms and an increase in up rounds. One possible explanation for why this time there was no correlation is that alongside the rise in initial rounds, valuations given to companies in the early rounds were slightly higher (perhaps due to the competition of the next promising start-up) and thus the valuation was

corrected in the subsequent rounds. There may be additional explanations, and upcoming surveys may shed more light on this finding.

We hope that you find this survey useful and interesting. **To be included in our email distribution 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 survey, 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**

(H1 2014 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during H1 2014. 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 H1 2014 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
A	40%	37%	39%	18%	20%	16%	30%	36%	36%
B	18%	30%	31%	25%	28%	24%	30%	27%	32%
C	18%	13%	12%	27%	30%	14%	16%	20%	14%
D	13%	7%	13%	20%	10%	16%	12%	12%	11%
E and higher	11%	13%	5%	10%	12%	30%	12%	5%	7%

- **Price Change** – The financings closed in H12014 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	H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
Down	29%	15%	16%	25%	39%	30%	32%	18%	9%
Flat	9%	5%	11%	9%	7%	17%	14%	0%	6%
Up	62%	80%	73%	66%	54%	53%	54%	82%	85%

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

Series	H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
B	29%	5%	14%	24%	24%	0%	23%	7%	0%
C	29%	11%	25%	12%	27%	60%	29%	0%	25%
D	0%	20%	11%	35%	71%	50%	20%	57%	17%
E and higher	50%	33%	0%	30%	67%	36%	60%	33%	0%

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

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
70%	75%	76%	77%	69%	81%	83%	75%	75%

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

Series	H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
B	57%	57%	45%	72%	48%	78%	69%	73%	78%
C	86%	88%	22.5%	73%	82%	100%	86%	73%	63%
D	40%	80%	22.5%	85%	71%	67%	100%	71%	67%
E and higher	100%	100%	10%	80%	89%	82%	100%	100%	100%

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

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
19%	9%	3%	16%	8%	32%	10%	7%	22%

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	H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
>1x- 2x	33%	100%	100%	70%	100%	75%	100%	100%	83%
>2x - 3x	67%	0%	0%	20%	0%	13%	0%	0%	17%
> 3x	0%	0%	0%	10%	0%	12%	0%	0%	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:

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
55%	60%	69%	77%	72%	84%	88%	86%	82%

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:

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
62%	57%	59%	59%	62%	61%	58%	58%	54%

- **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:

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
32%	40%	48%	48%	45%	38%	58%	64%	63%

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in H1 2014 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
Full Ratchet	10%	6%	4%	9%	14%	11%	12%	9%	16%
Weighted Average	82%	91%	84%	85%	81%	89%	88%	91%	82%
None	8%	3%	12%	6%	5%	0%	0%	0%	2%

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in H1 2014 and in the periods covered by our previous surveys may be broken down as follows:

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
3%	0%	1%	2%	4%	14%	7%	2%	2%

- **Redemption** – The percentage of transactions in H1 2014 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:

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
8%	6%	16%	18%	11%	19%	12%	11%	25%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in 2013 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:

H1'14	2013	2012	2011	2010	2009	H2'08	H1'08	H2'07
0%	1%	0%	1%	3%	3%	13%	2%	0%

For additional information about this report please contact Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at Shibolet & Co., 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.

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
(H1 2014 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during H1 2014, and compared those terms to the terms of venture financings for 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 – 40% (compared to 23% in the Silicon Valley)
 - Series B – 18% (compared to 26% in the Silicon Valley)
 - Series C – 18% (compared to 22% in the Silicon Valley)
 - Series D – 13% (compared to 12% in the Silicon Valley)
 - Series E and higher – 11% (compared to 18% in the Silicon Valley)
- **Price Change** – The financings during H1 2014 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	29%	7%
Flat	9%	15%
Up	62%	78%

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

Series	Israel	Silicon Valley
B	29%	7%
C	29%	8%
D	0%	3%
E and higher	50%	8%

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

Israel	Silicon Valley
70%	26%

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

Series	Israel	Silicon Valley
B	57%	18%
C	86%	21%
D	40%	24%
E and higher	100%	44%

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

Israel	Silicon Valley
19%	15%

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	33%	70%
>2x - 3x	67%	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
55%	25%

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
62%	54%

- **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
32%	5%

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	10%	1%
Weighted Average	82%	96%
None	8%	3%

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

Israel	Silicon Valley
3%	2%

- **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
8%	11%

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

Israel	Silicon Valley
0%	5%

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.