

**The Kesselman & Kesselman PricewaterhouseCoopers
MoneyTree™ Report:**

**In the second quarter of 2007, approximately \$319 million invested in Israel in
high-tech companies backed by venture capital funds**

\$626 million were invested in 161 high-tech companies in the first half of 2007

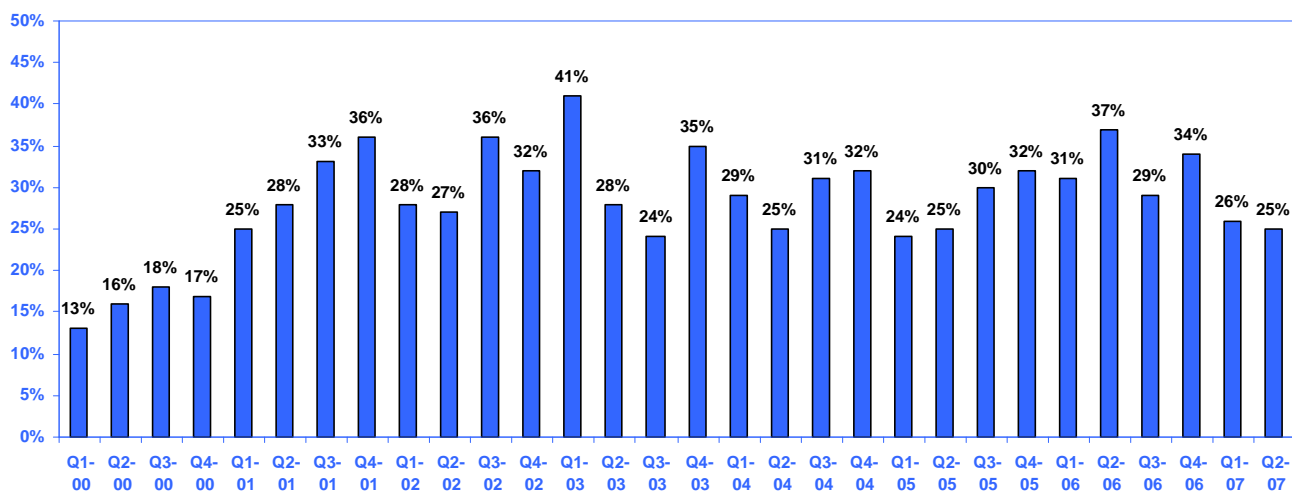
The latest Kesselman & Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that venture capital-backed hi-tech companies (companies in which one of the investors in a financing round is a venture capital fund) raised approximately \$319 million in Israel during the second quarter of 2007, an increase of approximately 4% in comparison with the previous quarter in which approximately \$307 million were raised, and an increase of approximately 6% in comparison with the corresponding quarter last year in which approximately \$300 million were raised.

The Report further reveals that 80 Israeli hi-tech companies raised capital in the second quarter of the year, as compared to 81 companies raising capital in the previous quarter. The average investment per company was \$4 million this quarter, as compared to \$3.8 million in the previous quarter.

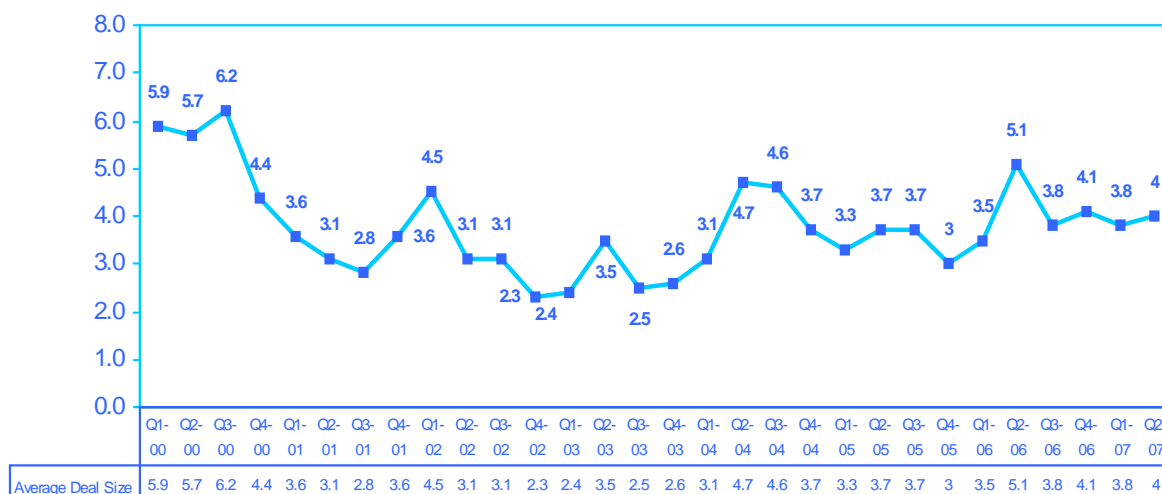
Total investment in the first half of 2007 amounted to approximately \$626 million (\$1.25 billion in annual terms), as compared to the first half of 2006 in which total investment amounted to approximately \$618 million. Total investment in the first half of 2007 represents the highest-ever investment in high-tech companies for any first half of a year since 2001. The number of companies that raised capital during the first half of this year reached 161, as compared to 149 companies that raised capital during the first quarter of 2006. The average investment in a single company amounted to \$3.9 million in the first half of 2007 as compared to \$4.1 million in the first half of 2006.

Joseph Fellus, Senior Partner, Advisory & Hi-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers said that the results of the second quarter of 2007 attest to the continuous strength of the venture capital market, as this quarter continues the trend of the two previous ones with investment level exceeding \$300 million per quarter. We identify a constant influx of new investors, joining the well-experienced entrepreneurs in the market, who diligently develop new and challenging technologies. The combination of the two ensures a more mature market characterized by an ongoing process of growth.

Percentage of Funds that Made No Investments



Average Investment per Company (\$ in millions)

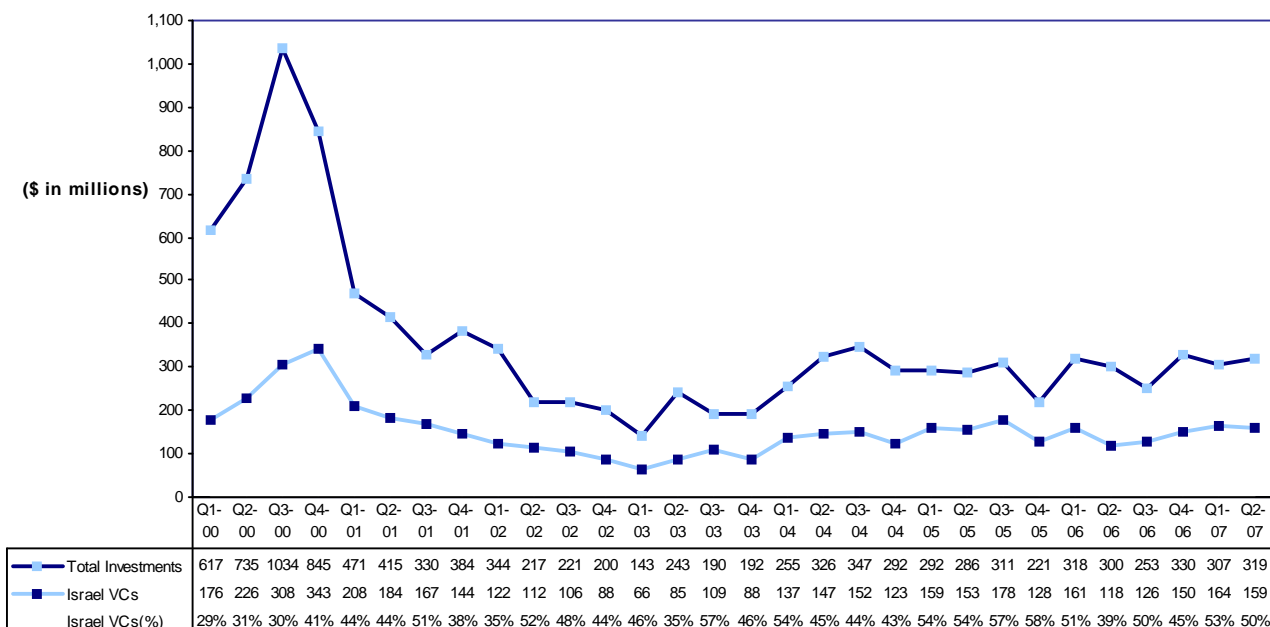


The Israeli Venture Capital Funds' Slice of the Hi-Tech Cake

In the second quarter of 2007, local venture capital funds invested approximately \$159 million, representing approximately 50% of total investment in the quarter. This compares with approximately \$164 million in the previous quarter, representing 53% of total investments for that quarter.

In addition to the investments in companies with Israeli operations, local venture capital funds invested approximately \$24 million in 13 hi-tech companies that do not have Israeli operations. This is compared to approximately \$16 million that were invested in 16 non-Israeli companies during the previous quarter.

Israel VC's Investment Levels



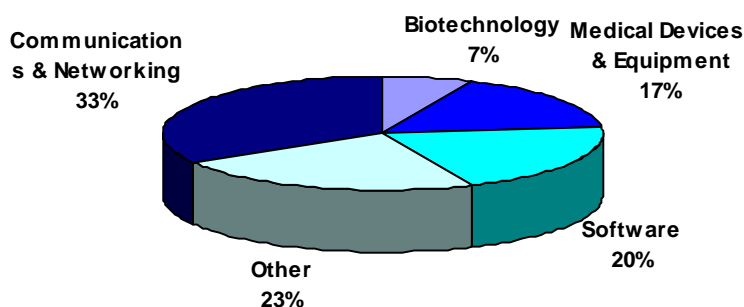
Analysis by Geographic Location of Companies' Registration

47 companies, representing 59% of the total number of companies that raised capital in the second quarter of 2007, are registered as Israeli companies. These companies raised approximately \$164 million, representing approximately 51% of the total amount invested. The remaining companies are registered overseas, primarily in the United States.

Companies Receiving Grants from the Chief Scientist

30 companies, which constitute 38% of the total number of companies that raised capital in the second quarter of 2007, have received grants from the Israel Chief Scientist. Approximately \$147 million of the total invested amount has flowed into these companies.

Number of Companies Receiving Grants
from the Chief Scientist by Sector



Analysis by Leading Technological Sector

The **Communications & Networking** sector maintained its lead, with 26 companies raising approximately \$133 million, representing approximately 42% of total investments for the quarter, the largest share of the total investment in the last three years. In monetary term, this represents an increase of approximately 20% as compared to the previous quarter in which an equal number of companies raised approximately \$111 million. The average investment per company in this sector was \$5.1 million this quarter, as compared to \$4.3 million in the previous quarter.

Five major transactions (investments of over \$10 million per company) took place this quarter in a total amount of \$76 million, representing 57% of total investments in this sector. Ignoring the five major transactions that took place this quarter, the average investment per company was only \$2.7 million.

The **Software** sector strengthened in the second quarter of 2007 with approximately \$73 million invested in 20 companies. This is an increase of approximately 85% in monetary terms as compared to the previous quarter in which approximately \$39 million were invested in 19 companies. The average investment per company was \$3.6 million this quarter, as compared to \$2.1 million in the previous quarter.

The increase in the total and average investment in this sector in the current quarter can be attributed to the fact that most companies that raised funds in this quarter were in intermediary or

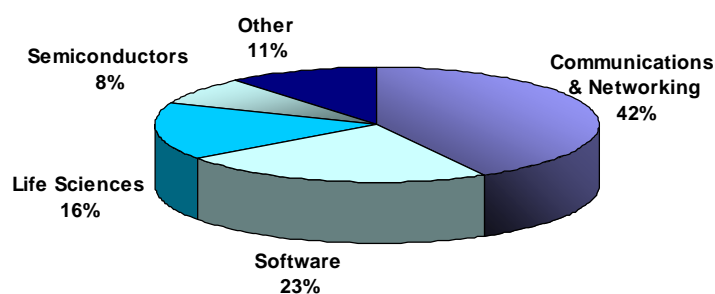
later stages of development. These stages are characterized by a need for relatively large-scale investments - in this quarter, 18 companies raised approximately \$70 million in total.

12 companies in the **Life Sciences** sector, which includes the fields of Medical Devices and Biotechnology, raised approximately \$50 million, as compared to 10 companies that raised an equal amount in the previous quarter. Both in this quarter and the previous quarter, the total investment in this sector comprised approximately 16% of total investment. The average investment per company was \$4.1 million this quarter, as compared to \$5 million in the previous quarter.

The decrease in the average investment in this sector may be attributed to the multiplicity of bridge loan transactions or to early investment rounds, which are marked by relatively low levels of investment – 9 transactions, which represented 75% of the number of transactions in this sector, totaling approximately \$18 million.

The **Semiconductors** sector experienced a decrease in total investment, with approximately \$27 million invested in 3 companies, as compared to \$54 million that were invested in 5 companies in the previous quarter. The average investment per company in this sector was \$9 million this quarter, as compared to \$10.8 million in the previous quarter.

Total investment by Sector



Analysis by Investment Round

Early Round

In the current quarter, 26 companies raised approximately \$128 million, in the early round (the first and the second rounds combined), representing 40% of total investments. This compares to 32 companies that raised approximately \$145 million in this round, representing 47% of total

investments in the previous quarter. The average investment per company in this round was \$4.9 million this quarter, as compared to \$4.5 million in the previous quarter.

Third Round

6 companies raised approximately \$40 million in this round during this quarter, representing 13% of total investment. This compares to 8 companies that raised approximately \$30 million, representing 10% of total investments in the previous quarter. The average investment per company in this round was \$6.6 million this quarter, as compared to \$3.7 million in the previous quarter.

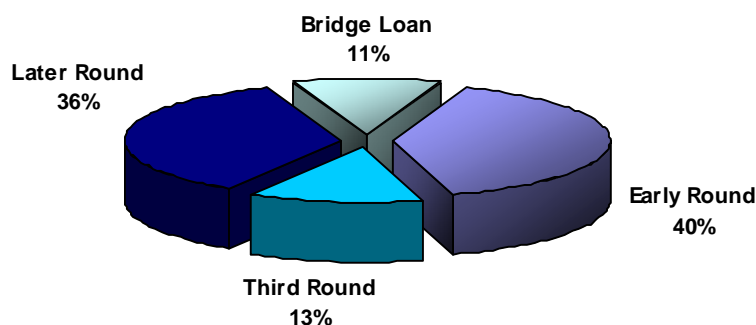
Later round

Transactions executed in later rounds (fourth round to mezzanine) represented approximately 36% of total investments in the current quarter, with 19 companies attracting approximately \$115 million, the largest amount raised in later rounds in the last three quarters. This compares to 13 companies that raised approximately \$97 million, representing 32% of total investments in the previous quarter. The average investment per company in this round this quarter was \$6 million, as compared to \$7.5 million in the previous quarter.

Bridge Loans

In the current quarter, 29 companies raised approximately \$36 million by way of bridge loans, as compared to 28 companies that raised approximately \$35 million in the previous quarter. The average bridge loan amount per company, both in this and the previous quarter, was approximately \$1.2 million.

Total investment by Investment Round



Analysis by Company Development Stage

Seed/Start-up Stage:

Israeli start-up companies are strengthening with 15 companies that raised approximately \$58 million in the second quarter of 2007. This is an increase of approximately 5% in monetary terms as compared to the previous quarter in which 20 companies raised approximately \$55 million. The average investment per company in this stage was \$3.9 million this quarter, as compared to \$2.8 million in the previous quarter.

Intermediary Stage (Early/Expansion Stage):

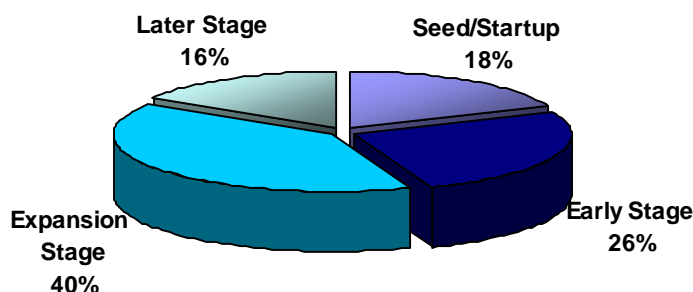
58 companies raised approximately \$210 million in the intermediary stage, representing 66% of total investment this quarter. This compares to 55 companies that raised approximately \$212 million, representing 69% of total investments in the previous quarter. Six major transactions (investments of over \$10 million per company) took place this quarter in a total amount of approximately \$91 million, representing 43% of total investments in the intermediary stage. The average investment this quarter amounted to \$3.6 million, as compared to \$3.9 million in the previous quarter.

An internal analysis reveals that the expansion stage is the leading stage this quarter with approximately \$128 million representing 61% of total investment in the intermediary stage. Five out of six major transactions made by companies in the intermediary stage were made in companies in the expansion stage.

Later Stage:

7 later-stage companies raised approximately \$51 million during this quarter, representing 16% of total investment. This compares to 6 companies that raised approximately \$40 million, representing 13% of total investments in the previous quarter. The average investment this quarter amounted to \$7.2 million, as compared to \$6.6 million in the previous quarter.

Total investments 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 largest accounting and consulting firm – PricewaterhouseCoopers (PwC). This quarter, 52 venture capital firms participated in the Report. The findings of the Report are used widely every quarter by: Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions in Israel and abroad, hi-tech companies, government departments, the Office of the Chief Scientist and others.

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