

**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% |

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FENWICK & WEST LLP
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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
(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% |

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