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in cooperation with
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Trends in Legal Terms in Venture Financings
in Israel
(Second Half of 2004)

Background – We have analyzed the terms of venture financings for 63 Israeli and Israeli-related technology companies that reported raising money in the second half of 2004. 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 half of 2004 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
A	35%	22%	20%	19%	22%
B	21%	24%	36%	23%	30%
C	25%	29%	26%	29%	22%
D	11%	16%	8%	15%	19%
E and higher	8%	9%	10%	14%	7%

Price Change – The financings closed in the second half of 2004 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	H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
Down	43%	46%	42%	44%	62%
Flat	12%	14%	3%	18%	28%
Up	45%	40%	55%	38%	10%

Up-rounds returned to outnumber down-rounds in the second half of 2004 .

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

Series	H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
B	25%	23%	24%	27%	73%
C	56%	59%	62%	64%	55%
D	43%	62%	0%	29%	56%
E and higher	40%	40%	80%	57%	50%

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

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
80%	91%	78%	76%	82%

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

Series	H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
B	85%	79%	61%	58%	82%
C	75%	100%	92%	87%	75%
D	71%	89%	75%	63%	82%
E and higher	100%	100%	100%	100%	100%

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

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
24%	29%	23%	31%	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	H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
>1x- 2x	88%	92%	100%	80%	88%
>2x - 3x	0%	0%	0%	10%	6%
> 3x	12%	8%	0%	10%	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:

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
79%	93%	90%	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:

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
60%	69%	67%	60%	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:

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
52%	57%	62%	58%	54%

Note: In each of the above periods, rounds using accrued interest outnumbered those using cumulative dividends by a ratio of two to one.

Anti-dilution Provisions - The use of anti-dilution provisions in the financings which took place in the second half of 2004 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
Full Ratchet	30%	34%	28%	29%	38%
Weighted Average	64%	64%	66%	65%	55%
None	6%	2%	6%	6%	7%

Pay-to-Play Provisions - The use of pay-to-play provisions in the financings which took place in the second half of 2004 and in the periods covered by our previous surveys may be broken down as follows:

Percentages (out of total number of financings in the relevant period) having pay-to-play provisions-

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
13%	10%	14%	15%	9%

Redemption – The percentage of transactions in the second half of 2004 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:

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
21%	22%	26%	33%	27%

Corporate Reorganizations – The percentage of post-Series A financing transactions in the second half of 2004 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:

H2'04	Q2'04+Q3'04	H1'04	Q4'03+Q1'04	H2'03
2%	16%	10%	12%	14%

Conclusion – The results for the second half of 2004 reflect some improvement in venture terms, with the percentage of up-rounds exceeding that of down-rounds, and a decrease in the use of full ratchet anti-dilution protection, senior liquidation preference and multiple liquidation preference. There was also, for the first time in the periods covered by our surveys, a significant decrease in the use of participation rights in liquidation.

For additional information about this report please contact Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at Shibolet, Yisraeli, Roberts, Zisman & Co., 972-3-7103311; 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.