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

**Background** – We have analyzed the terms of venture financings for 50 Israeli and Israeli-related technology companies that reported raising money in the first 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 first 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	H1/04	Q4/03+Q1/04	H2/03
A	20%	19%	22%
B	36%	23%	30%
C	26%	29%	22%
D	8%	15%	19%
E and higher	10%	14%	7%

**Price Change** – The financings closed in the first 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 the each company's respective previous round, as follows:

Price Change	H1/04	Q4/03+Q1/04	H2/03
Down	42%	44%	62%
Flat	3%	18%	28%
Up	55%	38%	10%

**The results for the first half of 2004 indicate a reversal in the ratio of up-rounds to down-rounds, with up-rounds outnumbering down-rounds.**

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

Series	H1/04	Q4/03+Q1/04	H2/03
B	24%	27%	73%
C	62%	64%	55%
D	0%	29%	56%
E and higher	80%	57%	50%

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

H1/04	Q4/03+Q1/04	H2/03
78%	76%	82%

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

Series	H1/04	Q4/03+Q1/04	H2/03
B	61%	58%	82%
C	92%	87%	75%
D	75%	63%	82%
E and higher	100%	100%	100%

**Multiple-Based Liquidation Preferences** - The percentage of financing transactions with senior liquidation preferences based on multiples was as follows:

H1/04	Q4/03+Q1/04	H2/03
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	H1/04	Q4/03+Q1/04	H2/03
>1x- 2x	100%	80%	88%
>2x - 3x	0%	10%	6%
> 3x	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:

H1/04	Q4/03+Q1/04	H2/03
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:

H1/04	Q4/03+Q1/04	H2/03
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 under the terms of the following percentages of financings:

H1/04	Q4/03+Q1/04	H2/03
62%	58%	54%

Note: Of the above – in each of H2/03 and in H1/04 - one third are based on cumulative dividends and two thirds are based on accrued interest.

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

Type of Provision	H1/04	Q4/03+Q1/04	H2/03
Full Ratchet	28%	29%	38%
Weighted Average	66%	65%	55%
None	6%	6%	7%

**Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in each of the first half of 2004 and 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-

<b>H1/04</b>	<b>Q4/03+Q1/04</b>	<b>H2/03</b>
14%	15%	9%

**Redemption** – The percentage of transactions in each of the first 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:

<b>H1/04</b>	<b>Q4/03+Q1/04</b>	<b>H2/03</b>
26%	33%	27%

**Corporate Reorganizations** – The percentage of post-Series A financing transactions in each of the first 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:

<b>H1/04</b>	<b>Q4/03+Q1/04</b>	<b>H2/03</b>
10%	12%	14%

**Conclusion** – There was a significant increase in the ratio of up-rounds to down-rounds during the first half of 2004 compared to the periods covered by our previous surveys, with up-rounds outnumbering down-rounds! Improvements in other financing terms were also noted, except for the increase in the use of pay-to-play provisions.

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