

SHIBOLET
in cooperation with
FENWICK & WEST LLP

**Trends in Legal Terms in Venture Financings
in Israel**

(Fourth Quarter of 2008 & First Quarter of 2009)

- **Background** – We have analyzed the terms of venture financings for 27 Israeli and Israeli-related technology companies that reported raising money in the fourth quarter of 2008 and in the first quarter of 2009. 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 fourth quarter of 2008/the first quarter of 2009 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
A	15%	30%	36%	36%	46%	35%	21%	34%	28%	35%
B	37%	30%	27%	32%	18%	27%	28%	27%	22%	21%
C	7%	16%	20%	14%	16%	24%	19%	12%	26%	25%
D	22%	12%	12%	11%	8%	7%	19%	17%	9%	11%
E and higher	19%	12%	5%	7%	12%	7%	13%	10%	15%	8%

- **Price Change** – The financings closed in the fourth quarter of 2008/the first quarter of 2009 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	Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
Down	23%	32%	18%	9%	31%	32%	26%	30%	19%	43%
Flat	18%	14%	0%	6%	4%	6%	9%	4%	16%	12%
Up	59%	54%	82%	85%	65%	62%	65%	66%	65%	45%

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

Series	Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
B	10%	23%	7%	0%	44%	7%	31%	36%	0%	25%
C	50%	29%	0%	25%	25%	54%	27%	20%	33%	56%
D	17%	20%	57%	17%	25%	25%	18%	29%	25%	43%
E and higher	40%	60%	33%	0%	17%	50%	14%	25%	14%	40%

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

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
78%	83%	75%	75%	63%	72%	80%	81%	76%	80%

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

Series	Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
B	70%	69%	73%	78%	56%	67%	75%	73%	80%	85%
C	100%	86%	73%	63%	50%	77%	73%	100%	75%	75%
D	83%	100%	71%	67%	75%	75%	91%	71%	75%	71%
E and higher	80%	100%	100%	100%	83%	75%	86%	100%	71%	100%

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

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
11%	10%	7%	22%	6%	4%	9%	18%	16%	24%

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	Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
>1x- 2x	100%	100%	100%	83%	100%	100%	100%	75%	25%	88%
>2x - 3x	0%	0%	0%	17%	0%	0%	0%	0%	75%	0%
> 3x	0%	0%	0%	0%	0%	0%	0%	25%	0%	12%

- **Participation in Liquidation** - The percentage of transactions, out of the total number of financing transactions, which included participation rights in liquidation were as follows:

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
93%	88%	86%	82%	84%	89%	93%	85%	91%	79%

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:

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
52%	58%	58%	54%	47%	51%	57%	57%	69%	60%

- **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:

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
56%	58%	64%	63%	58%	56%	56%	68%	78%	52%

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in the second half of 2008 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
Full Ratchet	15%	12%	9%	16%	14%	18%	28%	39%	31%	30%
Weighted Average	85%	88%	91%	82%	78%	82%	65%	61%	65%	64%
None	0%	0%	0%	2%	8%	0%	7%	0%	4%	6%

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in the fourth quarter of 2008/the first quarter of 2009 and in the periods covered by our previous surveys may be broken down as follows:

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
18%	7%	2%	2%	8%	2%	9%	15%	0%	13%

- **Redemption** – The percentage of transactions in the fourth quarter of 2008/the first quarter of 2009 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:

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
18%	12%	11%	25%	8%	18%	14%	20%	17%	21%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in the fourth quarter of 2008/the first quarter of 2009 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:

Q4'08 +Q1'09	H2'08	H1'08	H2'07	H1'07	H2'06	H1'06	H2'05	H1'05	H2'04
4%	13%	2%	0%	4%	2%	2%	2%	7%	2%

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