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Dan Marom
Orly Sade

# Angel-Crowdfunding Wearable Technology

## Introduction and Main Dilemma

Based in Tel Aviv, Israel, Seraphim Sense Ltd is the creator of the Angel sensor, a wearable wristband with the capacity to track the user's vital signs. Founded by Eugene Jorov and Amir Schlomovich, the Angel device is the company's first product and has been under development for the past two years. In 2013, Seraphim Sense launched a crowdfunding campaign on the web-based platform www.Indiegogo.com, where it raised $334,521 from 1873 donors worldwide. The company estimates that the first Angel sensor will hit the market in April of 2015. The organization has intimated its intention to seek FDA approval for the Angel sensor, which would make the sensor a medical grade device. Additionally, the sensor will be supported by iOS and Android, and will be accessible by web API.

## New Frontiers in Funding: Crowdfunding and Biotechnology

### The biotechnology market

The state of the biotech market in 2014 can perhaps best be summed up by this statement made by Peter Boockvar, Managing Director of the Lindsey Group: "There is no other sector that can provide the enormous potential upside but also with the greatest amount of risk. The group is thus a perfect testing ground in measuring the appetite for speculation."[i]
This perspective appears to be typical among traditional investors. According to RBC Capital analysts, as market volatility increased in 2014, investors lost confidence.[ii]

Many individuals labor under the false notion that biotech and drug discovery companies are cash-rich businesses and have plenty of access to funding. This is a misconception. Early growth biotech companies were hit hard by the recession because they are high-risk, expensive to fund, and go through long, drawn-out regulatory processes. According to former National Institute of Health Director, Elias Zerhoini, "The bubble mentality, where every good idea gets funding, is over."[iii]
There are four main sources of income for the healthcare and biotech sector: strategic investors (namely large pharmaceutical and medical device manufacturers), financial investors (venture capital companies and angel investors), philanthropic investors (foundations and venture philanthropy) and public investors (government agencies).

By the late 1990's, emerging growth biotechnologies began looking for funding mechanisms beyond big pharma. Venture capital was the answer, and for a time, like large pharmaceutical companies, venture capitalists were flooding early biotech companies with funding. Early stage companies were able to secure millions of dollars in capital through venture capitalists for initial funding, and even more money from public offerings. According to Venture Source, venture capital biotech investment peaked in 2007, with a total of $6.17 billion invested in biotech startups.

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As a result of the 2008 economic recession and poor stock offerings, venture financing for biotech has been on the decline. The number of active biotech venture capital companies dwindled to 462 by 2010 from a high of 1,022 in 2000. For many venture capitalists, the high costs and long life cycle of development (paired with small markets, particularly for rare disease treatment research) prompted many firms to steer clear from risky and expensive bets in biotech. In the first three quarters of 2013, ventures in biotechnology hit a 17 year low, according to a Burrill Report on the state of funding in the life sciences industry.[iv]

## Overview of Crowdfunding

Crowdfunding is one of the most novel funding mechanisms to emerge in the past decade and has since established itself as one of the most viable methods of sourcing early-stage and seed capital. Crowdfunding finds its origins from the concept of crowdsourcing, where the "crowd" is used to obtain ideas, solutions, and feedback for the development of activities or initiatives.

The crowdfunding model brings together any number of individuals, generally via the internet, to pool their funds to support efforts initiated by other people or organizations. Crowdfunded projects span a wide range of fields, including disaster relief, funding of startup companies, filmmaking, gaming, and for the purposes of this paper, disease and healthcare research and development. There are four main crowdfunding models: equity-based, lending-based, donation-based, and reward-based. Most crowdfunding platforms require the entrepreneur to meet a certain funding goal within an allotted timeframe; if the designated goal is not pledged by the funders, the funds are then returned to the funders and the project's fundraising campaign on the website is terminated.

Where traditional funding routes like bank loans or venture capital center on investments of large dollar amounts, crowdfunding solicits small contributions from large numbers of people, making the social connections of contributors extremely important for successful campaigns, as it increases the chances of the campaign going "viral", thus reaching as many people as possible.v
Moreover, crowdfunding espouses access to the minds of the donors and crowd, allowing entrepreneurs and project owners to test their idea on and market it to a group before bringing it to market.[vi]

It is estimated that, in 2011, crowdfunding raised $1.5 billion for projects and businesses in need of funds. According to Massolution, a crowd-oriented research and consulting firm, $2.7 billion was raised via crowdfunding in 2012, with 450 platforms active worldwide.vii According to a report commissioned by the World Bank, the global crowdfunding market is expected to reach $93 billion by 2025.[viii]

While reward-based crowdfunding is currently the most popular model, equity and lending based crowdfunding, are expected to transform the way businesses raise capital. In contrast to rewards-based and donation-based crowdfunding, in which the contributor has no expectation of material gain or profit, equity-based and lending-based crowdfunding, sometimes referred to as investment crowdfunding, confer legally enforceable and potentially profitable rights to the investors. The signing of the Jumpstart Our Business Startups Act (JOBS Act) in April 2012 laid down the legal groundwork for equity-based crowdfunding in the US, in an attempt to help startups raise early stage equity-based financing, and reduce the amount of restrictions on equity-based crowdfunding that were present in state and federal securities laws.[ix]

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# Crowdfunding & Biotech

For venture capitalists, early stage growth companies are high risk and are defined by their high attrition rates, high costs of drug development, regulatory and reimbursement unpredictability, and long development lifecycles. This is a major contrast from internet startups, viewed by venture capitalists as more profitable, cheaper to fund, and less dependent on unpredictable regulatory environments. Crowdfunding is an opportunity to provide both primary and supplemental funding to venture philanthropy, strategic and financial investments and suggest new hybrid mechanisms that can breathe new life into medical innovation.

One of the main reasons crowdfunding has become so successful, is because traditional funding mechanisms like banks, venture capital, and angel investors have become increasingly scarce for early-stage capital. As such, the difficult economic climate calls for a reassessment of the ways we support entrepreneurship and innovation. Traditional mechanisms are of central importance and are not to be replaced, but they need revitalizing. Crowdfunding will propel the industry forward and usher in a new era of shared investment, growth, and medical innovation.

However, as crowdfunding edges into the finance market it isn't quite pushing out the traditional modes of finance, nor does it eliminate the need for them. Businesses, big and small, still rely on the institutional investors for scaling and nothing in the rise of crowdfunding suggests that this is likely to change. In fact, crowdfunding is doing much to support its would be competitors. By providing a mechanism that involves retail investors in relatively low investment amounts, crowdfunding is able to spread the risk of investment in early-stage ventures, effectively bridging the gap in finance between self-funding and the stage at which the company has developed to where it becomes a viable investment for the institutional investors.

Digital health is particularly well-suited to crowdfunding because it is not constricted by the same regulatory challenges and long process to market that new medical devices and new drugs face. The age of the internet and digitization are transforming the manner in which doctors, patients, healthcare institutions, and insurance companies communicate, store data, and access information. There is a wealth of opportunities in this field for entrepreneurs.

Establishing communication concerning the progress of the research and campaign is one of the biggest benefits of crowdfunding in the life sciences sector. Often times, large foundations and non-profits do not tell their donors how their money is being spent. Most crowdfunding campaigns include a video presentation, with which entrepreneurs are encouraged to discuss their background, how the project came to be, and to relate other information designed to familiarize the potential contributor with the goal of the campaign.

Since crowdfunding platforms are web-based, individual donors can both familiarize themselves with the company founders and team via their website, and also conduct additional research via the web searches and social networks, in order to gain more background information that may assist the donor in deciding whether or not the company is worthy of investment. For the entrepreneur, creating these large, virtual communities can be beneficial in the long term, providing the company with publicity, access to new customers, knowledge about potential markets, and access to new funding sources.[x]

The virtual communities created by a crowdfunding website, not only connect like-minded users, but by also connecting with social media websites like Twitter, Facebook, Mashable and the rest of the blogosphere, donors and potential donors can get a thorough understanding of the progress of the initiative from a product perspective. Additionally, some studies show that the larger the number of social networking connections the entrepreneur has, the likelier the project is to reach its funding goal.[xi]

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This is particularly important when it comes to crowdfunding in the healthcare sector, and building a community that is based on the patients' social networks. For instance, a donor who has a personal connection to a potential beneficiary of a particular idea or startup may in turn mention it to said person, or to a family member, after reading about it online on social networks and/or on a non-profit or public service website. Considering the nature of the crowdfunding model, which relies heavily on getting large numbers of contributors through social networks and word-of-mouth, not only can a project raise funds in this way, but it may also find volunteers for clinical trials, get valuable suggestions and information from other researchers and scientists, and gain many other non-monetary benefits.

## Advantages and Disadvantages of Crowdfunding for Early Stage Companies

While crowdfunding may seem like an ideal solution for early stage companies, especially rewards-based and donation-based crowdfunding which do not require any consideration in exchange for the funding, success is as much a matter of timing as it is execution.

In 2012, the success rate for crowdfunding campaigns was a staggering 50%. On popular crowdfunding platform, Kickstarter, however the rate was only 44% and on Indiegogo, another popular crowdfunding platform, the success rate was only 34%.xii This may seem like great odds compared to a meeting with a VC or a Silicon Valley investor, however, the time effort and financial commitment that go into the preparation for a crowdfunding campaign make it harder to simply repeat if it is unsuccessful the first time. In contrast, when raising funding through traditional channels much less is required in the way of an ad hoc production.

One of the main differences between crowdfunding and traditional funding is the target audience. This, however, can be an advantage or a disadvantage depending on the circumstances. For instance, crowdfunding campaigns tend to focus on an emotional message and viral marketing techniques, whereas professional investors are more likely to be swayed by qualities such as a strong business plan, a strong team, proven traction, pending patents, etc.

The risk factor may also play an important part in determining which funding mechanism to go with. Early stage companies with unproven products are a much higher risk for institutional investors, which have become more risk-averse in recent years. However, the crowdfunding mechanism, as stated above, spreads the risk of investment across the crowd, making it a much more viable option in some cases.

Another thing to consider is the option for reinvestment. While it may be easier in some cases to raise money for an unproven idea from an excitable crowd, once the idea goes into production complications may arise that require further funding. At this point it may be easier to re-approach a heavily invested partner that understands the nature of business investments, rather than tell a fickle crowd that you can’t deliver on what you promised.

However, in the modern business world it is becoming clearer that a business partner must deliver more than just money in order to compete for investment opportunities. Factors such as business connections, expertise and additional resources may play a huge part in determining whether a potential investor can be more than just “the money”. This is where crowdfunding has perhaps its greatest advantage, namely the crowd asset. A successful crowdfunding campaign, and even an unsuccessful one at times, provides hundreds of backers who are emotionally, as well as financially, invested in the success of the company. In addition to their money, each one of these supporters is a potential advisor and ambassador, bringing their cumulative knowledge, experience and networking to bear. Often times this can have a much greater effect at snowballing a project than a VC or an angel investor would.

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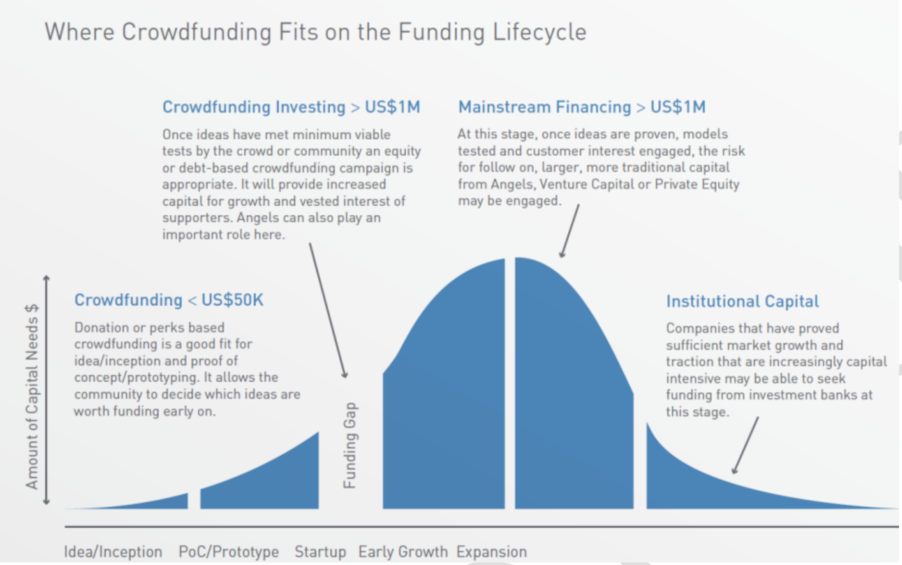
At the end of the day it all comes down to timing. While crowdfunding provides an alternative source of funding, it is not in direct competition with institutional investors. On the contrary, companies that have successfully crowdfunded may find it easier to acquire additional funding through traditional mechanisms as the process itself provides proof-of-concept for the company. The best option for funding depends on the circumstances as well as the company's stage of development. Crowdfunding provides a solution to the gap in funding for early growth companies helping them to reach the next level (see figure below).

FIGURE 1.1. CROWDFUNDING ADOPTION CURVE




## Reward-based Crowdfunding in Biotech and Healthcare

The failure of traditional funding mechanisms to meet the needs of early-stage companies gave rise to crowdfunding as a viable alternative for companies wishing to raise non-dilutive capital. While the more traditional funding mechanisms are not obsolete, their decline during times of economic instability has paved the way for a risk-sharing, cost-sharing, idea-sharing mechanism that is a standard bearer for an ever-growing sharing economy. That isn't to say that crowdfunding will replace the more traditional fundraising mechanisms, but rather that it may evolve to supplement them while carving out a niche for itself in the entrepreneurial finance landscape. Let's take a look at the success stories of reward-based, donation-based, and equity-based crowdfunding.

The UK based crowdfunding campaign iCancer has raised over 2 million pounds so far via donation-based crowdfunding. iCancer aims to raise money to cure "the same cancer as Steve Jobs" (neuroendocrine cancers) and actively appeals to potential backers by appealing to their emotions. The rhetoric is designed to elicit emotion with regard to several points: a) that the therapy is life-saving; b) the memory of a beloved cultural icon like Steve Jobs; and c) the lack of funding and resources behind the team. The website cleverly appeals to people's ingrained feelings of personal responsibility. This type of fundraising is very appealing for many individuals because the money goes directly into finding a cure whereas donating to a charity or foundation makes it harder to know how much of the donation money goes towards funding the oft times bureaucratic fundraising mechanism. The iCancer platform, however, describes exactly how that money will be spent, and donors are made to feel as though they had a real, tangible impact on the discovery of a potential cure for cancer.

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Reward-based crowdfunding platforms Medstartr and Healthtechhatch make use of emotional motivation in the rewards and perks they offer their donors. For example, the Medstartr project, “Together", which aims to enable personalized medicine through big data, raised $7,817 from 18 backers. Donors received rewards like t-shirts, lapels and shout-outs on the Together website and social media. Scanadu Scout is a piece of hardware that measures an individual’s vital signs from a simple forehead scan. The project reached its goal of $100,000 in two hours and then went on to raise $1.5 million dollars, ultimately becoming Indiegogo’s most funded campaign yet. In the United Kingdom, Flossonic Limited raised £126,850 against 12.70% equity for a toothbrush that flosses your teeth while brushing.

As is evident in Flossonic, Scanadu Scout, and Together, many of these projects are more technology focused than biology focused, meaning healthcare technologies and devices may be the most viable and approachable types of investments for donors insofar as the donors do not need a technical understanding or knowledge of the research.

## Wearable Wristbands

According to research from Canalys, 17 million wearable wristbands are projected to ship in 2014. The company predicts the wearable market segments will reach 8 million on an annual basis, with 23 million devices projected by 2015 and 45 million by 2017.[xiii] In a similar vein, smart, wearable wristbands such as Samsung’s Galaxy SmartWatch, the Pebble Watch, and the expected Apple iWatch are being heavily marketed by their respective companies to garner consumer interest. While the wearable bands from Samsung and Pebble differ in both form and function from the basic bands like Angel and Fitbit, the markets are expected to converge in the coming years.

According to Canalys, the basic bands will assume some of the functionalities of the smart watches. Canalys also predicts large opportunities in the health and wellness space, stating “The wearable band market is really about the consumerization of health”, added Canalys Analyst Daniel Matte in a statement. “There will be exciting innovations that disrupt the medical industry this year, and with the increased awareness about personal wellbeing they will bring to users, having a computer on your wrist will become increasingly common.”[xiv]

## Crowdfunding & the Wearable Wristband Market

Among the most successful Kickstarter projects is the Pebble Watch, a watch that displays messages from a smartphone via Bluetooth 4.0. While Pebble Technology founder Eric Migicovsky raised $375,000 through venture capital, the company was unable to secure additional funding and turned to Kickstarter to run a crowdfunding campaign. Utilizing the reward-based crowdfunding model, Pebble Technology set a goal of $100,000 for a five-week campaign where individuals who pledge $115 receive a Pebble Watch when they become available. Donors are essentially pre-ordering the watch at a discounted price of $115 rather than waiting for the watch to become commercially available at the retail price of $150. At the end of the five week campaign, the Pebble Watch had raised $10,266,844 from 68,928 people.[xv]

The success of the Pebble Watch offers important lessons about the non-monetary benefits of crowdfunding for Angel – crowd wisdom and feedback. The crowdfunding model creates a platform of communication between the funders and the company, whereby the funders can offer feedback and suggestions for the product. Based on feedback from funders, Pebble Technology altered the watch to make it water-resistant, an important feature that came from the virtual community of Pebble donors and potential buyers rather than Pebble employees.

The difficulties in raising funds in the healthcare industry also apply to those seeking to raise funds in the consumer goods industry. Like many founders of early growth companies in the

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healthcare sector, Migicovsky of Pebble Technology was qualified and knowledgeable in his field, experiencing earlier success with a Blackberry-compatible smart watch called the inPulse. Despite the acclaim he received for the inPulse, venture capitalists and angel investors in Silicon Valley rejected the Pebble. In an interview with the Los Angeles times, Migicovsky stated "I wasn't extremely surprised," Migicovsky told The Times. "Hardware is much harder to raise money for. We were hoping we could convince some people to our vision, but it didn't work out."[xvi]

What is compelling about the Pebble Watch is that the rejection of funding from traditional sources was by no means a reflection on the experience or quality of either the business idea or the entrepreneurs. It's an issue of perceived risk. With that in mind, the real potential crowdfunding has for revolutionizing fundraising stems from the fact that it hones in on the emotional quotient, whereby individual donors choose to fund initiatives that hold intrinsic and emotional values for them. To the supporters of the Pebble Watch, the watch is new, cool and geeky. They also get to own one before the product goes to market, and for many people the perceived social value of being an "early adopter" is worth the investment. The impetus for donors in crowdfunding is largely intrinsic to the product and based on personal taste, social norms and emotional values. Whereas banks, venture capitalists and angel investors are tied to inherently risk-averse business models.

# Angel

## Background

Seraphim Sense Ltd is a startup based in Tel Aviv, Israel. Founded by Eugene Jorov and Amir Schlomovich, the company's first product is the Angel sensor, a smart wristband with the ability to track the user's vital signs. The Angel device has been under development for the past two years. In 2013, Seraphim Sense launched a crowdfunding campaign on the web-based platform www.Indiegogo.com, where it raised $334,521 globally from 1873 donors. The company estimates that the first Angel sensor will hit the market in April of 2014. The organization has intimated its intention to seek FDA approval for the Angel sensor, which would make the sensor a medical grade device. Additionally, the sensor will support apps for both iOS and Android and will be accessible by web API.

"My passion here is noninvasive monitoring[of] blood pressure, cardiac output, blood-sugar levels," Mr. Jorov said. "Chemical sensors are going to be the new rage. Patch electronics combined with chemical sensing—I don't know what is going to come out, but it is going to be really incredible."[xvii]

## Product overview: Angel

Given the competitive nature of the apparel manufacturing industry, the efficiency in which raw material is procured and supplied is paramount. Any inefficiencies are translated into smaller margins, or an inability to compete on costs. In terms of sourcing, Tefron continuously strives towards achieving four goals: reducing the costs of raw material, preventing any dependence on suppliers, utilising technologically advanced materials, and cutting supply times, which allows Tefron to reduce the inventory of raw materials, shorten production lead time and thus reduce costs. There are times, however, when market conditions present an opportunity to procure raw materials at an advantageous price, at which times the company has the ability to purchase and store the material, thereby reducing overall production costs. Customers typically send projected product requirements between six and 12 months in advance of the delivery requirements and place firm orders between three to six months prior to the desired delivery date. This lead time allows Tefron to coordinate raw material procurement with its usage and to adjust production levels in order to meet demand.

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## Production

Tefron's product line includes knitted briefs, bras, tank tops, boxers, leggings, T-shirts, daywear, nightwear, bodysuits, swimwear, beach-wear, active wear, and accessories in different styles, colour and yarn combinations. It manufactures cotton-knit products using advanced proprietary manufacturing techniques, and also produces fine products from synthetic yarns, including micro-fibres, using C&S manufacturing process and the highly automated Hi-Tex manufacturing process. The company produces intimate apparel and active wear from both its C&S and seamless division. The production of swimwear for Macro remains a pure C&S activity. As a traditionally production-orientated company and one faced with cheap competitors from the Far East, Tefron has had to continuously improve its production capabilities. In line with its policy of raw material procurement, the company only produces to fill firm orders, having an inventory of only eight weeks. This reduces the costs of storage and wastage. As a company which strives to distinguish itself on technological capabilities, it makes significant capital expenditures to retain its advantage. Furthermore, where possible and preferable, Tefron has increased its vertical integration in order to secure supply levels and reduce costs. In other places, where it is more cost-efficient, production is outsourced to locations where labour costs are cheaper. In 2001 Tefron began outsourcing labour-intensive production to Jordan, where currently over 90% of C&S operations are carried out.

Tefron's C&S division has acquired a dyeing-and-finishing facility that can satisfy a significant portion of its needs in-house. The remainder is outsourced to subcontractors in Israel. The Hi-Tex division subcontracts almost all of its dyeing-and-finishing needs. Tefron has also established testing procedures which examine all fabric upon return to the factory, to ensure colour consistency, stability and durability of the dyed fabric.

## Marketing

Most of Tefron's customers are primarily wholesalers, who supply retailers, and in some cases operate retail operations as well. The price that Tefron charges for its products represent approximately 20% of the final retail price, the remainder 80% is accounted for by the remaining links in the chain of supply. Tefron's collaboration with customers in the design and development of their products strengthens its relationships with its customers and improves the quality of its products. Its relationship with VS began in 1991, with Banana Republic and The Gap in 1993, with Warnaco/Calvin Klein in 1994, and with Target and J.C. Penny in 2000,  in addition to relationships with Mervyn's, Puma, Patagonia, Adidas, Reebok and other well known American retailers and designer labels.  In 2003 it began its relationship with Nike. Approximately 92% of its sales in 2004 and in 2005 were made to customers in North America. While these relationships are crucial, they are not inviolable. Tefron's competitors, especially those from the Far East, have also established relationships with its customers, which has caused an erosion of prices of some of the products in the C&S division. The reason that Tefron has so far concentrated on the US market, and not the European one, is due to the different characteristics of each market. The European market is more fragmented where large retailers, for the most part, have limited operations beyond their own country. The size of the American market offered more sales potential, and American companies are more willing to embrace new products or concepts that represent a point of differentiation over competitors.

## The growth dilemma

In 2005 and 2006, Tefron was seeing results from its strategy begun at the end of 2002 to transform from an intimate apparel company with one anchor customer, to a more diversified active wear, swimwear and intimate apparel company with a broader customer base. Tefron's expansion into active wear and swimwear has provided it with an opportunity to increase sales to a larger customer base, including Nike, Reebok, Patagonia, Target, Swimwear Anywear and others. During 2006, sales



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of active wear and swimwear products accounted for 46.4% of overall sales, compared to 40.7 in 2005 while in 2004 sales of these products accounted for 20.5% of overall sales only.

The growth in sales during 2005 and 2006 were due mainly to the significant growth in sales of active wear, and in particular sales to Nike for their Nike Pro category. Tefron is looking to further expand its relationship with Nike. The objective is to broaden product lines while entering into new categories and increase the visibility of its Engineered For Performance EFP(TM) technology.

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# Appendices

## Exhibit 1: Israeli competitors

### Delta Galil

Delta Galil Industries Ltd. is a leading global apparel company specialising in intimate apparel, men's underwear and socks. The Company produces customised, innovative fashion and basic apparel for leading retailers and brands around the world. In 1998 Delta began seamless apparel operation, adding to the variety of products in its offer. Since its inception in 1975, Delta has expanded from its original base in Israel to encompass design, development and manufacturing centres on four continents and service more than 50 customers in the US, the UK, continental Europe and Israel.

The company markets its products primarily in the United States, Israel, Canada, and Europe. Customer list encompasses Ralph Lauren, Calvin Klein, Hugo Boss, Nike, Puma and others, as well as leading retailers such as Marks & Spencer (UK), Wal-Mart, J.C.Penney, Target, Victoria's Secret (US), Hema (The Netherlands), Carrefour (France) and others. The Company is a licensee of prominent brands such as Wilson, Converse, Maidenform, Jeffrey Fulvimari, Barbie, Petit Bebe, Pierre Cardin and others. In addition, Delta sells garments under the Delta brand name in Israel, along with Fox, Disney and other licenses.

Delta Galil had sales of $684m in 2005 and employed about 13,500 people with an emphasis on production in low labour cost countries.

### Gibor

Gibor Sport Activewear, established in 1982, is a leading global designer and producer of high-quality performance socks and active wear for women and men. Gibor manufactures a collection of high-performance socks, which range from all-purpose to sports-specific socks, such as running, skiing, soccer and others. Complementing the sock collection, are Gibor Sport's seamless active wear, produced through the Gilon Sportswear subsidiary. These products includes beanies, vest tops, bra tops, pants, sleeved tops, hats, head and arm warmers, shorts and skirts.

Gibor was among the first companies involved in seamless sock production, and then took seamless manufacturing to a new level by helping pioneer the development of a circular knitting machine and process technology dedicated to activewear with the use of the most advanced yarns and state-of the-art machinery for production.

Gibor Sport customer base features many of the world's leading sports apparel brands (Nike, Speedo, Adidas and Reebok) and department stores. Gibor's active wear is worn by leading athletes, including several Nike-sponsored athletes and members of the English national soccer team, who wear Gibor Sport socks and shirts supplied by Umbro.

The company invests heavily in research and development**,** and has manufacturing plants in Israel, Turkey and Jordan. In 2005 it posted sales of $30m, 87% from socks and 13% from seamless active wear

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## Exhibit 2: Apparel companies

### Abercrombie & Fitch

Abercrombie & Fitch Co., founded in 1892 and is headquartered in New Albany, Ohio, through its subsidiaries, operates as a specialty retailer in the United States and Canada. Its stores sell casual apparel, such as knit shirts, graphic t-shirts, jeans, woven shirts, and shorts; and personal care and other accessories for men, women, and kids under the Abercrombie & Fitch, Abercrombie, Hollister, and RUEHL brands. The company offers polos, humour tees, logo tees, athletic tees, sleeveless tees, shirts, shorts, surf or active shorts, pants, woven shirts, denim, outerwear, underwear, belts, jewellery, adjustable caps, stretch fit caps, flip flops, and cologne for men. It also provides polos, open neck knits, open neck graphics, shoulder show-off, ponchos, humour tees, vintage tees, tanks or camis, tube/halter tops, knits, shirts, denim minis, knit/woven minis, shorts, pants, fleece, sweaters, sleepwear, intimates, swimwear, totes/bags, belts, flip flops, and personal care for women. In addition, the company's stores offer films, photos, postcards, desktop images, and screen savers. As of April 1, 2006, it operated 850 stores in 49 states, the District of Columbia, and Canada. The company revenues of $2.8bn in 2005, and $334m net profit.

### Limited

Founded in 1963, with one women's apparel store in Columbus, Ohio, Limited Brands has grown into more than 3,500 stores and seven retail brands in the United States, and employs 18,000 people.

The company sells women's intimate apparel, personal care and beauty products, and women's and men's apparel. It has three segments: Victoria's Secret, Bath & Body Works, and Apparel. The Victoria's Secret segment retails women's intimate and other apparel, beauty products, and accessories through retail stores, catalogue, and e-commerce. As of January 2006, it operated 998 stores. The Bath & Body Works segment retails personal care, beauty, and home fragrance products. As of the above date, it operated 1,555 stores. The Apparel segment includes Express stores, which offer women's and men's apparel, sportswear, and accessories; and Limited stores, a mall-based specialty store retailer of sportswear for women. As of the above date, it operated 743 Express stores and 292 Limited stores. The company also operates specialty stores in New York City; and Columbus, Ohio that feature fashion and personal care products for high-income women. Sales for 2005 were $ 9.7bn, with a net profit of $683m.

### Maidenform brands, Inc.

Maidenform Brands, Inc., an intimate apparel company, together with its subsidiaries, engages in the design, source, and marketing of various intimate apparel products worldwide. Its products include bras, panties, and shapewear, which are sold under Maidenform, Flexees, Lilyette, Self Expressions, Sweet Nothings, Bodymates, Rendezvous, and Subtract brands. The company sells its products through various distribution channels, including department stores, national chains, mass merchants, specialty stores, off-price retailers, and company-operated outlet stores, as well as through web sites. At the end of 2005 the Bayonne, New Jersey company had revenues of $382m with a profit of $9m, and operated 74 outlet stores.

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## The Gap Inc.

The Gap, Inc. operates as a specialty retailing company primarily in the United States. It operates retail and outlet stores that sell casual apparel, accessories, and personal care products for men, women, and children under the Gap, Old Navy, Banana Republic, and Forth & Towne brands. The company provides a range of products, including denim, khakis, and T-shirts, fashion apparel, shoes, accessories, intimate apparel, and personal care products. It also offers products through gap.com, bananarepublic.com, and oldnavy.com Web sites in the United States. As of March 22, 2006, the company operated approximately 3,000 stores in the United States, Canada, the United Kingdom, France, and Japan. The Gap, Inc. was co-founded by Doris F. Fisher and Donald G. Fisher in 1969. The company is headquartered in San Francisco, California. 2005 revenues for Gap Inc. totalled $16bn with $1.1bn net profit.

## VF Corp.

VF Corporation is one of the worlds largest apparel companies, founded in 1899. VF has grown by offering consumers high quality, high value branded apparel with a will to understanding consumer needs and work in partnership with its retail customers, VF's goal is to be the world's most responsive apparel company.

VF Corporation, through its subsidiaries, engages in the design, manufacture, and marketing of branded apparel and related products in the United States and internationally. Its product line includes jeanswear, outdoor apparel, intimate apparel, imagewear, and sportswear. The products comprise denim and casual tops, bottoms, backpacks, bookbags, luggage, outdoor gear, skateboard-inspired footwear and apparel, surf-inspired footwear and apparel, women’s lingerie, occupational apparel, licensed sports apparel, athletic apparel, and fashion sportswear. The company offers its product lines under various brands, including Lee, Wrangler, Riders, Rustler, Vanity Fair, Vassarette, Bestform, Lily of France, Nautica, Earl Jean, John Varvatos, JanSport, Eastpak, The North Face, Vans, Napapijri, Kipling, Lee Sport, and Red Kap brands. It sells these products through specialty store, department store, midtier, chain store, and discount store channels, as well as through licensees and distributors. The company was and is headquartered in Greensboro, North Carolina.

Core Strategies of VF include Building a portfolio of strong brands that deliver great value to consumers, target VF brands to reach a variety of consumer segments across all retail channels, grow international presence and lead the industry in responsive service and maintain conservative financial policies. VF Inc. 2005 revenues were $ 6.2bn and profit was $ 0.53bn.

## Victoria's Secret

Victoria's Secret is the leading specialty retailer of lingerie and beauty products, dominating its world with modern, fashion-inspired collections, prestige fragrances and cosmetics, celebrated supermodels and world-famous runway shows. Victoria's Secret is the largest subsidiary of Limited Brands (based on sales) and the biggest specialty retailer of women's intimate apparel in the US.

Bras, panties, hosiery, and more are sold under the Victoria's Secret brand and grouped in collections such as Body By Victoria and Very Sexy. Many Victoria's Secret lingerie stores feature beauty products that are also sold at some 100 stand-alone Victoria's Secret Beauty Stores in the US. Victoria's Secret Direct mails more than 400 million of its sexy catalogues per year, offering intimate apparel, women's clothing, and footwear. Operating about 1,000 Victoria's Secret lingerie stores in the US, mostly mall-based posted sales of $ 3.2bn in 2006.

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## Volcom

Volcom, Inc. engages in the design, marketing, and distribution of clothing, accessories, and related products in the United States and internationally. The company defines itself as the epicentre of board sports culture, an innovative designer, marketer and distributor of premium quality young men's and young women's clothing, accessories and related products under the Volcom brand name. Company products, which include t-shirts, fleece, bottoms, tops, jackets, board shorts, denim and outerwear, incorporate distinctive combinations of fashion, functionality and athletic performance.

Its products include t-shirts, fleece, bottoms, tops, jackets, board shorts, denim and outerwear, combines fashion, functionality, and athletic performance primarily for young men and women. The company offers accessories to the board sports of skateboarding, snowboarding, and surfing. It also offers various other accessories, including hats, wallets, ties, belts, and bags. At the end of the financial year of 2005, Volcom operated one Volcom branded retail store in Los Angeles. It also offered its products through online. In addition, the company sells music under its Volcom Entertainment label. It offers its products primarily to retail stores. Volcom was founded by Richard R. Woolcott and Tucker Hall in 1991 in Orange County, California. It was formerly known as Stone Boardwear, Inc. and changed its name to Volcom, Inc. in 2005. The company is based in Costa Mesa, California. In 2005 Volcom's achieved sales of $160m, with a $29m net profit.

## Warnaco

The Warnaco Group was founded in 1874 and is headquartered in New York City. Originally, the company designed, manufactured and sold Warner’s corsets to retailers. Warnaco evolved into a multi-brand, multi-channel apparel company, which endeavours to provide fashion for a country and a world in change. Warnaco engages in the design, manufacture, marketing, and sale of intimate apparel, menswear, jeanswear, swimwear, men's and women's sportswear, and accessories worldwide.

Warner products are distributed domestically and internationally, primarily to wholesale customers through multiple distribution channels, including major department stores, independent retailers, chain stores, membership clubs, specialty and other stores and mass merchandisers and the internet, including such leading retailers as Macy's and other units of Federated Department Stores, J.C. Penney, Kohl's, Sears, Target, Costco and Wal-Mart.

The company offers its products under various brand names, including Warner's, Olga, Lejaby, Body Nancy Ganz, Speedo, Anne Cole, Op, Ocean Pacific, Cole of California, and Catalina, as well as Chaps, J. Lo by Jennifer Lopez, Nautica, Michael Kors, and Calvin Klein. Its intimate apparel product line includes bras, panties, sleepwear, loungewear, shapewear, and daywear for women; and underwear and sleepwear for men. The company’s sportswear product line comprises jeanswear, knit and woven shirts, tops and outerwear for men, women, and juniors. Its swimwear product line includes swim accessories, and fitness and active apparel for men, women, juniors, and children. The company distributes its products to wholesale customers through various channels, including department and specialty stores, independent retailers, chain stores, membership clubs, mass merchandisers, and the Internet. The company sold $1.5bn in 2005, with $49.5m profit and has 10,000 employees. It operates 121 Calvin Klein retail stores, two Speedo outlet stores, and one online store.

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## Exhibit 3: Activewear companies

### Gildan activewear

Gildan Activewear, Inc. engages in the manufacture and marketing of basic activewear for sale principally into the wholesale imprinted activewear market in Canada, the United States, Europe, and Asia/Pacific. The company manufactures and sells 100% cotton t-shirts and 50% cotton/50% polyester t-shirts, placket collar sport shirts, and fleece products in various weights, sizes, colours, and styles. It also sells its products as 'blanks', which are decorated with designs and logos for sale to end users. Gildan's silhouettes include basic t-shirts, long sleeve and sleeveless t-shirts, ringer tees, tank tops, pocket t-shirts, basic sport shirts, pocketed sport shirts, crewneck sweatshirts, hooded sweatshirts, and sweatpants. The company was incorporated in 1984 under the name Textiles Gildan, Inc. and changed its name to Gildan Activewear, Inc. in 1995.

Gildan's corporate head office is located in Montreal, Canada. The company has over 15,000 full-time employees around the world. The company sold in 2005 $ 773m and posted a $ 106m profit and is listed on the Toronto Stock Exchange and the New York Stock Exchange.

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### Lululemon Athletica

Lululemon Athletica is a yoga-inspired athletic apparel company that provides components for people to live longer, healthier and more fun lives. Lululemon was founded in 1998 in Vancouver, Canada by Chip Wilson, based on the increase in the number of females participating in yoga and athletics offering technical apparel with flattering cuts for both women and men. In addition to yoga wear, Lululemon Athletica offers clothing for running, cycling, hiking, rock climbing, and other sports. The company also offers yoga props and accessories - including mats, straps, and blocks. Lululemon values the correlation between health and athletics and aspires to raise the level of health in every community it touches.

As of mid 2006 Lululemon had 51 stores in Canada, the USA, Japan and Australia. Manufacturing for Lululemon is done by factories in Canada, the USA, Israel, China, Taiwan, Indonesia and India.

### Nike

Nike was co-founded by Philip H. Knight in 1964 and is headquartered in Beaverton, Oregon. Once a small company when established Nike is a giant player in it's field. Through its subsidiaries, NIKE, Inc., engages in the design, development, and marketing of footwear, apparel, equipment, and accessory products worldwide.

Nike designs athletic, casual, and leisure footwear for men, women, and children. The footwear products include running, cross-training, basketball, soccer, and sport-inspired urban shoes designed for tennis, golf, baseball, football, walking, hiking, outdoor activities, skateboarding, bicycling, volleyball, wrestling, cheerleading, aquatic activities, and other athletic and recreational uses. The company sells sports apparel and accessories, athletic bags, and accessory items; and offers licensed college and professional team and league logos. It offers a line of performance equipment under the Nike name, including golf clubs and balls, sport balls, eyewear, timepieces, electronic devices, bats, gloves, protective equipment, and other equipment designed for sports activities. The company provides licenses to produce and sell NIKE brand swimwear, cycling apparel, children's clothing, school supplies, electronic devices, eyewear, golf accessories, and belts.

Nike manufactures and distributes ices skates, skate blades, protective gear, hockey sticks, licensed apparel, and accessories. The company sells its products to retail accounts, through its owned retail stores, and through a mix of independent distributors and licensees. In 2005, this growing player achieved almost $15bn in sales with a net profit of $1.4bn. As of May 31, 2006, it operated 212 retail stores in the US and 206 retail stores internationally with an intention to grow by 100 more in the coming year, enhancing it's US and global market share.

## Under Armour

Under Armour, Inc. engages in the design, development, marketing, and distribution of branded performance products for men, women, and youth in North America and internationally. This young company was founded by former University of Maryland football player Kevin Plank in 1996 as a simple plan to make a superior T-shirt. The company formerly known as KP Sports, Inc., changed it's name in 2005 to Under Armour, Inc. The company defines its mission to provide the world with technically advanced products engineered with our superior fabric construction, exclusive moisture management, and proven innovation.

Under Armour is considered by some as the originator of performance apparel - gear engineered to keep athletes cool, dry and light throughout the course of a game, practice or workout. Under Armour markets and sells a range of apparel, footwear, and accessories for use in athletics and outdoor activities, as well as for use as casual apparel. It offers long and short sleeve T-shirts, shorts, sweats, socks, performance bags, baseball batting gloves and football gloves, underwear, and other related products; and products for use in outdoor activities, such as hunting, fishing, and mountain sports. The technology behind Under Armour's diverse product assortment for men, women and youth is complex, but the program for reaping the benefits is simple: wear HeatGear when it's hot, ColdGear when it's cold, and AllSeasonGear between the extremes.

The company sells its products primarily through smaller, independent, and specialty retailers. It also sells its products directly to athletes and other users through its sports marketing group and to consumers through four retail outlet stores in the United States, as well as through its Web site. 2005 revenues were $281m, with a net profit of $18m.

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## Exhibit 4: Premier apparel company sales world wide

| | $ m | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| Gildan | 533 | 654 | 773 |
| Limited | 8,934 | 9,408 | 9,699 |
| Maidenform | 293 | 337 | 382 |
| Nike | 12,253 | 13,740 | 14,955 |
| Tefron | 125 | 149 | 171 |
| Under Armour | 115 | 205 | 281 |
| VF Corp. | 5,207 | 6,055 | 6,502 |
| Warnaco | 1,374 | 1,424 | 1,501 |

*Source:* Company fillings. Tefron adjusted without Alba Health

**Exhibit 5: Tefron growth engines**

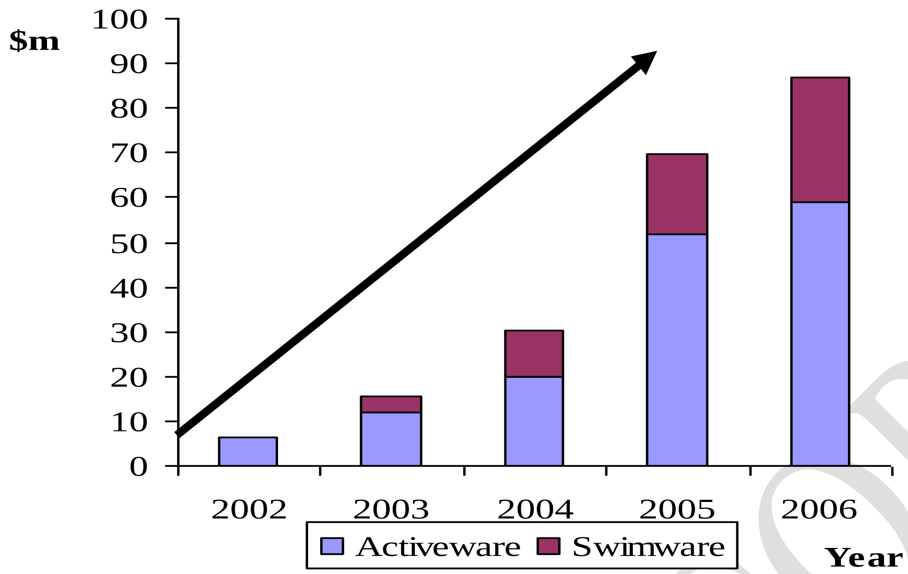


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**Exhibit 6: Tefron sales by product lines**

| Sales $ m | | | | |
|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** |
| **Cut & Sew** | | | | |
| **Intimate Apparel** | 48.0 | 47.4 | 37.6 | 53.1 |
| **Activewear** | 1.6 | 7.6 | 6.1 | 5.0 |
| **Swimwear** | 3.7 | 10.3 | 17.8 | 27.8 |
| **Cut & Sew total** | 53.4 | 65.3 | 61.5 | 85.9 |
| **Seamless** | | | | |
| **Intimate Apparel** | 61.0 | 70.9 | 64.1 | 47.8 |
| **Activewear** | 10.4 | 12.5 | 45.8 | 54.4 |
| **Seamless total** | 71.4 | 83.3 | 109.9 | 102.2 |
| **Total Revenue** | **124.8** | **148.6** | **171.3** | **188.1** |

**Exhibit 7: Apparel underwear world market by percentage, 2006**

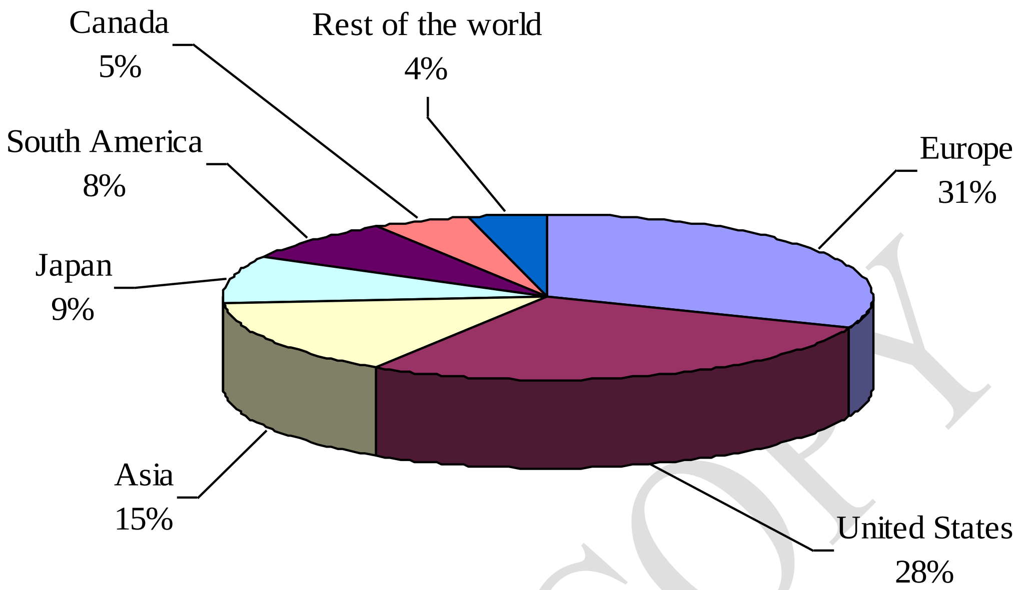


**Exhibit 8: Tefron revenues and manufacture location by product lines**

<table>
<tr><th></th><th colspan="3">Cut & Sew</th><th colspan="2">Hi-Tex</th></tr>
<tr><th></th><th>Activewear</th><th>Swimwear</th><th>Intimate Apparel</th><th>Intimate Apparel</th><th>Activewear</th></tr>
<tr><td>% of 2005 Apparel Revenue</td><td>4%</td><td>10%</td><td>22%</td><td>37%</td><td>27%</td></tr>
<tr><td>Knit & Cut</td><td>Israel (own plants)</td><td rowspan="2">Far East (sourced)</td><td>Israel (own plants)</td><td>Israel (own plants)</td><td>Israel (own plants)</td></tr>
<tr><td>Sew</td><td>Mostly Jordan (own plants)</td><td>Mostly Jordan (own plants)</td><td>Israel / Jordan</td><td>Israel / Jordan</td></tr>
</table>

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## Exhibit 9: Tefron sales by geographical area 2003-2005

| | $ 1,000 | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| North America | 116,410 | 134,715 | 153,984 |
| Europe | 4,350 | 8,044 | 11,074 |
| Israel | 2,782 | 2,892 | 3,865 |
| Other | 1,258 | 2,969 | 2,413 |
| **Total** | **124,800** | **148,620** | **171,336** |

## Exhibit 10: Tefron sales to main customers by $ 1,000

| | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|
| VS | 62.2 | 49.8% | 70.4 | 47.4% | 69.3 | 40.5% |
| Nike | 5.3 | 4.2% | 12.4 | 8.3% | 44.1 | 25.7% |
| Target | 14.8 | 11.9% | 24.4 | 16.4% | 18.5 | 10.8% |
| The GAP/Banana | 9.2 | 7.4% | 11.5 | 7.7% | 9.2 | 5.4% |
| Other | 33.3 | 26.7% | 29.9 | 20.1% | 30.2 | 17.6% |
| Total | 124.8 | 100.0% | 148.6 | 100.0% | 171.3 | 100.0% |

* Figures excluding Alba Health

## Exhibit 10.1: Alba Health

In 1999 Tefron acquired Alba Health which manufactures and sells textile healthcare products. In December 2005 Tefron exercised its option under the Alba Health Put Option Agreement to sell our ownership interest in Alba Health. The deal was closed in April 2006, a move described by Yosi Shiran, Tefron's CEO, as a strategic move to better focus on Tefron's core businesses - intimate apparel, active wear and swim wear. Alba Health accounted for $34.2m or 16.7% of Tefron's sales in 2005. Under the sale agreement Tefron will receive approximately $13 m (of which approximately $10m paid in cash and $3m in a subordinated note).

## Exhibit 11: Santoni & world production capacity

The sole supplier of seamless knitting machines is Santoni. The company, which is based in Italy, was founded in 1919 to make machines that manufactured hosiery. The challenge in the seamless machinery field took as a result of the crisis and the following strong drop of production in the hosiery industrial segment. At that point the Lonati Group introduced the prototype circular knitting machine, which was built using a technology similar to the hosiery one. This innovative machinery allowed to knit ready-made apparel, something fully different from what had been done up to that time. Seamless

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knitting machines were initially developed at the Lantoni Company in Italy in 1988. In 1989, Santoni joined the Lantoni Company and began the commercial production of seamless knitting machines. Within a few years, demand began to grew, and by 1999 Santoni focused solely on the production of these machines. There are approximately 15,000 Santoni machines in the world today, and are currently being produced at a rate of about 1,500 per year, with an average cost of about $90,000.

These innovative machines are able to produce 200 apparel products a day, one every 5-10 minutes, producing a yearly volume of $200,000-250,000 per machine every year (in wholesale cost). The machines are also continuously being developed and improved. According to Santoni the company's machinery today is delivering an estimated 97% of world demand for seamless wear and is present in seventy countries. The company has no more than 400 customers world wide, only a few of which have more than 100 machines, while the average is approximately 50 machines per manufacturer. The largest costumers are Tefron with 900 machines, Sara Lee with about 350, a company in Sri Lanka (MIS) with about 250 machines and Delta with 200. The true potential of seamless is considered by Santoni as a billion dollar market which has only reached 10% of its true potential.

### Exhibit 11.1: Santoni machines

SM8 V.E.

Santoni SM9 model

*Source:* Santoni site

**Exhibit 12: Consolidated statement of income (excluding Alba Health)**

| Tefron Ltd. Consolidated Statement of Income US $ thousands | | | | |
|---|---|---|---|---|
| | 31/12/2003 | 31/12/2004 | 31/12/2005 | 31/12/2006 |
| **Sales, net** | **124,799** | **148,620** | **171,336** | **188,104** |
| **Cost of sales** | 113,622 | 136,424 | 141,621 | 145,144 |
| | | | | |
| **Gross profit** | **11,177** | **12,196** | **29,715** | 42,960 |
| | 9.0% | 8.2% | 17.3% | 22.8% |
| | | | | |
| **Selling, general and administrative expenses** | **14,299** | **16,912** | **13,579** | **17,077** |
| | | | | |
| **Operating income (loss)** | **(3,122)** | **(4716)** | **16,136** | **25,883** |
| | n/a | n/a | 9.4% | 13.8% |
| | | | | |
| Financial expenses, net | 4,020 | 3,888 | 3,189 | 1,912 |
| | | | | |
| **Income (loss) before taxes on income** | **(7,142)** | **(8,604)** | **12,947** | **23,971** |
| | n/a | n/a | 7.6% | 12.7% |
| | | | | |
| Taxes on income (tax benefit) | (616) | 83 | 4,297 | 5,711 |
| Equity in losses of affiliated companies | (183) | | | |
| | | | | |
| Pre-acquisition earnings of subsidiary since April 1, 2003 through May 5, 2003 | (85) | | | |
| | | | | |
| Income from continuing operation | (6794) | (8687) | 8650 | 18,260 |
| | | | | |
| Income (loss) from discontinued operations | 2341 | 1822 | (5357) | 120 |
| | | | | |
| **Net income (loss)** | **(4,453)** | **(6,865)** | **3,293** | **18,380** |
| | n/a | n/a | 1.9% | 9.8% |

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## Exhibit 13: Tefron Ltd. balance sheets (excluding Alba Health)

| Tefron Ltd. Balanced Sheets US $ thousands | | | | |
|---|---|---|---|---|
| | 31/12/2003 | 31/12/2004 | 31/12/2005 | 31/12/2006 |
| **Current assets:** | | | | |
| Cash and cash equivalents | 3,784 | 2,462 | 7,652 | 3,966 |
| Short term deposit | | | | 10,089 |
| Marketable securities | | | | 4,975 |
| Trade receivables | 20,705 | 17,176 | 25,978 | 30,655 |
| Other accounts receivable and prepaid expenses | 5,728 | 5,545 | 4,956 | 4,166 |
| Inventories | 28,651 | 30,122 | 26,382 | 28,912 |
| | **58,868** | **55,305** | **64,968** | **82,763** |
| **Long Term investments:** | | | | |
| Deferred taxes | 3,428 | 2,486 | | |
| Investment in affiliated company | 296 | | | |
| Bank deposit | | | | 1,029 |
| Severance pay funds | 217 | | 634 | 778 |
| Subordinated note | | | | 3,000 |
| Other | 56 | | | |
| | **3,997** | | **634** | **4,807** |
| | | | | |
| Property, plant and equipment, net | **91,061** | **87,672** | **80,859** | **77,086** |
| Goodwill | **122** | | | |
| Other assets, assets attributed to discontinued operations and deferred charges | **47,543** | **46,068** | **40,053** | |
| | | | | |
| Total assets | **201,591** | **191,531** | **186,514** | **164,656** |
| **Current liabilities** | | | | |
| Short-term bank credit | 25,319 | 15,543 | 14,713 | -- |
| Current maturities of long-term debt: | | | | |
| Loans from banks and others | 10,328 | 9,039 | 6,373 | 5,948 |
| Capital leases | 975 | 17 | -- | -- |
| Trade payables | 26,863 | 27,072 | 27,865 | 31,143 |
| Conditional obligation with respect to issuance of shares | | 3,454 | -- | -- |
| Other accounts payable and accrued expenses | 10,327 | 8,704 | 8,721 | 10,402 |
| | **73,812** | **63,829** | **57,672** | **47,346** |
| **Long term liabilities** | | | | |
| Loans from banks and others | 47,472 | 41,908 | 35,535 | 19,322 |
| Capital leases | 130 | | | |
| Deferred taxes | 7,570 | 5,611 | 9,116 | 12,313 |
| Accrued severance pay | 2,486 | 2,744 | 2,695 | 3,298 |
| | **57,658** | **50,263** | **47,346** | **34,933** |
| | | | | |
| **Liabilities and minority interest attributed to discontinued operations** | **33,466** | **30,695** | **26,811** | **--** |
| | | | | |
| **Shareholders equity** | **36,655** | **46,744** | **54,685** | **82,230** |
| | | | | |
| **Total liabilities and share holders equity** | **201,591** | **191,531** | **186,514** | **164,656** |

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