

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES      JOSEPH MORGENSTERN, PUBLISHER  
January 2006 Vol. XXI Issue No.1      You are invited to visit us at our website: <http://ishitech.co.il>

## Israeli Venture Capitalists Miss the Mark



Venture capital provides a source of funds through investment, usually for companies or projects that are un the start-up or at a very early stage of product development. These projects and organizations generally would not attract sources of finance such as loans and could not raise money in the major public stock markets.

The role of venture capital in enterprise development in developing countries is critical. The collateral of emerging enterprises is not incorporated in fixed tangible assets like plant and machinery, but more on elements like market access, human capital, intellectual property and goodwill. Manpower and financial needs in new companies are generally focused on research, development and introduction of a product into the marketplace, production and manufacturing. This results in initial low or negative cash flows and the need to finance these companies rests on potential future earnings rather than current profits. These factors make it difficult for new and emerging companies to obtain traditional financing.

We believe that in the area of financing start-ups the Israeli venture capital industry is lagging sadly behind its overseas counterparts. According to a recent IVC Center Research report Israeli venture capital companies thirteen seed companies attracted \$34 million, 10 percent of the total amount raised in Q3. During the first three quarters of the year, seed companies attracted eight percent of the total funds, compared with six percent in Q1-Q3 2004.

By contrast American seed and early stage companies accounted for 36.8% of all companies funded in the second quarter, according to the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association

MoneyTree Survey.

These figure indicate that the Israeli venture capital financing industry is far from being venturesome and that it underperforms in the area, which is basic to its tenets. There is a yawning chasm between its funding of local start ups as compared with the American industry.

Notwithstanding the industry has badgered the Government for preferential conditions for foreign investors. Perhaps most damning are the poor returns

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Israeli Venture Capitalists Miss the Mark  
Dr. Gallo co-discoverer of the HIV virus  
TASE big winners: Ormat and NICE  
Ben-Gurion University gets its coveted train station  
High tech to grow 6% in 2005  
Israel test-fires missile  
Intel to build chip plant  
Virginia to support four medical device companies  
Israeli stem cell research training slated for NJ  
Elmo-Tech launches remote alcohol monitoring Pilot in Sweden  
AOL launches mobile search  
IDesia raises \$3m. from Partech  
Mobile phone may detect breast cancer  
ApNano' Particles - Ultra-Strong Shock Absorbing Material  
UltraShape raising \$15m.  
Camera Can Wirelessly Relay Video, Audio  
NICE Systems raises \$185m. on Nasdaq  
Red Herring lists six Israelis on 100 best list  
Elbit Systems gets \$33.6m. U.S. Marines order  
A Unique way for measuring blood pressure  
ECI opens R&D center in India  
TELMAP selected by World Economic Forum  
Scopus raises \$31.5m. on Nasdaq  
TheraVitae cited by the World Economic Forum  
OTI gets first order for \$500,000

that the industry provides for its investors. Many of the venture capital companies are still stuck with the unprofitable investments from the dot.com era. Had the rate of investments in start ups been higher in previous years we would see a parade of initial public offerings in a period when the stock markets are absorbing them so successfully.

### Dr. Gallo co-discoverer of the HIV virus



Dr. Robert C. Gallo, founder and director of the Institute of Human Virology (IHV) and a co-discoverer of the human immunodeficiency virus (HIV), received the 2005 Dr. Tovi Comet-Walerstein Science Award at Bar-Ilan University's Safdié Institute

for AIDS and Immunology Research in Ramat Gan, Israel.

The Dr. Tovi Comet-Walerstein Award is given annually to a distinguished scientist whose contribution was unique to basic and/or applied research and was widely recognized as a major breakthrough for future research and treatment.

Dr. Gallo's long career has followed one theme: the study of human blood cell biology, these cells' growth and the causes of abnormalities such as leukaemia and HIV/AIDS.

Dr. Gallo pioneered the field of human retrovirology in 1980 by discovering the first human retrovirus (HTLV-1) and showing it to cause a particular form of human leukaemia. A year later, he and his group of researchers discovered the second known human retrovirus (HTLV-2), which was followed in 1984 by the landmark discovery by Dr. Gallo and his colleagues of HIV. Gallo's team published the first results to show that HIV was the cause of AIDS and developed the life saving HIV blood test.

Dr. Gallo and a team of scientists, which includes an Israeli researcher, are currently in advance stages of research aimed at creating a HIV virus vaccine. Dr. Gallo explained to IHTIR that the HIV virus has many strains making the research difficult. He did not predict when he expects to have the vaccine ready but he

indicated that it would be in the foreseeable future. "Currently we can successfully treat most strains of HIV, if not all. The difficulty in treating HIV is that the virus enters the human gene and is therefore difficult to access," stated Dr. Gallo

### TASE big winners: Ormat and NICE

The Tel-Aviv Stock Exchange is enjoying one of its best years in modern times. Buying, both locally and from overseas has been propelled by increased hopes for peace as well as by an economy that is growing in excess of 4.6% this year. The prospects for next year appear to be as good or better.



Few months ago we pointed at a few companies that we felt had excellent prospects. Since the beginning of the year Ormat Technologies

(NYSE:ORA, TASE:ORA) has appreciated by 79.4%,



NICE Systems, (NASDAQ:NICE, TASE: NICE) has also performed well with a gain of 55.6% since the beginning of the year.

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We continue to favor these companies, whose business activities are mostly outside of Israel and that have shown an ability to get the lucrative contracts.

**Ben-Gurion University gets its coveted train station**

The recently-completed



Beer-Sheva North-Ben-Gurion University Train Station and the Mexico Bridge that connects the station to the University was dedicated in the presence of Prime Minister Ariel Sharon, Minister of Transportation Meir Shitreet, Beer-Sheva

Mayor Yaacov Terner, Chairman of the Board of Israel Railways Moshe Leon and the generous benefactors on Ben-Gurion Day,

According to University President Prof. Avishay Braverman, who has championed the building of the station: "the train is the link that will create a new hi-tech center in the desert. We can become Israel's Silicon Valley of the future." He explained that the Park "provides a strategic long-term employment solution to the needs of the Negev and the city of Beer-Sheva that genuinely needs investments, mainly in the fields of advanced industry, in order to enable the development of the area."

**High tech to grow 6% in 2005**

Israel's high-tech sector will grow 6% this year to \$16.6 billion, estimates Motorola Israel general manager Elisha Yanai. Mr. Yanai also serves as chairman of the Israel Association of Electronics and Information Industries (IAEI). He expects that high tech will add 2,300 people this year, boosting employment by 4% to 57,200.



High-tech growth in 2005 will be slower than its 15% growth in 2004. Yanai predicts that high tech will grow 10% in 2006 to \$18.2 billion, thanks to the global recovery and successful penetration of international markets. 85% of Israel's high-tech sales are from exports.

Israeli high-tech companies acquired fifteen foreign companies in 2005 for \$900 million and ten Israeli companies for \$150 million. Foreign companies acquired ten Israeli

companies for \$600 million.

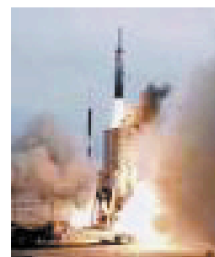
Exports of medical, communications and electronics equipment and software rose in 2005, but exports of electronic components fell by 14%. Yanai attributes most of the decline in the latter item to Intel's (Nasdaq: INTC) upgrade of its Fab 18 in Kiryat Gat. When the upgrade is completed, and with the establishment of Intel's new Fab 28, Yanai predicts, "We'll see strong and rapid growth in an excellent field that will boost all exports by the components sector."

Defense exports accounted for 16% of total high-tech exports this year. Defense exports will total \$2.3 billion this year, the same as in 2004. Civilian high-tech exports account for 84% of high-tech exports this year - \$11.9 billion, an increase of 7%. Domestic sales will total \$2.4 billion.

Yanai said the IAEI, Office of the Chief Scientist, Israel Venture Association were planning to double Israel's high-tech exports within five years. The plan proposes encouraging employment in outlying areas, with the government subsidizing 15% of salaries. This aid will be awarded by tenders, in which the main criterion will be the level of employees' salaries.

Yanai also expects that the government will boost incentives offered by Chief Scientist, improve technology education, encourage Israelis working for high-tech companies overseas to return home, and help cut enterprises' labor costs, in order to prevent job flight to Asia.

**Israel test-fires missile**



Israel recently carried out a successful test of its Arrow anti-missile system. The Defense Ministry officials called it a response to the increasing threat of ballistic missiles in the region.

The test launch came as a Russian newspaper reported that Iran has signed a deal to buy Russian tactical surface-to-air missile systems and

a day after Prime Minister Ariel Sharon warned of the dangers of a nuclear Iran.

"The success of the test will improve the operational capabilities that already exist today in the Arrow system, which will be able to successfully cope with future threats," said Defense Ministry director general Yaakov Toran.

The simulated enemy missile used in the test resembles the Iranian Shahab-3 and is capable of carrying a

nuclear warhead. The test enemy missile was fired from an airplane over the Mediterranean Sea, from the west. The Arrow anti-missile missile was fired from an Israel Air Force base in the center of the country, and hit the target.

The test is the 14th test of the Arrow system, which is being developed with the United States, and the ninth test of the missile itself.

### Intel to build chip plant



Intel has confirmed that it will build a new \$3.5-billion facility in Israel.

The facility, which Intel is calling Fab 28, is expected to begin producing chips in the second half of 2008.

Prior to the announcement, Israel's Ministry of Industry, Trade and Labor approved a grant of \$525 million to help fund expansion plans by Intel. The world's biggest chipmaker is expected to invest a total of \$5 billion to build the new plant and upgrade an existing facility, the ministry announced.

The grant represents 12.5 percent of the new plant's cost, which is expected to be \$4.4 billion over four years. The investment marks the largest ever by an industrial company in Israel.

Intel is expected to hire 4,400 new workers for the new Fab 28 plant in the southern town of Kiryat Gat, the site of an existing chip plant that employs about 3,500 people, the ministry said.

In 1999, Intel -- active in Israel for 30 years -- built Fab 18 in Kiryat Gat, with a total investment of \$1.6 billion, including government subsidies.

The plant, will produce 45-nanometer, 300-millimeter wafers.

### Virginia to support four medical device companies

A State of Virginia incentives program has selected four Israeli medical device companies for economic and business support: Biological Signal Processing Ltd. (BSP), Medibell Medical Vision Technologies Ltd., Nicast Ltd., and Venousonics Ltd. The Virginia program aims at attracting young, interesting companies to operate in the state. Support is subject to due diligence, now underway at the companies.

The selected companies will be eligible for \$100,000

grants from Virginia-Israel Advisory Board (VIAB) for setting up US representative offices in Virginia, and for \$1.2 million in financing from a Southwest Virginia foundation. The companies will also be offered scientific and business support from the Carilion Biomedical Institute (CBI), the investment and development arm of Carilion Health System, the largest health medical organization in Virginia.

The Israeli companies will also receive support from the University of Virginia and Virginia Tech.

The selected companies are developing medical devices in their fields, holding their first financing rounds, and want to make their first breakthroughs in the US market. BSP has developed an advanced device for the diagnosis and monitoring of ischemic heart diseases, which is now undergoing clinical trials. Medibell has developed and sells imaging systems aimed for ophthalmology applications. Nicast is developing nanotechnology implants for repairing blood vessels. Venousonics develops and sells an ultrasound system for treating varicose veins.

### Israeli stem cell research training slated for New Jersey

The US-Israel Science and Technology Commission (USISTC), acting under the auspices of the Office of the Chief Scientist in the Ministry of Industry, Trade, and Labor, is recruiting Israeli researchers for a stem cell training program in the US. Chief Scientist and joint USISTC chairman Dr. Eli Opper said that the program would give Israeli biotechnology companies an extraordinary opportunity to develop the professional talents of researchers, and create a communications channel and cooperation between Israel and the US in this field.

### Elmo-Tech launches remote alcohol monitoring pilot in Sweden

Elmo-Tech Ltd., a provider of electronic monitoring technologies for the corrections industry, announced a pilot of its new MEMS 3000 remote alcohol monitoring system in Sweden.

The Swedish Prison and Probation Service (KVS) stated targets for the pilot are more effective control and cost reduction. The KVS, has utilised Elmo-Tech's systems since 1997, and will administer the new pilot. Initially limited in scope, the pilot will incorporate alcohol-monitoring technology into the existing home detention program for those offenders convicted of drunk driving.

According to a 2004 survey by the Swedish Roads

Administration (SRA), 25% of fatal road traffic accidents in Sweden are caused by individuals driving under the influence of alcohol or drugs. The World Health Organization recognises the European Region to be the site of the highest consumption of alcohol in the world, and registers the highest rates of alcohol-related harm. In the United Kingdom alone, it is estimated that 25% of all people arrested are drunk and that 50% of all violent crime, 65% of suicide attempts and 75% of assaults are committed by people under the influence of alcohol. Alcohol consumption is also strongly linked to domestic violence and child abuse.

Remote alcohol monitoring is already used in the US as a supervision tool for detainees whose offences are alcohol related. The MEMS 3000 is at the cutting edge of available technology, integrating breath alcohol testing (BAT), video identity verification and radio frequency (RF) presence monitoring into a single monitoring unit. MEMS 3000 is part of the company's integrated monitoring solution.

### **AOL launches mobile search**

AOL launched its mobile search services, bringing Web search, comparison shopping, and Yellow Pages listings to Web-enabled mobile phones, smartphones and PDAs.



The service lets users search via AOL Search, Pinpoint Shopping or AOL Yellow Pages. It is driven by technology from Israeli technology provider InfoGin. InfoGin automatically adapts search results and Web pages -- not just from AOL's, but from any Web page the user visits -- for browser-enabled mobile phones and devices. InfoGin's flagship product, the Intelligent Mobile Platform, enables real-time optimal reformatting of content written in any markup language (Web [HTML], i-Mode [i/HTML], WAP [wml or XHTML], for any mobile device, regardless of the type, without compromising its richness and functionality.

### **IDesia raises \$3m. from Partech**

Biometrics start-up IDesia has closed a \$3 million financing round from French-US venture capital fund Partech International, at an estimated company value of \$8 million. Before the present round, IDesia had raised \$1 million from Aladdin Knowledge Systems Ltd. (Nasdaq: ALDN; TASE: ALDN). IDesia was founded in 2003 by chairman and CEO

Baruch Levanon CTO Dr. Daniel Lange, and VP business development Yossie Gross.

IDesia said every person has a unique electrical field. The company's product can examine a number of features of an individual's body, especially heartbeat and nervous system activity. These factors create an "electro biodynamic signature" unique to every individual, establishing a unique biometric identity that cannot be forged.

### **Mobile phone may detect breast cancer**

An Israeli has developed a radical new technology that would enable an ordinary mobile phone to diagnose breast cancer and various types of heart disease.

By installing new software and adding a basic infrared camera, a mobile phone could be transformed into a highly-effective diagnostic tool, offering far more accurate results than the self-checks many women do themselves

Dr Nitzan Yaniv, who developed the technology, said the results of the scan could be transferred to a medical laboratory for analysis, which could determine whether further checks were necessary.

The infrared camera uses two techniques, both of which have proven effective in diagnosing breast cancer: one which analyzes temperature differences in the breast, while the other analyzes oxygen flow to the breast. Israeli phone operator Cellcom is currently working to integrate the infrared sensor technology into the cameras currently built into many mobile handsets.

Yaniv said he was first exposed to the benefits of infrared photography while working with biofeedback — a therapy which trains a patient to control certain bodily functions which are usually unconscious, such as blood pressure or heart rate.

Biofeedback therapy can help patients control conditions such as high blood pressure, migraines or epilepsy, with infrared cameras used to show data about the patient's physical state.

With the cameras attached and the software installed, the mobile phone is transformed into the affordable equivalent of a biofeedback machine, Yaniv said. The Soroka medical centre in the southern city of Beersheva is now testing the device's ability to detect heart problems as well as breast cancer.

## ApNano' Particles - Ultra-Strong Shock Absorbing Material

ApNano Materials, Inc. a provider of nanotechnology-based products, announced that a study published in the June 2005 issue of the journal *Advanced Materials* clearly shows that the company's proprietary nanoparticles are excellent shock absorbing materials and among the most impact resistant substances known in the world today. These revolutionary nanoparticles are nested spheres of special metal compounds termed inorganic fullerene-like nanostructures, or IF for short. Fullerenes are soccer ball-like clusters of atoms, named after R. Buckminster Fuller, architect of the geodesic dome that he designed for the 1967 Montreal World Exhibition. Shock absorbing materials are commonly used in impact resistant applications such as ballistic protection personal body armor, bullet proof vests, vehicle armor, shields, helmets, and protective enclosures.

The IF nanomaterials have up to about twice the strength of the best impact resistant materials currently used in protective armor applications like boron carbide and silicon carbide, and are 4-5 times stronger than steel. The experiments on the IF nanomaterials were carried out by a research group headed by Prof. Yan Qiu Zhu of the School of Mechanical, Materials and Manufacturing Engineering, at the University of Nottingham, England.

The material was subjected to severe shocks generated by firing shots at it at impact velocities of up to 1.5 km/second. These IF nanospheres withstood the shock pressures generated by the impacts of up to 250 tons per square centimeter. This is approximately equivalent to dropping four diesel locomotives onto an area the size of one's fingernail. The IF nanospheres are so strong that after the impact the samples remained essentially identical compared to the starting material. The company's materials are based on breakthrough work in nanotechnology done at the Weizmann Institute of Science by the group headed by Prof. Reshef Tenne, currently the Head of the Institute's Department of Materials and Interfaces. Dr. Menachem Genut, ApNano Materials' CEO was a research fellow in the original research group which discovered the IF nanoparticles at the Weizmann Institute and first to synthesize the new material.

### UltraShape raising \$15m.

The controversial Israeli start-up UltraShape Ltd. is nearing the closing of a \$15 million financing round from Israel Seed Partners, and two US financial



institutions. UltraShape has raised \$12 million to date in three financing rounds. Israel Seed Partners was the sole investor in the last round, investing \$6 million in the company. UltraShape manufactures a non-invasive body contouring device that eliminates adipose tissue (fat cells). The company's first product, Contour 1, uses ultrasound to liquidate fat cells. The device is being positioned as an alternative to liposuction. In July the company obtained EU CE clearance for the device. However, some medical authorities question whether the ultrasound waves that are used in the company's systems may harm other parts of the body, other than the fat which it aims to destroy.

However, should longer term use prove its efficacy the company would stand to make major inroads into a massive market.

Founded in 2000, UltraShape has 53 employees. Its founders are Dr. Ami Glicksman, formerly a plastic surgeon at Sheba Medical Center at Tel Hashomer, who serves as company president, and Eshel, a physicist and an ultrasound expert.

### Camera Can Wirelessly Relay Video, Audio

Police officers stepping into hostage standoffs and other dicey situations now have something new to throw into the mix — a baseball-sized camera that can be hurled from afar, survive the landing and wirelessly relay video and audio back to base for two hours.

The EyeBall is the creation of an Israeli company, ODF Optronics Ltd., which has sold the devices to the Israeli military and to undisclosed military and law enforcement customers in Asia and Europe.

Now Remington Arms Co. has won approval from the Federal Communications Commission to sell them domestically. Remington expects dozens of law enforcement groups to be buyers.

### NICE Systems raises \$185m. on Nasdaq



At the end of last week, digital recording technology company NICE Systems (Nasdaq: NICE ; TASE: NICE) of Ra'anana issued some 4 million American Depositary

Shares at a price of \$46.25 each, raising about \$185 million altogether. The offering is the third largest by an Israeli company on Nasdaq this year.

**Red Herring lists six Israelis on 100 best list**



Technology magazine Red Herring has six Israeli companies on its list of the 100 most promising smallcaps. All six are listed on Nasdaq.

The six are:

- Given Imaging (TASE, Nasdaq: GIVN)
- Elbit Systems (Nasdaq: ESLT)
- Nice Systems (NASDAQ: NICE)
- Orbotech (Nasdaq: ORBK)
- Retalix (Nasdaq: RTLX)
- Ulticom (Nasdaq: ULCM).

This is the first time Red Herring has compiled a list of smallcap companies, which are worth between \$300 million to a billion dollars on the market.

The magazine staff looked at more than 2,500 publicly traded companies before choosing the top 100.

Red Herring said the picks have innovative technology and smart business models that can propel them to the next stage. They have in fact the most promising technology on the smallcap list.

**Elbit Systems gets \$33.6m. U.S. Marines order**



Israeli defense electronics manufacturer Elbit Systems Ltd. (ESLT. O:) said that its U.S. unit Kollsman Inc. received initial orders worth \$33.6 million to provide Thermal

Binocular System Long Range Thermal Imagers (LRTI) for the U.S. Marine Corps. The LRTI is a portable binocular, hand-held, battery-operated thermal imager for long-range observation and reconnaissance. Initial deliveries will be made in 2006 and 2007.

The initial orders were made under an indefinite delivery/indefinite quantity (IDIQ) contract awarded by the U.S. Marine Corps Systems Command, Infantry Weapons Branch in Quantico, Virginia.

Under the IDIQ contract, the U.S. government could purchase up to 5,000 LRTIs plus spare parts, contractor maintenance and training items over five years, which gives the potential for up to \$250 million in additional orders, Elbit said.

**A Unique way for measuring blood pressure**



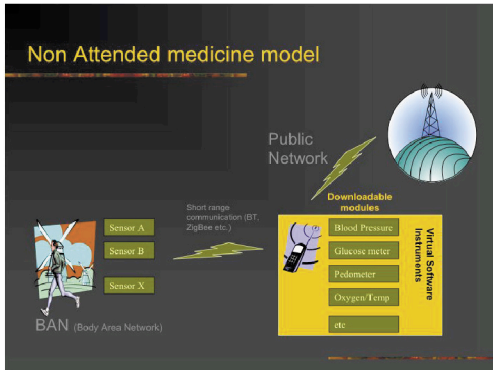
“To the best of our knowledge, to this date no-one has solved the challenge of a noninvasive, non-obtrusive, ambulatory blood pressure

monitoring. Current state-of-the art devices use inflatable cuffs either auscultator or oscillometry based. These are highly obtrusive and can only provide sparsely sampled measurements, which are extremely sensitive to any exerted, normal or sleep-related motion. Other methods, such as applanation tonometry is equally inappropriate. Our approach uses a unique method coupled with highly sophisticated signal processing to provide real time continuous beat-to-beat blood pressure measurements,” says Sam Goldberger, founder of Syneron, a young startup.

Sensoron is developing a unique, miniaturized, portable cardiac mobile computer personalized by design and integral in the cellular mobile. It measures accurately BP, heart output and fits as a bracelet on your wrist or your ankle. It is a first of a kind device since its aim is to promote preventive medicine, improve quality of life and reduce cost of healthcare by early detection in comfortable manner for the user. It uses state-of-the-art in sensor signal processing and cellular mobile technologies.

The global market for products related to cardiovascular disease is large and growing. Cardiovascular disease is estimated to cause approximately one million deaths per year in the US and is a leading cause of premature permanent disability. Cardiovascular disease is estimated to currently affect over 70 million people in the US alone. Its prevalence continues to grow, driven in part by an ageing population and increasing obesity.

Approximately 22% of people in the U.S. have some form of cardiovascular disease and approximately 33% of those over 35 exhibit one or more defined cardiovascular risk factors. Continuous monitoring of the pulse can sound the alarm calling for direct medical intervention.



Cardiovascular practice today is focussed for the most part on the diagnosis and management of disease once it has been identified. That is, the patient has hypertension, or has had a heart attack, angina or stroke or has been diagnosed with other cardiovascular diseases such as heart failure or peripheral vascular disease before treatment is often commenced. The ability to identify cardiovascular risk at an early stage prior to the onset of disease can lead to sensible primary prevention programs. The goal in preventive cardiovascular management is to better assess and reduce cardiovascular risk and defer the onset of disease endpoints.

Goldberger believes that many of the deaths are unnecessary and could be prevented by continuous monitoring.

The company has just launched its first financing round and is seeking \$1.0m. to fund the prototype and for its testing.

### ECI opens R&D center in India

ECI Telecom (Nasdaq: ECIL) announced the opening of a new research and development center in India. The new site joins ECI's existing R&D facilities in Israel, the U.S., and China.

The Israeli company now has four centers of operation in India: in Mumbai, Bangalore, New Delhi and Chennai.

ECI says the new center is key to not only expanding its R&D efforts, but to its strong presence in the region, which was established more than 10 years ago. Another attraction is probably the relatively low cost of employing excellent Indian engineering talent compared with the west.

ECI chief operating officer Rafi Maor commented that the company means to conduct about 12% to 14% of

its R&D in low labor cost countries. "We have a large R&D center in Israel and don't mean to close it," he said. "But any increase in R&D staff will be biased toward the countries where labor costs are low."

The Indian R&D center will focus on broadband access solutions, development of next-generation technology, and management solutions.

### TELMAP selected by World Economic Forum

Telmap, a specialists in mobile Mapping and Navigation solutions, announced that it has been selected as 2006 Technology Pioneer by the World Economic Forum. Telmap is one of a select group of just 36 companies from around the world chosen for this honor.

Telmap is the first company to provide a comprehensive cross-platform mobile mapping and navigation solution for mobile phones. The company's leadership in bringing advanced mobile navigation into the realm of every day use drew the attention of the Forum's review committee. With five years of experience in the field, Telmap's groundbreaking approach has been recognised by numerous other international awards, including the 2005 Red Herring Europe 100 award.

The company's unique technology and solutions enable mobile navigation across the full range of cellular platforms. This, combined with high quality maps, real-time updates, worldwide coverage, and localisation capabilities, means that in the not-too-distant future almost anyone with a cellular phone will be able to easily find their way, wherever they happen to be, anywhere in the world.

### Scopus raises \$31.5m. on Nasdaq

Internet television technologies provider Scopus Video Networks (Nasdaq: SCOP) has completed its Nasdaq IPO, raising \$31.5 million at a company value of \$92 million. Shares in the Israeli company will be traded with the symbol SCOP.

Scopus's products include encoders, decoders and network management products, which it markets to satellite, cable and telecom service providers and terrestrial broadcasters.

It plans to use the net proceeds from the IPO for sales and marketing, product research and development, working capital and general corporate purposes.

The company, founded in 1995, and broke even in the third quarter of 2005. For that quarter it posted sales of \$11.6 million, up 35% year over year. Its operating profit was \$137,000 and its net profit \$180,000



Scopus has 250 employees working at its headquarters in Rosh Ha'Ayin. Israel.

### **TheraVitaе cited by the World Economic Forum**

The World Economic Forum announced the 36 Technology Pioneers for 2006. TheraVitaе, has been selected as one of these Technology Pioneers. VesCell is a stem cell technology developed by TheraVitaе. VesCell uses a patient's own adult stem cells to treat Heart Disease and is a viable alternative for patients who either cannot undergo or choose not to undergo the standard treatment such as Coronary Artery Bypass Grafting (CABG).

Technology Pioneers are companies that have been identified as developing and applying highly transformational and innovative technologies in the areas of energy, biotechnology and health, and information technology. This year's class of companies has been selected not only because of the cutting-edge work undertaken by the organizations, but also because their work has potential long-term impact on business and society.

TheraVitaе's novel technology produces therapeutic adult stem cell populations using a laboratory process that isolates, further expands and differentiates stem cells that were harvested from a small volume of the patient's own blood. Therapies based on this technology exploit the body's natural healing mechanisms by using the patient's own cells to treat heart and other incurable diseases. The first commercial product based on this technology is VesCell, which is being used to successfully treat severe cardiovascular disorders. VesCell consists of Angiogenic Cell Precursors, cells with the capacity to induce blood vessel and muscle tissue formation in the heart. VesCell is administered to patients via standard catheterization or endoscopic injection to regions of the heart suffering from reduced blood supply.

### **OTI gets first order for \$500,000**

On Track Innovations Ltd, (OTI) (Nasdaq: OTIV) a specialist in contactless micro-processor-based smart card solutions for homeland security, payments, petroleum payments and other applications, announced that they will provide smart card technology to Scheidt & Bachmann, one of the world's leading providers of management systems for mass transit, car parking, petrol stations and railway security, for their Massachusetts Bay Transportation Authority (MBTA) project. OTI's com-



ponents will be used for the MBTA's new mass transit ticketing solution scheduled to go online in 2006. The MBTA is America's first subway system and one of the largest in the nation with over 1.1 million riders each day.

OTI will supply readers and support software to be integrated into Scheidt & Bachmann's front end systems consisting of 3,000 fare boxes, ticket vending machines, point-of-sales devices and fare gates. This order follows a successful pilot. Under the new agreement, the system will be installed in all Boston subway stations, Commuter Rail lines and dedicated Retail Sales offices, with installations commencing in 2006. The solution allows the transit card to be used for loyalty programs and tiered fare structures while providing a high level of security and transaction speed. OTI's readers are also easy to upgrade as new services become available in the future. OTI and Scheidt & Bachmann formed a partnership to provide leading-edge contactless payment solutions to mass transit systems in September 2003. Since, the two companies have successfully launched several projects in large metropolitan areas.

### **ART of cellular for the vision-impaired**

Two Israeli companies are behind the technology of U.S. company Nuance Communications' new software that brings the vision-impaired easy access to cell phones.

Nuance is utilizing the technologies of two firms it acquired - ART and Phonetic Systems - to substantially increase the size of on-screen content on handheld mobile devices, as well to change screen colors in order to help see text clearly.

An estimated 150 million people worldwide have some vision problem that makes use of certain devices difficult, particularly cellular phones, due to small screens and the use of miniature font faces.

The Nuance accessibility suite includes audio feedback, improved display quality and support for a Braille keypad, innovations slated to improve the quality of information display and allow special-needs users to better use mobile devices.

The package includes Nuance Talks - software for the blind or severely vision-impaired - which converts text from the cell phone screen into fluent speech, and Nuance Zooms - software for the partially to severely vision impaired - which magnifies screen content by 1.5 to 16 times its original size.

Since the product is not language-dependent, it is

available and accessible to any user. It will be available through cellular carriers or various Internet sites. It is available over the Internet in Israel, as the local carriers still don't sell it.

It is, however, far from popularly priced, with Nuance Zooms costing 180 euros and Nuance Talks going for 200 euros. The Internet and cellular devices are not user friendly for the disabled. The Israel Internet Association and nonprofit advocacy group Access Israel have been working for some time to change the situation. But most solutions are still too expensive for many.

**Vigilant Technology completes AIM IPO**

Vigilant Technology has raised St.10m. in its initial public offering on the Alternative Investment Market of the London Stock Exchange. Vigilant trades under the ticker symbol VGT

Vigilant, is based in Tel Aviv and develops CCTV (closed circuit TV) security and surveillance systems, Vigilant will have a market capitalization of about St,24.3m following the offering.

Vigilant develops hardware and software for recording and analyzing digital video footage collected from a large number of security cameras, with customers including Ben-Gurion Airport and a number of London municipalities. The company was founded in 1999 by brothers, Yoram and Ronen Sagher. In 2004, it recorded a net loss of \$900,000 on sales of \$6.2m., Analysts project that the company will have a net profit of \$500,000 on sales of \$8m. to \$10m. in 2005.

**Israel places 20 on AIM**

The following Israeli companies have executed IPO on London's AIM market. Bateman Eng NV Netherlands/Israel Dori Media Israel Empire Online BVI/Israel F.T.S Formula Israel Gilat Satcom/Satcom Systems Israel Global Brands Israel/Luxembourg Ki Bi Israel Leadcom Israel Metal Tech Israel Nipson Israel Orca Software Israel Servision Israel Telit Comms Israel/Italy Tescom Israel Visual defence Canada/Israel Amiad Israel Orpak Israel Engel Israel/Netherlands Vigilant Tech Israel

The AIM market did not supply us with any statistics but according to the Scotsmen, on the average, investors are showing a loss of more than 25%.

We believe that AIM's lax regulations may lead to serious difficulties at some time in the future. The London AIM market advertises itself as "specifically tailored to

growing businesses, AIM combines the benefits of a public quotation with a flexible regulatory approach". Looking at the admission to trading criteria to the London Stock

Exchange and the AIM market one discovers the following requirements:

No minimum shares need to be in public hands before a floatation.

No trading records are required.

No prior shareholder approval for transactions

Admission documents not pre-vetted by Exchange or UKLA

Nominated adviser required at all times

No minimum market capitalization

One of the key requirements for a company seeking a listing is to locate a "Nominated adviser" who warrants to the Exchange that the company is appropriate for joining AIM. The nominated adviser is an Independent Corporate Finance Firm, an accountant or a broker: you are obliged to retain a "Nomad" throughout your company's life on the market. However, the Nomad's responsibility is not to the Exchange but to the company that has retained its services. All this means that there is limited, if any, protection for the investor who probably has difficulty in differentiating between the London Stock Exchange and the London AIM Market.

**Elta gets \$132m. order from Swiss Defence Ministry**

The Swiss Ministry of Defence has signed a \$132 million contract with Israel Aircraft Industries subsidiary Elta Electronic Industries. Elta will upgrade the Swiss land-based intelligence and communications systems.

The contract is for a combination of intelligence and communications solutions that will provide service to Swiss air and ground forces, command system, and civilian agencies.

**Finland to provide €10m for joint R&D**

Israel and Finland have agreed to continue financing joint R&D projects, and will allocate €10 million for this purpose in 2006. Chief Scientist Eli Opper stated that the level of support was impressive, indicating the added value of international R&D projects. He added that his office would therefore continue giving preference to them in its NIS 1.2 billion budget next year.

The National Technology Agency of Finland (Tekes) and the Office of the Chief Scientist decided to continue the program in 2006, with each contributing €5 million

The program has produced five projects between Finnish and Israeli companies to date. The projects are now



getting underway. The five projects were chosen from twelve proposals by 33 Finnish and Israeli companies. As part of the program, companies and industrial research agencies in the two countries meet in order to initiate joint projects in communications and information technology. Support is given for fairly short practical projects, with the aim of shortening time-to-market for innovative products and applications of companies in the two countries, in using information, infrastructure, and commercialization capabilities of both sides

### Chief scientist awards \$1.2m. to BiondVax

The Chief Scientist has approved a \$1.1 million grant from the Heznek Seed Fund for BiondVax Pharmaceuticals. The grant will cover 66% of the \$1.5 million cost of BiondVax's development plan for the next two years.



The company said that the entire program constituted a third of its expected investment in development during this period. BiondVax is developing a universal multi-season, multi-

strain flu vaccine.

The grant will be used mainly to produce a vaccine solution for Phase I human clinical trials scheduled to begin in 2007. The company is also conducting trials for a vaccine against avian flu.

### Protalix Biotherapeutics raises \$7.6m

Israeli biopharmaceutical start-up Protalix Biotherapeutics Ltd, announced that it was expanding its latest round of financing by \$2.4 million to \$7.6 million.

The second closing was led by Ziff Asset Management LP, a US-based private investment fund affiliated with Ziff Brothers Investments.

Protalix develops biological drugs expressed in a plant cell culture bioreactor system. The company's lead therapeutic compound, Plant Recombinant Glucocerebrosidase (pr-GCD), is a proprietary protein-based drug for the treatment of Gaucher Disease.

The main use of the proceeds is to advance the company's lead product through clinical studies, to aggressively develop discovery and collaboration programs and to expand the technological platform and manufacturing capabilities.

### Maayan invests NIS 2m in medical imaging company

Maayan Ventures Ltd. (TASE: MAYN), which held its IPO a few weeks ago, reported today that it had in-

vested NIS 2 million in a new portfolio company. The company, Diagnostics Ltd., is developing a system for spotting and diagnosing malignant tumors through a new method for computer processing of ordinary x-rays. This process makes it possible to identify abnormal findings invisible to the naked eye, which is currently the main tool for analyzing x-rays.

The method is designed to improve the accuracy of x-ray diagnosis, and can replace expensive imaging methods like CT and MRI in some cases.

The founders of Diagnostics are former Commtouch marketing manager Oren Drori, Dr. Shmuel Dekel MD of the Department of Orthopedic Surgery at Tel Aviv Sourasky Medical Center, and Ram Nethaniel, who led development and algorithm teams in the IDF and industry.

### Israeli mergers & acquisitions soar

Merger and acquisition activity of Israeli companies soared in 2005, as an improved market conditions and a greater security and political stability encouraged local and foreign investors.

A survey conducted by research company DealWatch, showed that the value of closed deals quadrupled to \$8 billion. In 2004, the figure stood at \$2b.

This year also saw a lot of activity from private equity firms, which Erben believes will give 2006 a good start.

The survey showed that the computer and electronics sector made up 34% of the total number of mergers. The telecommunications industry took 12% of the total; health and medicine had 9%; while the financial sector made up 7%; and real estate 6%.

The telecommunications companies topped the list of deal makers with Discount Investment Corp. upping its stake in Cellcom by 69% in two separate deals for \$1.3b., followed by the government selling its 30% share in Bezeq to Apax-Saban-Arkin for \$969 million.

In all, 118 acquisition agreements of Israeli companies which were closed in 2005, representing a 90% rise from the 62 in 2004.

### Top 10 Israeli M&A of 2005

Discount Investment Corp buys 69% of Cellcom for \$1.345b. (Telecommunications)

Apax-Saban-Arkin wins tender for 30% of Bezeq for \$969m. (Telecommunications)

French company AXA SA pays \$955m. for 5.6% stake in Teva Pharmaceutical Industries. (Pharmaceuticals)

US-based Perrigo Co. buys Agis Industries for \$821m. (Pharmaceuticals)

The Bronfman Group purchases 26% of Discount Bank for \$297m. (Financial services)

Partner Communications buys back 17.5% of its own shares for \$245m. (Telecommunications)

US company UGS PLM Solutions takes full control of Tecnomatics Technologies for \$243m. (Hi-tech)

Hewlett-Packard Co. buys Scitex Vision for \$230m. (Hi-tech)

Alony Hetz purchases Amot Investments for \$211m. (Real estate)

AXA SA gains 5.12% of Bank Leumi for \$195m. (Financial services)

### ETView gets FDA approval

ETView, a graduate of the Misgav Technology Center incubator, has obtained marketing approval for its products from the US Food and Drug Administration (FDA).

ETView's product is an artificial breathing system that includes a miniature camera, which makes it possible to view the interior of the lungs when the breathing tube is inserted. The camera enables users to insert the tube more accurately, with the help of a doctor from a remote station. The tube's location can be monitored continuously.

ETView CTO Ofer Fridman and chief medical officer Prof. Noam Gavriely founded the company in 2004. ETView is currently raising \$1-3 million from private investors, after raising \$500,000 in September, also from private investors. Misgav previously financed the company.

### Mentions in New York Times and IHT

On December 26 and 27 the New York Times and the International Herald Tribune carried an article captioned High-Tech Industry in Israel Goes from Bust to Boom by Greg Myre.

The article was occasioned by Intel's decision to invest \$3.5 billion to build a new plant in Israel.

In the article the Israel High-Tech & Investment Report was mentioned. We enclose a copy of the article along with this report, the first of 2006.

We believe that the frothy conditions in Israel's high tech space will continue this year and will provide us with plenty of material to publish for our readers.

The interest in Israel's high-tech world is reflected in the growing number of visitors to our web site at

<http://ishitech.co.il>

We take this opportunity on behalf of our Advisory Board and those who assist in the production of IHTIR, to wish you a Happy, Healthy, Prosperous and Peaceful New Year.



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