

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
January 2010 Vol. XXV Issue No.1

JOSEPH MORGENSTERN, PUBLISHER
You are invited to visit us at our website: <http://ishitech.co.il>



Economic Outlook Brightens

Nearly a year ago the world was facing an economic collapse. One of the first signs was the dramatic collapse of Bear Stearns and of the Lehman Brothers a major American investment house. Major banks would have collapsed had the American government not stepped and pumped in billions of dollars to prevent a total collapse. England followed a similar pattern. Depositors at the Royal Bank of Scotland worried whether they would ever see their funds. Following the American pattern the English government stepped in to prop up the faltering financial institution.

Israel, accustomed to 4% annual gain in its GNP saw it fall into negative territory. Business activity faltered. In the high tech field mergers and acquisitions came to a halt and the initial public offering market came to a dead stop. Rumors began to circulate about the critical problems being experienced by venture capital companies. However the, most painful development was the news of massive layoffs. Foreign companies fired personnel in their Israeli subsidiaries. Unemployment reached 10%, a record high

Two months ago the Governor of the Bank of Israel Stanley Fischer took the initiative and Israel became the first country to raise its rate of interest.

However in the past month the economy showed signs of an early revival. One did not have to be an economist to gauge the change. Daily

the newspapers reported a pick up in employment. Companies were recalling employees that had been previously fired. A major international brokerage house chose Israel as the best bet for stock market investment. Indeed the local stock



Economic Outlook Brightens

Abbott Labs buys StarLIMS

Alcon buys Israeli glaucoma treatment company Optonol

Knesset Approves Biometric Database

Russia wants to acquire UAVs

Rafael releases new member of Spike family – Spike NLOS

Improving the Odds

Teva invests \$60m to develop cancer drug

Broadcom buys Israeli start-up Dune Networks

PlanPlatform sold for \$25m

The prospering water technology industry

Israel Information Technology Report Q4 2009

IBM to buy Israeli start-up company Guardium for \$225m.

Given unveils next-generation Colon Pillcam

CA buys remote server software company Oblicore

exchange recently surpassed an all-time high.

Perhaps most promising was the return of M & A activity. In the past two months more than six local companies were picked up by foreign companies. Including IBM.

A story is told of two brokers. They met on the street and one asked the other, "What do you think about the stock market?" "I am optimistic," replied the other broker. "Then why do you have such a sour look on your face?", he asked. "I am just a bit pessimistic about my optimism," he replied. Our own outlook for the intermediate term is that the current pickup will continue and that by the end of 2010 Israel will once again return to being a robust economy.

Abbott Labs buys StarLIMS

Continuing recent string of merger and acquisition activity in Israeli firms as the year draws to a close, laboratory information management systems developer StarLIMS Technologies Ltd. (Nasdaq:LIMS); TASE: LIMS) said that it will be bought by global pharmaceutical giant Abbott Laboratories (NYSE: ABT) for \$123 million.

The purchase is based on a per-share price of \$14.

The share closed at \$9.50, down 3.1%. Following news of the acquisition, the shares soared 43.3% in after-hours trading to \$13.62.

Abbott will acquire all outstanding equity of StarLIMS. StarLIMS currently has about \$18 million in cash on hand.

The use of information management and technology systems is becoming increasingly important to clinical laboratories as a means to automate the retrieval, communication and management of medical and laboratory data and aid compliance with global regulatory and industry standards.

StarLIMS said that Abbott will continue to sup-

port and expand the non-clinical market segments currently served by StarLIMS.

Abbott expects the transaction to close in the first quarter of 2010.

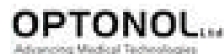
StarLIMS held its Tel Aviv Stock Exchange (TASE) IPO in 1993. The company has approximately 160 employees worldwide.

Alcon buys Israeli glaucoma treatment company Optonol



Israeli glaucoma treatment company Optonol Ltd. has been acquired by US eye care company Alcon (NYSE: ACL) in a deal potentially worth hundreds of millions of dollars.

Optonol will receive an initial cash payment of \$150 million for its Ex-Press mini-glaucoma shunt family of products for glaucoma filtering surgery. Milestone payments could earn the company, which is headquartered



Israel High-Tech & Investment Report
Published monthly since January 1985

Publisher and Editor in Chief
Joseph Morgenstern, B.A. Chem.

Technology Review Board
Prof. S.J. Joel-Cohen, MD, FRCS. FRCOG (1996-2002)
Prof. Hylton Miller, M.B. Ch.B.
Dr. Clive L. Carpel, M.B. Ch.B.

Copy Chief
Debbie Mor

Web Master
Marty vonBokel

Graphics Consultant
Daniel Morgenstern

Subscription Inquiries
Tel-. +972-3-5235279 Fax. +972 3-5227799
E-mail: htir_1@netvision.net.il
Annual subscription \$95.- per year, for 11 issues,
Israeli residents add 17% VAT

Web Edition and Archives
<http://ishitech.co.il>

in Kansas City and has its development center in Neve Ilan near Jerusalem, hundreds of millions of dollars.

Optonol was founded in 1996 as a spin-off of Jerusalem-based stent developer Medinol Ltd. by CEO Yaron Ira and Benad Goldwasser. The two remain major shareholders in the company, which has raised \$30 million, mainly from venture capital funds, over the years. The company's most recent round of fund raising was for over \$20 million from Israel Healthcare Ventures, which owns 13% of the company, and Pitango, which owns 30%. Other well known shareholders in the company include former Likud MK Naomi Blumenthal, Mizrahi Tefahot Bank CEO Eli Yones and IDB Holding Corp. (TASE:IDBH) co-CEO Avi Fischer.

Optonol's flagship Ex-Press product is a novel miniature surgical implant used to lower intraocular pressure (IOP) in patients with glaucoma. The company has annual revenue of several million dollars.

Alcon's VP pharmaceutical products said, "This transaction demonstrates Alcon's strong commitment to providing physicians with comprehensive treatment options for patients with glaucoma, the world's second leading cause of blindness. This surgical procedure provides incremental surgeon and patient benefits over traeculectomy, which is currently considered the standard of care in glaucoma surgical therapy."

The closing of the acquisition is subject to customary closing conditions and the receipt of required regulatory approvals and is expected to occur by the end of the first quarter of 2010.

Knesset Approves Biometric Database

It will be two years until the national biometric database may become a compulsory entity, The ambitious national project was approved by Knesset and it is about to become reality, albeit on a trial basis. The proposal passed by a 40-11 vote, with most lawmakers supporting the eventual move to electronic identification cards and amassing the information that will in the future serve as a vital component of law-enforcement,

assist security and defense agencies, and reportedly simplify identification of victims.

The volunteers will be able to receive an electronic identification card and passport. Those wishing to wait and see may do so.

During the coming two years, those Israelis wishing to take part in the voluntary test project may do so, as the system is tested. Opponents remained strong in their objections, ranging from accusations of gross violation of privacy rights to concerns that the vital database poses a major security risk if breached.

As the trial period winds down, ministers will have to file a report to the Knesset and final decisions will be made.

Security officials supporting the move stress the current laminated ID cards are too outdated and can easily be forged. Ministry of the Interior officials report there are hundreds of thousands of people holding forged cards. In addition, American officials have informed Israel on numerous occasions that until such time the nation moves to high-tech passports, the Department of State will not entertain Israeli requests to do away visa demands for visiting Israelis, explaining the visa process is the nation's safeguard against terrorism, permitting validation of a potential travelers' information. The current Israeli passports, like the teudat zehut identity cards, can be forged with ease.

Proponents also reject fears of hackers breaking the database, explaining the data will be held in at least two ministries and joined when someone with the proper senior clearance seeks to access it, seeming to reassure the nation that even if breached, the database will not be accessible as many believe.

Russia wants to acquire UAVs

Russia is seeking to acquire more Israeli unmanned aerial vehicles under a \$100 million deal that has more to do with enticing Moscow not to supply



Iran with state-of-the-art air-defense missiles that could skewer any Israeli air assault than it has with dollars and cents.

Russia has not been able to produce an effective UAV, a weakness exposed during its brief 2008 conflict with Georgia, and it has made no secret of the fact that it wants to reverse-engineer the Israeli craft to fast-track production.

Moscow bought 12 Israeli UAVs under a \$53 million deal signed in April with state-owned Israel Aerospace Industries, but not disclosed until June. These comprise IAI's second-tier craft, the Bird-Eye 400 mini-UAV, the I-View MK 150 tactical UAV and the Searcher Mark 2 medium-range UAV.

That was Israel's first sale of military platforms to Russia. It was also Russia's first purchase of a foreign weapons system.

Israeli defense sources say that the new deal under negotiation with IAI involved improved surveillance equipment. IAI declined comment, but one Israeli sources noted: "The Russians are going for a triple upgrade of their fleet and its capabilities."

According to other sources, Russia wants 50 Israeli UAVs, particularly long-endurance craft.

That likely includes IAI's Heron, the largest Israeli surveillance drone with a 54-foot wingspan. It has the ability to stay aloft for 50 hours at a time at an altitude of 30,000 feet. It can also carry missiles and can be refueled in flight from tanker aircraft.

It was Georgia's use of long-endurance Hermes 450 tactical spy drones, built by Israel's Elbit Systems, to provide battlefield reconnaissance in the 2008 fighting that caught Moscow's interest.

The Russians, who had to rely on the less effective Tu-22 strategic bombers for battlefield intelligence, decided to acquire Israeli craft for the

purpose of studying them and building them in Russia.

The Russians have been building unmanned aircraft for several decades, but never achieved the degree of success of U.S. and Israeli companies. Their craft have only a fraction of the flight duration of the Israeli UAVs and have long had reliability problems.

Following the Georgia conflict, the Russian air force launched several UAV projects, with the objective of having operational systems by 2011. But Russian defense contractors, including the state-owned Ikt aircraft manufacturer and the Vega Radio Engineering Corp., were unable to come up with systems that met the air force's requirements.

According to various estimates, the Russians need at least 100 UAVs and at least 10 guidance systems to provide the battlefield surveillance the military needs.

With the first UAV sale to Russia in June, the Israelis withheld the most advanced UAV variants after several Russian officials publicly stated that the main reason they wanted the UAVs was to purloin their technology.

The Israelis understood that it was vital to be able to influence Moscow, Iran's main arms supplier, to block the delivery of S-300PMU air-defense missiles to the Islamic Republic.

It wants the advanced system to protect its nuclear facilities from threatened Israeli airstrikes.

Indeed, in 2008 Gen. Amos Gilad, head of the Israeli Defense Ministry's Diplomatic Security Bureau, visited Moscow and received assurances that Russia would not provide S-300s to Iran or MiG-31 interceptor jets to Syria.

Rafael releases new member of Spike family – Spike NLOS



The Spike NLOS is an electro-optically guided missile for ranges of up to 25 km with pinpoint accuracy and midcourse navigation. The weapon system can be launched from land, air and naval platforms.

Equipped with a variety of warheads, RF communication, unique advantages of hitting non-line of sight (NLOS) targets, the ability to switch between targets and abort mission, the Spike NLOS can be operated in offensive and defensive scenarios.

Spike NLOS is designed to be integrated into the modern battle arena and can receive target location from an embedded TAS system, external sensors, C4I center or UAVs.

Coming from a long tradition of missile expertise, the Spike NLOS is a member of Rafael's well known Spike missile family. The Spike family consists of precise tactical missiles launched from different ranges at a variety of targets for use by infantry units and on combat vehicles, attack helicopters, as well as naval vessels.

David Stemer, Executive VP and General Manager of the Missiles and NCW Division at Rafael says that "the Spike NLOS, a member of the Spike family, enables Rafael to give forces, on any modern battlefield, the most effective means to deal with all threats." He adds that, "The existence of the family of Spike systems is a result of Rafael's ability to adapt itself to the needs of the users and to continually provide them with the most cost effective, advanced technology and the best operational capability available.

Improving the Odds

A new method for bone marrow transplantation from mismatched donors restores the immune system faster. Although bone marrow transplants have long been standard for acute leuke-

mia, current treatments still rely on exact matches between donor and patient. Now, scientists at the University of Perugia, Italy, and the Weizmann Institute of Science have improved on a method of transplanting bone marrow based stem cells from a mismatched donor, making it safer for use when no exact match exists. They were invited to present their findings at the recent annual American Society of Hematology conference in New Orleans. More than a decade ago, Prof. Yair Reisner of the Weizmann Institute's Immunology Department pioneered a method for transplanting stem cells from family members who are a partial match. Based on these studies (in mice), he joined forces with Prof. Massimo F. Martelli, Head of the Hematology and Clinical Immunology Section at the University of Perugia, to demonstrate in more than 300 patients that the cure rate of these so-called "mega dose" transplants is similar to that of transplants from matched, unrelated donors picked from international bone marrow donor registries. To combat the body's tendency to reject the foreign cells, these stem cells are stripped of immune cells called T cells and given in high doses that overwhelm the host's own immune system. Although removing donor T cells from the bone marrow reduces the risk of graft-versus-host disease – caused when the T cells attack the recipient's tissues – the immune system is slow to recover after the transplant, leaving the patient at risk of serious infection. Doctors are faced with a difficult choice: Either remove the T cells from the bone marrow, increasing the risk of infection, or leave the T cells in the graft, putting the patient at risk for lethal graft-versus-host disease. Martelli, working with Reisner, has now found a way to facilitate the recovery of the immune responses in recipients of T cell-depleted bone marrow transplants. In a clinical trial, 25 of 26 leukemia and lymphoma patients who received mismatched mega dose T cell-depleted stem cell transplants from relatives showed prompt immune recovery, and their immune systems were functioning well several months later.

The scientists knew that certain regulatory T cells (T regs), rather than causing graft-versus-

host disease, could actually help to prevent it in mice. T regs have also been shown to keep other immune responses in check, including preventing autoimmune attacks on the body's own cells.

In the present study, after purifying T regs from the donor's blood, the cells were infused intravenously into the cancer patients, who had previously undergone standard radiation and chemotherapy treatments. Three days later, the patients received the donor stem cells, along with another kind of T cell – those that fight disease. The patients who underwent this procedure showed quick, lasting improvements in immune activity; most experienced no symptoms even though they received large doses of the T cells that are generally associated with lethal graft-versus-host disease.

Further follow up on these patients and additional clinical trials will be needed before the procedure can be widely adopted. But these results strongly suggest that T regs used in mega-dose stem cells will further enhance the cure rate for bone marrow transplant patients without a matched donor in the family.

Teva invests \$60m to develop cancer drug

In addition to a global licensing and collaboration agreement, Teva will receive an equity stake in OncoGenex Pharmaceuticals.

Teva Pharmaceutical Industries Ltd. (Nasdaq: TEVA; TASE:TEVA) has entered a global licensing and collaboration agreement for OncoGenex Pharmaceuticals Inc.'s (Nasdaq: OGXI) potential cancer treatment OGX-011. Teva will invest \$60 million, including an equity investment.

The drug, is in Phase III clinical trials and is expected to move into late-stage development as a potential prostate and lung cancer treatment in 2010 and 2011, the companies said. The drug is expected to be used an additional therapy to enhance the effectiveness of chemotherapy.

Under the deal, OncoGenex will receive \$60 mil-

lion up front, including a \$10 million equity investment valuing its stock at \$37.38 per share, which represents a 26% premium to its closing price of \$29.65 on Friday. OncoGenex will be eligible to receive up to \$370 million in milestone and other payments, along with royalties.

OncoGenex, based in Bothell, Wash., and Vancouver, British Columbia retains an option to co-promote OGX-011 in the US and Canada.

Teva senior VP branded products, Moshe Manor, said that the drug will be a significant part of Teva's branded oncology products

Broadcom buys Israeli start-up Dune Networks

Dune was established in 2000, and has received \$50 million in venture capital funding.

US semiconductor company Broadcom (Nasdaq: BRCM) has bought data center networking equipment developer Dune Networks for \$178 million. The deal is Broadcom's fourth acquisition in Israel.

Broadcom said that it had signed a definitive agreement to buy Dune for about \$178 million, net of cash assumed from Dune. The deal is an all-cash one.

Dune Networks develops switch fabric solutions for data center networking equipment. With companies looking to add bandwidth at data centers to meet the requirements of cloud computing, Dune Networks has developed a scalable chipset that supports bandwidth speeds of up to 100Gbps per port and can connect more than ten thousand servers (ports) in a single deployment.

Executives at the two companies pointed to the development of cloud computing as a driving force for the deal. Broadcom VP Martin Lund, who is also general manager of the company's network switching business, said, "Dune's massively scalable interconnect fabric, combined with our Ethernet products, augments our portfolio of solutions for data center networking equipment. This technology is particularly well suited to meet

the emerging requirements for cloud computing networks at a large scale, and will enable us to address new market applications for Ethernet in the data center.”

Dune Networks CEO Eyal Dagan said that customers would be able to “bring to market low cost, high performance data center switching that will enable end users to build next-generation cloud computing networks.”

Dune was established in 2000, and has received \$50 million in venture capital funding from Pitango Venture Capital, Evergreen Venture Partners, and other investors.

Dune employs 100 workers, with offices in Yakum, Israel and in Sunnyvale, California.

PlanPlatform sold for \$25m

The Israeli startup PlanPlatform, formerly known as VisualTau, has been sold to the U.S. company Autodesk. The price of the deal was not disclosed, but industry observers estimate it to be \$25 million.

PlanPlatform has developed an online software platform that seeks to compete with the costly two-dimensional and three-dimensional drafting tools used by engineers, such as Autodesk’s AutoCAD.

As VisualTau, the company had developed a system that provides the online software, which can be used to construct models collaboratively and exchange information online.

PlanPlatform was established in 2007 by former members of the Israel Air Force’s visual intelligence unit and Israel Aerospace Industries - chief executive Tal Weiss, VP Jonathan Seroussi and project manager Iris Shor.

The company has raised \$4.3 million, including \$800,000 of which came from private investors and the chief scientist and \$3.5 million from the Sequoia venture capital fund. According to Business Data Israel, the company’s private investors

include contractor Eyal Gabbay, who heads the infrastructure division of the Association of Contractors and Builders in Israel.

Although the exit is relatively low in value, it is one of Sequoia’s better deals in terms of return on investment. The U.S.-based venture capital fund invested in PlanPlatform just six months ago, during PlanPlatform’s most recent round of financing.

In light of the fact that the company was founded only about two years ago, it is one of the more profitable exits for its investors and founders.

Autodesk, which acquired PlanPlatform, is traded on the Nasdaq at a market cap of \$5.62 billion. The company ended the second quarter with sales revenues of \$415 million. It is based in San Rafael, California.

Autodesk’s principal product lines are professional design tools such as drafting software for engineers and architects, including AutoCAD and Revit Architecture, and Maya Autodesk, for animation design.

Autodesk has a worldwide workforce of about 7,800 employees.

This is the second design software exit in Israel’s high-tech sphere in recent months: Expert Dynamics, the developer of software for the simulation of printed circuit boards, was bought out in October by Mentor Graphics for \$10 million.

The prospering water technology industry

Israel’s water technology sector has prospered despite the global financial crisis, largely due to global stimulus packages and penetration in developing countries, officials said. Though affected by a slowdown in spending in the country and throughout the world, Israel’s Ministry of Industry and Trade said there is an “opposite and strong trend” in the demand for water technologies that will generate growth in companies.

At least half of Israel’s water industry leaders pre-

sented sales growth in 2009 despite the global crisis. Bank of Israel Governor Stanley Fischer said that Israel's economy is recovering faster from the financial crisis than in many countries, due in part to strong exports in Israel's high-tech sector.

But this year, for the first time, a water recycling company holds the spot of Israel's fastest growing technology company.

"In this regard, cleantech has surpassed high-tech for the first time," Oded Distell, director of Israel's national water technology program, said.

Israel expects to export \$2.5 billion in water technology annually by 2011, Distell said.

Water recycling company Aqwise, whose system breeds bacteria to break down organic waste, saw its sales increase 50 percent in 2009, said Chief Executive Officer Elad Frenkel, capping five years of growth that put it at the top of the list.

Frenkel said Aqwise, founded in 2000, increased revenue by investing resources in Latin American and Asian markets while more developed regions, like Europe, were still hurting from the gloomy economic climate.

Ori Yogev, a top economic advisor to Israeli Prime Minister Benjamin Netanyahu, said that water companies took a hit in the last quarter of 2008 and first quarter of 2009.

"But the damage was less than in other sectors, largely thanks to increased spending by governments," Yogev said, adding that water companies benefit from both infrastructure and cleantech spending, both cornerstones of stimulus packages.

Yogev in 2006 founded Whitewater, a technology group that deals with water management, security and treatment. He expects Whitewater to post more than 10 percent sales growth in 2009.

Irrigation company NaanDan Jain, a unique venture owned by the Israeli agricultural commune Kibbutz Naan and India's Jain Irrigation Systems, has also increased its revenue with strong sales

in areas like Central Asia and South America.

Company CEO Avner Hermoni said NaanDan Jain, estimated by Israeli media reports to have annual sales of \$100 million, has seen a rise of 10 percent since 2008.

Israel Information Technology Report Q4 2009

Market Overview BMI projects that the Israeli IT market will have a value of US\$4.7bn in 2009. The market is forecast to grow to a projected US\$5.9bn in 2013. The Israeli IT market should have enough momentum from key sectors to expand over BMI's 2009-2013 forecast period despite a contraction this year.

Major IT vendors reported challenging trading conditions in H109; a key factor has been unemployment hitting consumer demand for electronics goods. In H209 rising job insecurity for those in work is expected to have a negative impact on consumer sentiment, while many companies facing tight credit conditions will continue to be cautious about IT spending. However, BMI tentatively expects conditions to improve in the final quarter of the year.

The Israeli IT market has a number of positive fundamentals that should keep it in positive territory over BMI's five-year forecast period. Spending by a number of key IT spending verticals such as defense, and financial services, should be to some extent insulated from the economic crisis. Low computer penetration, of around 30%, offers potential for continued growth.

Industry Developments

In H109, Israel's high-tech sector suffered as demand for high-tech exports dropped by at least 10-15%, with as many as 10,000 sector jobs feared to be at risk. This represented a major concern for the Israeli government given that high-tech accounted for around 10% of Israel's economy, with annual sales estimated at around \$25b. Major IT firms were retrenching in Israel, including SAP, Cisco and HP.

IT is viewed as an important policy tool for the Israeli government's 2008-2010 socioeconomic policy framework. The National Economic Council recently submitted a policy agenda to the government, which specified two main policy tracks of reducing poverty and achieving balanced growth. The first track is expected to emerge as the main priority.

As part of its modernization agenda, the government is pressing ahead with various other strands of its government project. Among other initiatives, there has also been spending on computers in healthcare and the nationwide paperless court initiative. The e-government program is leading to increased demand for computers, with the Israeli government reaching a supply agreement in 2007 with Dell and HP.

Competitive Landscape The Israeli IT services market is competitive, with leading multinational competitors IBM and HP both estimated to have Israeli IT services market shares of below 10%. Following its merger with EDS, US giant HP is projected to take around 10% of the Israel IT Services market this year. HP Israel's software division hosts HP's biggest research and development (R&D) center worldwide, and the company also has significant production facilities in Israel.

Leading Israeli IT services vendor's experienced mixed fortunes in H109. Market leader Matrix reported wins in a number of key sectors including healthcare, financial services, defense and government. In Q209, Matrix reported an approximately 12% growth in profits and 15% in operating profits from core businesses, compared with the same quarter of the previous year. It reported a good quarter in Q109 despite the deceleration in economic growth. Ness Israel, by contrast, reported a 25% decline in revenues for Q209, although two-thirds of this was due to currency translation.

In 2009, enterprise software giant Oracle was in discussion with Israel Credit Cards Cal (ICC-Cal) concerning the future of a major computeriza-

tion project being implemented by Oracle. Oracle initiated the project, to replace and upgrade ICC-Cal's computer systems, some 18 months ago. However, differences had apparently arisen between Oracle and ICC-Cal concerning the project. Meanwhile, in 2008, Oracle rival SAP reached an agreement with Ness to purchase the latter's SAP sales and distribution division in Israel.

Computer Sales The Israeli computer hardware market, including desktops, notebooks, servers and accessories, is projected at \$2.2b. in 2009, down from US\$2.3bn in 2008. The market is expected to grow at a compound annual growth rate (CAGR) of 4% over the forecast period to reach \$2.6b. in 2013. The Israeli government has launched various initiatives to increase computer and Internet penetration.

However, it is believed that spending will contract in 2009 with an economic slowdown and unemployment hitting consumer demand for electronics goods. Household consumption moved into negative territory in 2009, with spending on household equipment down by 6.7% in Q109, and although BMI forecasts a slight recovery in H209, trading conditions will remain tough.

Software

Israeli software spending is projected at \$993m. in 2009, up from \$965m. in 2008. The packaged software segment is expected to grow at a CAGR of around 7% over the forecast period. Businesses are expected to remain cautious in H209, deferring investments, or looking for good enough solutions to immediate problems. However, there should still be several growth areas.

Spending on software is shifting towards the small and medium-sized enterprise (SME) segment, which forms the mainstay of the Israeli business sector. Spending on enterprise solutions has grown since 2007, with reviving or emerging areas of opportunity including security, customer relationship management (CRM) solutions and business intelligence. In terms of verticals, the

financial sector has been a mainstay of demand, with other key opportunities including defense and healthcare.

IT Service

The IT services segment is estimated at \$1.6b. in 2009, and this is expected to grow at a CAGR of 7% over the forecast period to reach \$2.0b. in 2013. In H109, there were reports of IT managers scaling back projects, and vendors will have to adapt to an environment where some projects are commissioned more in response to immediate needs.

Government and defense are two key sectors likely to be a continued source of opportunities, because the factors driving spending in each case are not particularly sensitive to economic downturn. Another key area of opportunity is healthcare IT. Despite failing to capitalize in the past, Israel is starting to emerge as a desirable location for packaged applications and localization services.

Israel's high PC penetration and the growing availability of broadband access mean that Internet penetration is likely to continue its upward trajectory. The government has announced that it intends to make a big effort to narrow the digital gaps that manifest themselves across various demographic lines.

Israel's strong broadband growth has long relied on a handful of developments across the market. These include the competition between Bezeq and the cable companies, with five major internet service providers (ISPs) vying for market share from both the corporate and residential markets, which enjoy high PC penetration rates, advanced telecoms infrastructure and minimal regulatory intervention.

Another development likely to stimulate growth is the introduction of local loop unbundling (LLU), which will give alternative operators access to Bezeq's network and will stimulate much greater competition. LLU is due to be implemented by end-2009.

IBM to buy Israeli start-up company Guardium for \$225m.

IBM is making a huge purchase of an Israeli start-up. At the beginning of next week the U.S. computer giant will officially announce it is buying Israeli high-tech company Guardium for \$225 million. Guardium specializes in security solutions for databases.

The deal will mark one of the best exits in recent years for venture capital funds, as only \$21 million has been invested in Guardium since it was founded in 2002, under the name Defendo. Investors are expected to make over 10 times their investments. The major investors - and those reaping most of the profits - in Guardium include venture capital funds Ascent, Cedar Fund, StageOne Ventures and Veritas Venture Partners. Networking giant Cisco has also invested in Guardium.

The entrepreneurs behind the firm, founder Amnon Keinan and Lior Tal, who has since left the company, will also be getting a share of the proceeds. Two others who will benefit from the sale are Gil Migdan and Joseph Segev of Log-On Software.

Guardium develops solutions that allow secure access to enterprise data, including databases from IBM, Oracle, Microsoft and others. It also monitors the software for possible break-ins and unauthorized access.

The company is privately held and profitable with revenues of tens of millions of dollars a year. Keinan, formerly a vice president at Amdocs, founded the firm as a spin-off of Log-On. The present CEO is Ram Metser. The company's headquarters is outside Boston, and most of the research and development is carried out there, though some is outsourced here in Israel at Log-On's Ramat Gan offices.

Guardium's flagship product is SQL-Guard, which provides database security assessment, access policy control and enforcement, auditing and regulatory compliance.

One of Guardium's competitors is Shlomo Kramer's Imperva. Kramer is one of the founders of Check Point. However, much more money has been invested in Imperva than the \$21 million put into Guardium. Another Israeli start-up in the same sector is Sentrigo. Benchmark Capital is an investor in Sentrigo.

There was a bigger sale already this year of an Israeli high-tech firm: Medtronic bought Ventor for \$325 million, but that is in the medical equipment sector and not information technology - and the returns to investors were much smaller. It has been a long time since an Israeli start-up was bought out for so much money. The closest recent deal was the sale of CopperGate to Sigma Designs for \$184 million.

The deal is good news for the Israeli venture capital industry, as it revives hopes that the funds' investment model still works, as there had not been such large exits since 2006.

For IBM, Guardium is its ninth Israeli purchase. IBM has been buying up Israeli companies over the past few years, alongside its large investment in its Israeli research and development facilities.

treatment to deal with sleep deprivation and other common disorders connected with the daily life cycle.

A device that comfortingly perhaps looks like a computer mouse delivers the shock. The scientists report that even though the trial consisted of applying about 300 shocks over three minutes to the penis, the men didn't complain of side effects or pain. It helped 15 of the 20 testees, Vardi said.

Given unveils next-generation Colon Pillcam

Endoscopic capsule developer Given Imaging Ltd. (Nasdaq: GIVN; TASE: GIVN) unveiled its next-generation Pillcam Colon at the Gastro 2009

Conference in London. The Pillcam Colon2 is a development of the Pillcam Colon1, and is aimed at being more patient friendly, as well as providing better visualization of the colon.

The Pillcam Colon2 includes proprietary, innovative technologies, including intelligent functionality and superior imaging, designed to provide physicians with clear and precise views of the colon and polyps of interest.

Given Imaging has already obtained EU CE Mark certification for the Pillcam Colon2 and has begun marketing in select European countries, with continent wide availability planned by mid-2010.

The Pillcam Colon2 has two-way communications to improve the capsule's motion and imaging. The number of images has been increased to 35 frames per second from four frames per second. Advanced optics provides a 172-degree field of view offering a near 360-degree view of the colon.

A comparative study of which PillCam Colon2 to colonoscopy at five hospitals in Israel showed a sensitivity of 89% and a specificity of 76% in detecting polyps six mm or larger, and a sensitivity of 88% and a specificity of 89% in detecting polyps ten mm or larger. The study included 98 patients who had risks or warning symptoms of colon disease.

Given Imaging president and CEO Homi Shamir said, "PillCam Colon2 incorporates the cumulative expertise gained from the first PillCam Colon as well as more than one million PillCam capsule ingestions worldwide. Despite the small size of this initial study and the relatively low prevalence of polyps, we are very encouraged by this data and look forward to working with leading gastroenterologists in Europe, the United States and other markets to initiate additional clinical trials."

NICE buys situational awareness company Orsus

NICE Systems Ltd. (Nasdaq: NICE; TASE: NICE) has purchased security management solution

developer Orsus Inc. for \$22 million.

The all-cash deal should close in 2009.

Orsus bought the intellectual property of Irish firm Cinario earlier this year for several million dollars.

About \$75 million has been invested in Orsus in its ten-year history, making it the latest in a string of start-ups that have been sold for less than the sum invested in them.

Orsus technology supports situational awareness. Its Situator system combines information from a range of sources so that the information can be processed faster.

According to NICE, Situator can integrate a wide array of security and safety alerting sources from different vendors, such as video surveillance systems, access control, intrusion sensors, alarm panels, fire and safety sensors, radars, among others. It can also fuse and display information from Geographical Information Systems (GIS) and Geographical Positioning Systems (GPS), to rapidly determine exact incident location, and how best to respond.

Orsus customers include among others, American Electric Power, Aqua America, the Israel Air Force, National Guard of the United States, Transnet Freight Rail and Virginia Port Authority.

CA buys remote server software co Oblicore

The acquisition is CA's tenth in Israel. IT management giant CA Inc. (NYSE: CA) has signed the agreement to acquire start-up Oblicore Inc. Sources inform "Globes" that under terms of the deal, which will be reported in the next few days, the remote server software company will be acquired for \$25 million. The acquisition is CA's tenth in Israel. CA declined to comment on the report.

From the point of view of Oblicore's investors this is not a particularly successful exit because according to IVC Research, a similar amount of money - \$25 million - has been invested in Oblicore since its establishment.

Oblicore was founded in 2000 by Erez Hendelman, Hezi Sheffer, and Oren Gampel. The company develops Service Delivery Management software to improve access to business applications stored on remote servers at enterprises and telecommunications providers. Oblicore has 40 employees. The sector has been enjoying growing demand in recent times.

Last summer CA made a strategic decision to enter the computer automation and virtualization sector to provide users with processing and memory resources, applications and content through remote access.



Please enroll me as a subscriber to the Israel High-Tech & Investment Report.

I understand that if not satisfied, I may cancel my subscription at any time and receive a refund of the unexpired portion. I enclose a check for \$95 (or the Israeli shekel equivalent and 18% v.a.t.) and am sending it to POB 33633, Tel--Aviv 61336.

The Israel High-Tech & Investment Report is a monthly report dealing with news, developments and investment opportunities in the universe of Israeli technology and business. While effort is made to ensure the contents' accuracy, it is not guaranteed. Reports about public companies are not intended as promotion of shares, nor should they be construed as such.