

# ISRAEL HIGH-TECH & INVESTMENT REPORT

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## You Can Still Acquire Assets at Reasonable Prices

Not blessed with access to hundreds of newspapers, television stations and news wire services the Israeli corporate world maintains close contact with the country's only two business newspapers. These newspapers have their own web sites and monitoring news has become a relatively uncomplicated task. Together with the editorial board we get "the handle" on developments.

In addition our visits to companies and our contacts among professionals extend our view of this country's technology sector. This input allows us the freedom of making predictions, occasionally off target but more often "spot on". Notwithstanding any unforeseeable developments connected with the planned handover of Gaza 2005 should be a banner year.

The recent flow of news announcements of corporate mergers and acquisitions, massive new contracts, investments from local venture capitalists and heavy inflows of foreign capital are all indicators that this country's economy is perking up.

Foreigners are "buying in", with the Mathew Bronfman purchase of the Israel Discount Bank, the third largest bank in Israel, just one of many examples. Finance Minister Benyamin Netanyahu has made it clear that the privatization of Israel's varied industries is a key part of his overall economic program. It was reported that he has made himself available for meetings with representatives of investment bankers from Morgan Stanle, Deutsche Bank and UBS.

As in the past, heightened economic activity, is spearheaded by the high-tech sector. The supply of engineers and technicians, who a year ago were happy to get jobs outside of their field of expertise, is being depleted. Intel Israel, apparently, is experiencing difficulties in locating new technical personnel. Moreover, the Israel Defense Forces has indicated that it is planning to improve pay conditions of engineers to persuade them from departing for the private sector.

High tech exports are also on the upswing. They have not been hindered by the modest strenghtening of the Israeli shekel against the U.S. dollar.

The Tel-Aviv Stock Exchange has responded by recording new all-time highs as funds pour in daily from local and overseas investors.

Perhaps this may serve as the last best opportunity, for the foreseeable future, to acquire assets in Israel at reasonable prices.

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**Tadiran to Present “Wrist Video Screens”**

Israeli troops are now wearing on their wrists a Dick Tracy like tiny video screen, which displays video from unmanned drone aircraft, in real time.

Similar screens have been in use by the military’s attack helicopters, for nearly a year. This technology, drastically reduces the time it takes for pilots to strike targets, including Palestinian militants marked for elimination by the Israeli military.

The technology, which is also used in tanks and armored vehicles, was a closely guarded secret and only recently the public was offered a glimpse.

Itzhak Beni, the company’s chief executive said it has “shortened significantly” the time to identify and strike a target. “The time has been reduced from 10 to 12 minutes to seconds,” said the executive with the Elisra Group’s Tadiran Electronic Systems and Tadiran Spectralink companies.

The Israeli army declined to comment about the new technology.

The screen being field-tested by a limited number of foot soldiers is about three inches wide and weighs just a few ounces. Code-named V-Rambo, it’s attached to the wrist by a Velcro strap.

The LCD screens display color video that is beamed directly from drones at 30 frames per second -the same rate as broadcast TV.

Attack helicopters have been fitted with five-inch screens. The “Video Receiver” systems also include small reception units that are installed on the vehicles and helicopters or carried in soldiers’ vests.

Military drones have been used by Israel since the early 1980s. But until recently, the information they gathered was sent to a ground command center that interpreted it and then shared it with the forces in the field.

The Tadiran systems allow the information to be received instantly by the various forces, company officials said.

The drones are still controlled by a ground command center, but the various forces have the ability to guide the camera to meet their specific needs.

This real-time information has enabled Israel to perfect its ability to attack from the sky. During more than four years of fighting with the Palestinians, Israeli helicopter air strikes have killed dozens of militants.

The system can also greatly reduce combat casualties by allowing troops “to see everything that is behind the hill and around the corner,” Beni said. At the same time, the company said the improved information can help troops minimize civilian casualties in the crowded refugee camps and city streets where Israeli troops and Palestinian militants often clash.

Tadiran only recently received clearance to show the system to the public.

The company also showed off a system resembling a video game that allows soldiers to control unmanned ground vehicles.

The green console has a small flat screen and two joysticks, one on each side. One joystick controls the vehicle, while the other controls the items on the

Venture



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vehicle, such as its cameras.

The computer screen shows other information, including video footage from drones and detailed maps of the battlefield.

The technology is expected to be part of the "Gladiator" unmanned ground vehicles being developed by the U.S. Marines. Tadiran has announced that the Gladiator contract, includes partners Carnegie Mellon University and United Defense Industries Inc.,

### Israel-India to Jointly Develop UAVs

According to "Defense News" Israel and India have signed an agreement to develop three models of unmanned aerial vehicles (UAVs), to be produced in India.

Under the agreement, Israel Aircraft Industries (IAI) teams will assist the Aeronautical Development Establishment (ADE), India's leading UAV developer, in developing new models.

IAI president and CEO Moshe Keret said that UAVs were an important element in cooperation between Israel and India, and that IAI would implement defense R&D plans to the benefit of both countries.

"Defense News" notes that at this stage, Israel is the sole supplier for all of India's requirements for UAVs.

### Israel Ranked 9th for Country Risk

Israel's credit risk rating on overseas financial markets has greatly improved. The Economist Intelligence Unit (EIU) of British financial weekly "The Economist" assigned Israel 9th place. The rating was published in a recent edition of "The Economist". A higher point rating for a country means that a country has a higher credit risk for foreign investors; few points mean that a country is safer. "The Economist's" country risk rating weighs 77 political, diplomatic, security, and economic indicators, including inflation, interest rates, price stability, financial system stability, foreign currency activity, and balance of payments deficit.

"The Economist" said that Israel is safer for foreign investors than eighteen other countries, including Thailand, India, South Africa, China, Mexico, Russia, Brazil, Peru, and Egypt. Poland had 35 points, the same rating as Israel.

Only seven emerging economies were rated as safer than Israel for foreign investors: Singapore, Hong Kong, Chile, Taiwan, South Korea, Malaysia, and the Czech Republic.

The riskiest countries for foreign investors were Iraq, Zimbabwe, Argentina, Venezuela, the Philippines, Indonesia, Turkey, Ukraine, and Columbia.

### World Leader in Medical Device Patents

An indepth analysis shows Israel's life science industry to be near the top in many global indicators. The data was compiled by the new umbrella organization set up to promote Israel's life sciences industry.

Israel leads the world in patents for medical devices on a per capita basis according to data presented at the inaugural session of ILSI, Israel Life Science Industry, a new umbrella organization. Ruti Alon, one of ILSI's founders, pointed out that one of the reasons for founding the organization was to be able to gather accurate data that could be used to present a clear picture of the industry's assets. Her findings corroborate the notion that Israel is a leading player in the world life science arena, especially in the cardiovascular area.

Israel has 466 life science companies, with 80 percent of them founded in the last ten years. Since 2000 about 50 companies have been founded every year.

The industry remains in its formative stage with about thirty percent of the companies in the seed stage and only 20 percent in the clinical stage.

The biggest area of industry focus is cardiovascular with 67 companies active in this area

More than half of the industry is comprised of medical device companies (54 percent) while biotech companies make up 21 percent. About a half of the medical device companies focus on therapeutic devices with the leading applications being in cardiovascular, oncology, neurology and neurodegenerative.

Most of the revenue generating biotech companies sell diagnostic kits or research equipment.

Pharmaceutical companies comprise 60 companies led by Teva. The sector includes 23 companies with sales.

The industry employs about 25,000 workers with 15,000 of them employed at Teva.

Israel is fourth in the world in biopharma patents per capita (trailing only the US, Switzerland and Denmark).

### Persay wins British Phishing tender

British Telecom is adopting voice and speaker verification and authentication systems made by Israeli startup Persay, for its user identification service.

Persay won the tender in competition with leading voice verification companies around the world.

BT URU, the phone company's user identification system, is designed to enable financial and other enterprises to prevent and detect fraud by spammers who steal identities. False identification resulting in fraud is a serious problem, estimated to run at around £1.3 billion a year in England alone, and many times that figure in the United States. Phishing is the name of the crime.

The Persay VocalPassword system automates the process of identifying customers and workers as well, in real time, saving time and cost. The voice, with its entirely individual features, serves as a biometric identification means that it does not depend on accent or language.

The BT identity verification system is expected to become a universal one, securing call centers and Internet transactions as well.

Phishing is the increasingly widespread phenomenon of emails falsely claiming to be a legitimate enterprise, such as Citibank or eBay, in order to gain your password or other private information. Users are typically asked to visit a website and update personal data.

But even if the phishing expedition works and some users bite, biometric identification means can prevent the attacker from using the information for nefarious purposes.

Persay FreeSpeech consists of several servers that record and learn the characteristics of the customer's voice, when he calls the service center. It obviates the need for the customer to remember codes.

### **Emblaze Adamind raises \$28m. in UK IPO**

Emblaze (LSE: BLZ) announced that its mobile content services technology subsidiary Adamind (LSE:ADA) successfully raised capital on London's Alternative Investment Market (AIM).

Adamind provides solutions for converting and processing multimedia content for MMS multimedia messaging service markets. Adamind raised \$28 million. It issued 11.3 million ordinary shares at \$2.50 (£1.32) a share. When trading in the share begins, the company will have 35,363,636 ordinary shares issued at a market value, at the sale price, of \$90 million (£46.7 million). Adamind's shareholders did not sell any shares as part of the IPO. The offering was oversubscribed and traded at a premium to its IPO price.

### **Age Verification Scanner Unveiled**

An Israeli company i-Mature, has developed a device that it says can check the age of a computer user through an ultrasound scan of a bone in the hand. The technology used by the device is known as Age-Group Recognition (AGR).

Future PCs may prevent children from accessing undesirable Internet sites by using an ultrasound device to gauge their age from a hand bone. Users simply place a middle finger against a device that attaches to a computer.

The device uses ultrasound waves to check more than a dozen biometric attributes, including how much calcium is present. The device can then determine the probability the user is a child or an adult.

The company has available prototypes of the device. The technology can be housed in a stand alone device or integrated into the keyboard of a PC or laptop. The projected sales price will be about \$25. The company plans to complete the product design by June and intends to market the device for use in PCs in public places such as libraries, schools and airports.

The company has teamed with security technology firm RSA to develop the technology for the consumer PC market.

"Both organizations recognize the safety concerns associated with using the Internet and look forward to collaborating on a solution that will empower children to protect themselves from inappropriate Web content and online predators," stated Shmuel Levin, founder and CEO of i-Mature.

The company didn't reveal how accurate the age estimate would be. The company envisions the technology as a way to limit access to chat rooms and Web sites. It could be combined with other identity-credentials or biometric technology to help identify surfers.

### **Rafael Displays Helmet for Combat Pilots**

Rafael Israel Armaments Development of Israel has unveiled a helmet, nicknamed "mind reader", at the recently held Aero India exhibition at Bangalore, India.

The helmet, named Eyeball, is equipped with mounted sights. A tiny camera follows the pilot's pupil and locks

on-board weapons onto the pilot's line of sight and provides displays to the pilot regardless of where he is looking.

The helmet has passed all development stages and was successfully tested by Israeli F-16 pilots. The Rafael helmet has several advantages over its competing Elbit helmet. Rafael's helmet, at 1.3 kg, is half the weight of Elbit's and it does not require integration between the helmet and the cockpit. The Rafael helmet is expected to cost between one-third to one-half the price of the competing Elbit system.

In Bangalore, Rafael also presented an innovative air defense system which it is offering to the Indian Air Force. It is based on the conversion of Python 5 and Derby air-to-air missiles into anti-aircraft missiles. The operational range of the Spider system is 15 km. The system includes a control cabin and radar system. Israel Aircraft Industries participated in developing the radar system.

Company officials said that the system had passed the early stage of the IAF's \$350 million air defence system tender, beating companies from Russia and South Africa.

Rafael's profitable missile division registered \$450 million in sales in 2004 and \$500 million in orders. The division employs 1,500 workers. Rafael executives believe that the helmet's earnings potential to be in the hundreds of millions of dollars. Pilots in all types of fighter jets and helicopters will be able to use the helmet.

### **Medical Laser startup Aesthera Raises \$6.5m.**

Israeli medical-technology startup Aesthera recently closed a \$6.5 million financing round of \$6.5 million.

The company, founded by former Lumenis (Nasdaq: LUME.PK) personnel, competes with Lumenis itself and Syneron (TASE, Nasdaq:ELOS) in laser-based cosmetic treatment technology.

The round was led by venture capital fund California-based Medventure Associates, and UK-based Adam Street Partners.

Individual investors include former Lumenis CEO Yacha Sutton, and former Lumenis directors Thomas Hardy and Zehev Tadmor, a past president of the Technion university.

Former Lumenis vice president Alon Maor, now the CEO of Aesthera, founded the startup in 2004.

The company has developed photo-pneumatic technology, providing up to five times more photon efficiency than the current norm.

Initial applications include hair removal, skin rejuvenation and treatment of vascular and pigmented lesions. The company says its technology is not only more efficient, but less painful than other current methods.

The cosmetic laser market has been popular with investors and shares of companies active in the field are being accorded high valuations.

The American laser hair removal market is estimated at \$500 million annually, while the cosmetic laser treatment market itself is valued at \$7 billion and projected to grow to \$12 billion by 2007.

## Science Corner

### **Optimal Time Windows for Successful Embryonic Tissue Transplant**

Scientists at the Weizmann Institute of Science have determined distinct gestational time windows for the growth of transplanted pig embryonic liver, pancreas and lung precursor tissue into functioning organs in mice. These findings – appearing this week in PNAS online Early Edition – could help enhance the chances for successful implementation of embryonic pig tissue in the treatment of a wide spectrum of human diseases.

The study, led by Prof. Yair Reisner of the Institute's Immunology Department, involved the extraction of embryos from sows at various stages of pregnancy and implantation of organ-committed cell tissue into immunodeficient mice. His novel approach did not involve the growth of any tissue in culture. The analysis of embryonic-tissue at various gestational ages revealed a unique pattern of growth and differentiation for each organ.

The potential of embryonic pig tissues as a new source for organ transplantation in humans has been advocated for more than two decades. Transplant too early, however, and the risk is undifferentiated embryonic tissue that can develop into undesirable and possibly malignant tissue, a type of tumor known as "teratoma." Transplant too late and the risk is that the tissues will have reached the stage where they have been marked

with certain identifiers that trigger rejection by the new host.

## **B.G. Negev Technologies Signs Deal to Develop Heart Scaffolds**

B.G... Negev Technologies, the commercial arm of Ben Gurion University, recently signed an agreement with BioLineRx Ltd., an Israeli company specialized in drug development company, to assume the development of BL-1040, an injectible scaffold that reduces cardiac damage after a heart attack. The worldwide exclusive license agreement calls for the commercial development of the new material developed by Prof. Smadar Cohen and Prof. Jonathan Leor.

Under this new procedure, the biodegradable polymer is injected directly into the area damaged by the heart attack. Within minutes, the material intercalates between the cells and fibers of the heart and rapidly forms a scaffold. This scaffold enhances the mechanical strength of the heart muscle during recovery and repair, reduces the size of the scar after the heart attack and may stimulate the growth of new blood vessels and encourage cardiac regeneration. In experimental heart attack models, the polymer has been shown to improve outcome, resulting in reduced cardiac dysfunction and reduced mortality.

BioLineRx plans to develop this project through BioLine Innovations Jerusalem and to submit the project for funding by the Israeli Office of the Chief Scientist under the National Biotech Grant that BioLineRx received in November of last year. BioLineRx anticipates an investment of approximately \$9 million in order to obtain clinical proof of safety and efficacy.

## **Kibbutz Shamir in Nasdaq Debut**

Shamir Optical Industry, in which Kibbutz Shamir owns 80.5% and FIBI Holdings 9.8%, has sold 3.4 million shares. at a price of \$14 per share. The offering would valued Shamir Optical at close to \$190 million, premoney. Its lead underwriters were William Blair and CIBC.

The company was founded in 1972 and makes high-quality progressive lenses and molds to treat presbyopia, a condition of the eyes precluding focus on nearby objects that typically strikes people over 45 years of age. Its innovative technology incorporates several optical strengths in a single pair of its advanced lenses, enabling gradated shifts from seeing distant and nearby objects.

The company also develops software to plan advanced lenses. The software is based on an algorithm developed in-house, that optimizes lens structure depending on the needs of the customer.

The market for hi-tech contact lenses is a vast \$12 billion a year, and is expected to grow at 6.3% a year, reaching \$18.6 billion in 2010. People are becoming increasingly aware of the advantages of the hi-tech lenses, for one thing. For another, the population is aging.

Shamir Optical also means to reach entirely new areas, such as China, India, eastern Europe and South Africa.

The offering, after the IPO, will make Kibbutz Shamir one of the richest kibbutzim in Israel. The kibbutz will be selling 490,000 shares for \$6.4 million. Each of the kibbutz's 270 members will receive \$470,000.

The shares were priced at \$14 and they opened for trading at \$16.60, reflecting good demand for the issue. (Nasdaq:SHMR)

## **Retalix Posts Record Q4 and 2004 Sales**

Retalix Ltd. (NASDAQ:RTLX ), a provider of integrated enterprise-wide software solutions for the retail food and fuel industries worldwide announced that sales for Q4 2004 were \$35.9 million, an increase of 40.0% from \$25.6 million reported in the fourth quarter of 2003. Net income for the fourth quarter of 2004 was \$2.1 million. Earnings for the fourth quarter of 2004 were \$0.11 per fully diluted share, as compared to earnings of \$0.26 per fully diluted share in the fourth quarter of 2003.

For the year ended December 31, 2004, the company reported record revenues of \$124.4 million, an increase of 35.1% as compared to revenues of \$92.1 million in 2003. Net income for 2004 was \$6.0 million, a decrease of 28% compared to net income of \$8.3 million for 2003.

Earnings for 2004 were \$0.36 per fully diluted share, as compared to earnings of \$0.63 per fully diluted share for 2003. Net income and earnings per share were both impacted by the substantial investment made by Retalix during 2004 in developing the next generation of supply chain management applications and in their integration with the Retalix's product suite.

"2004 was a year of explosive growth and enormous

operational achievements for Retalix,” said Barry Shaked, President and CEO of Retalix.

### **EI AI to Supply in-flight High-Speed Internet**

EI AI Israel Airlines (TASE: ELAL), will be one of five airlines in the world to provide in-flight high-speed Internet services. EI AI announced that it would spend \$3 million on installing high-speed Internet on its planes. The service will cost \$9.95-29.95, depending on flight length and type of Internet use chosen by the passenger.

Under its agreement with CBB, a subsidiary of US aerospace manufacturer Boeing (NYSE: BA), electronic systems will be installed between June 2005 and December 2006 on EI AI Boeing 747-400 and 777 jets. These systems will provide EI AI passengers with high-speed broadband communications through portable computers.

### **Intel Israel Laser Breakthrough to Cut Costs of Networks and Medical Systems**

Within five years, we will connect to networks at 10 times our current speed and for a fraction of the current cost thanks to researchers at Intel's Jerusalem unit. The Israeli researchers have built a continuously shining laser with the same material - silicon - that is the foundation of today's chip industry. The breakthrough could drive down the cost of both optical networks and lasers used in medicine.

The Intel study, to be published in the prestigious journal Nature, was described by co-author Mario Paniccia, director of Intel's photonics lab, as “a fundamental breakthrough.

### **Israeli Researchers Develop Three Drugs for Treating Neurodegenerative Diseases**

Israeli researchers at the Technion Israel Institute of Science have developed three innovative drugs for treating neurodegenerative diseases. The drugs remove iron from the brain and thus prevent the creation of 'brain rust' which causes such diseases as Parkinson's and Alzheimer's. The drugs, developed by Prof. Moussa Youdim of the Rappaport Faculty of Medicine at the Technion, in collaboration with the late Prof. Avraham Warshawsky, have had their American and worldwide patents approved.

The researchers are currently negotiating with a number of American, British and Israeli companies concerning development of these drugs through the company Varinel.

### **The People of the Internet**

Israel boasts one of the highest penetration rates of Internet in the world. As of November 2004, 50% of the nation's households were hooked up to the world wide web, according to a Business Data in Israel.

The Israeli predilection for Internet far exceeds the usage in the west. In the United States, only 22% of households are online, while in Europe the rate is a only 10%.

2.8 million Israelis surfed in November 2004, up from 560,000 in 1997, BDI reports.

However, when it comes to surfing speeds, Israel lags. About 85% of the nation's surfers are hooked up to high-speed Internet, but 75% of them only get 750 kilobytes per second, which is considered an unimpressive speed.

Some 67% are hooked up via Bezeq ADSL service and only a third have availed themselves of Internet connection via the cable companies.

Bezeq International and Netvision were the leading high-speed Internet service suppliers with 60% of the market.

### **Giza, Accel Partners invest \$6m. More in Transtech**

Venture capital funds Giza Venture Capital and Accel Partners exercised their options to make a \$6 million follow-on investment in Transtech Control Ltd. The investment increased Transtech's current financing round to \$25 million, at a company value of \$46.4 million, after money.

Giza and Accel each invested a total of \$10 million in the round. Formula Vision Technologies (TASE: FVT) invested \$5 million, while its stake in Transtech was diluted to 34%. Transtech provides monitoring, control and navigation systems for airports. The company's revenue rose 125% to \$12 million in 2004, and its orders backlog now stands at \$13 million.

The US Federal Aviation Administration (FAA) recently began testing Transtech's smart airport system. This system is designed to cope with traffic load problems at airports, and to prevent collisions between airplanes

on the ground. The testing process is expected to take 6-10 months. If the test is successful, the FAA's orders from Transtech are likely to amount to tens of millions of dollars.

### **Foreign investment in TASE rose to \$599m.**

Foreign investment in the Tel Aviv Stock Exchange (TASE) has risen sharply. Net foreign investment in the TASE reached \$599 million in January 2005, 14.5% more than the \$523 million invested in all of 2004 the Bank of Israel reported. Another \$500 million has been invested since the beginning of February.

Foreign investment in the TASE has totaled \$900 million since the beginning of 2005, 72% more than in 2004 as a whole, and greatly increasing foreign investment as a proportion of total investment in the TASE. Foreign investment in the TASE totaled \$1.35 billion in the past three months, 2.6 times the amount invested during 2004 as a whole.

Deposits by Israelis in foreign currency accounts in overseas banks have also risen sharply. Net deposits by Israelis in foreign currency accounts in overseas banks totaled \$1.48 billion in January 2005, a third of total deposits in 2004 and have totaled \$3.05 billion in the past three months.

Total foreign investment in Israel was \$505 million in January, and over \$1 billion in the past two months. Foreign direct investment in non-financial assets, including real estate, totaled \$363 million in January, and \$381 million in the past two months. Net foreign investment in negotiable securities was \$353 million in January, and \$747 million in the past two months.

Total overseas investments by Israelis was \$1.68 billion in January, and \$3.1 billion in the past two months.

### **Personalized Songs in Russian**

Illustrating the worldwide growth of personalization of services, Partner Communications (Nasdaq:PTNR), a leading Israeli mobile communications company and operator of the orange(TM) network in Israel, has launched a service that enables its subscribers to send personalized songs to friends and relatives in Russian.

The song dedication service in Russian is an enhancement of a previously deployed service for dedicating songs in Hebrew. The service enables Russian speakers to personalize a song by having the

sender and recipient names as a part of the song itself. Using NSC's product, a subscriber dials the service (\*6060) and chooses a favorite musical style, Pop, Rock, Jazz or Chanson along with the occasion, such as birthday greetings, thank you etc.

The sender inserts his/her name and the recipient's name using speech recognition. The identified names are then sent to the song composing application, which produces the song using the names recognized.

The service deploys, among other products, speech recognition technology by Israeli company NSC. This technology is used as the input for names of the recipient and the sender. By using NSC speech recognition product, Partner brings its customer a new value added service which could not have been provided using the traditional touch-tone menus due to the large variety of possible names.

NSC specializes in speech recognition technology for telephony systems. NSC's solution is based on hardware - PCI boards that are designed around dedicated processors (DSP). This unique approach by NSC allows very high density at low cost with simple system architecture. NSC's hardware-based solution performs speech recognition without any need for CPU resources, while maintaining minimal footprints, side by side with maximum control for the users in optimizing system resources for their needs.

The IVR (Interactive Voice Response) platform is based on a system supplied by an Israeli vendor, CTWare, which specializes in CTI solutions and value added service technologies. The Song Composition software was developed by the Israeli vendor TIMBRE which specializes in innovative technologies for advanced content services. The content itself was written, edited and recorded by the Intersol group.

### **Agere Buys Israeli Chipmaker**

A rumored deal came true for Agere Systems, which announced its purchase of a small Israeli company whose technology is used in some Agere products.

The Hanover Township, Lehigh County, chipmaker said it will pay \$145.1 million for Modem-Art Ltd. of Raanana, Israel. Modem-Art's 40 employees will join Agere, and the Raanana office will become Agere's first Israeli facility.

A newspaper in Tel Aviv reported last month that Agere planned to buy Modem-Art for about \$150 million. At the time, Agere representatives dismissed the report as "pure speculation."



Modem-Art develops chips for 3G, short for "third generation," the new class of faster, higher-powered cell phones. 3G cell phones can broadcast video, among other features.

Agere has worked with the Israeli company for 18 months, spokeswoman Joanna Schooler said. Agere's first 3G product, the Sceptre HPU chip set and software for multimedia mobile phones, uses Modem-Art's technology, she said.

Technology analysis firm IDC expects the global market for 3G phones to rise from about 33 million units last year to about 286 million in 2008. Agere officials believe having Modem-Art on board will help Agere produce stronger chips and software for the 3G market.

Analyst Dushyant Desai, who tracks Agere for C.E. Unterberg, Towbin in San Francisco, agrees.

"This is an area where Agere needs to see a stronger growth," said Desai, who rates Agere "market perform" and does not own any of its stock. "This is going to bring them up and make them more competitive."

Industry interest in 3G technology has been high because it is expected to provide a range of sought-after services, such as high-speed Internet access and video conferencing. But the technology has been slow to catch on, which has hurt cell-phone companies and chipmakers alike.

Agere has also been hurt by the loss of part of a major customer's account. NEC, a Japanese cell phone company that bought a custom 3G chip from Agere, said in December it would buy chips for its next-generation phones from two other companies. NEC will continue to buy chips from Agere for other uses.

It's not clear how much Modem-Art will contribute to Agere's bottom line. The company has not disclosed its sales, and Schooler wouldn't comment Tuesday. The Israeli news reports a month ago said Modem-Art, which was founded in 1998, has not had any revenue.

Desai said he has not spoken with Modem-Art officials and is not familiar with the company's finances. He said it's common for companies to be bought because of their potential future revenue, instead of their

current sales. Another Agere analyst, Ping Zhao of CreditSights, said she considers the deal "expensive," given Modem-Art's reported lack of revenue. Zhao rates the stock a "buy."

Schooler said Modem-Art has collaborated with other companies. Agere will continue to support Modem-Art's other customers, she added.

Agere expects to record a one-time charge this quarter for purchased research and development costs. The company said that amount has not been determined.

Agere will pay \$30.5 million cash and issue 70.3 million shares of its Class A stock, which is valued at \$114.6 million based on Agere's Monday closing price of \$1.63 a share.

Agere's Class A stock gained 2 cents per share on the New York Stock Exchange, closing at \$1.65 per share in average trading volume.

The deal is Agere's third acquisition since completing its spinoff from Lucent Technologies in 2002.

### **Alta Berkeley Opens in Israel**

Alta Berkeley Venture Partners announced that it is opening an office in Jerusalem. Pini Lozowick, who has been appointed a partner in Alta Berkeley, will manage its Israeli branch.

Alta Berkeley is a European venture capital fund investing in information technology and communications. Founded in 1982 in London, Alta Berkeley which manages six funds totaling over \$200 million, has invested in over 100 companies, 20 of which have been floated on stock exchanges, including eight on Nasdaq. Over 30 of its portfolio companies were acquired by European and US companies.

Alta Berkeley began investing in Israeli companies in 2001. The fund has invested in Xtellus, Dune Networks, Native Networks (sold in early March to Alcatel (NYSE: ALA; Paris: CGEN) for \$55 million), Mempile, Siliquent, and Camero.

### **Israel Aircraft Awarded \$500m. Contract**

Israel Aircraft Industries Commercial Aircraft Group has received a multi-year contract, valued at approximately \$500 million from Vought Aircraft Industries to manufacture assemblies on the prestigious Boeing

787 Dream Liner passenger aircraft program. The award was sole-source and runs for the lifetime of the 787 program.

IAI/Commercial Aircraft Group's Production Division will manufacture assemblies for the door surrounds and passenger and cargo floor. The Group's Engineering Division will design the assemblies.

The Boeing 787 Dream Liner, expected to enter service in 2008, is a fuel-efficient airplane designed to serve routes between 3,500 and 8,500 nautical miles (6,500 and 15,700 Km). The B787's airframe will be made of lightweight and robust composite materials and advanced alloys using innovative manufacturing methods. The Dream Liner will provide passengers with a better flying experience, including an improved cabin environment with more room and more conveniences.

### **Boston Scientific Invests \$20m. in VisionCare**

Boston Scientific (NYSE:BSX) is expanding its medical-technology business into eye care. The company, which has a mixed history of investing in Israel, led a \$20 million financing round for Saratoga, California-based VisionCare Ophthalmic Technologies. VisionCare maintains an R&D facility in Yahud, Israel.

Pitango Venture Capital, Peregrine Ventures, and Infinity Venture Capital, both from Israel, foreign-based Onset Ventures and Three Arch Partners also participated in the financing. VisionCare has raised \$47 million to date. The transaction valued it at \$80 million, post money.

Boston Scientific is the largest medical device company dedicated to minimally-invasive therapy.

VisionCare is a privately-held development stage company developing implants designed to improve vision and quality of life for people with untreatable retinal disorders.

It will be using the capital to complete clinical development of the Implantable Miniature Telescope (IMT) prosthetic device, then to obtain regulatory approval for its use for patients with end-stage age-related macular degeneration (AMD), while building sales and marketing.

The visual prosthesis is the only medical device in late-stage clinical development for the moderately to

profoundly visually impaired AMD population.

AMD is the leading cause of irreversible vision loss and legal blindness in individuals over the age of 50. People with AMD do not generally go completely blind.

More than 200 patients in 28 United States medical universities and ophthalmic centers are currently participating in phase II and III clinical trials with the IMT device. The company hopes to receive FDA approval for general use later this year.

The IMT device was approved for use in Israel and the European Union two years ago.

Smaller than a pea, the IMT is implanted in one eye in an outpatient surgical procedure. In the implanted eye, the device renders enlarged central vision images over a wide area of the retina to help improve central vision, while the non-treated eye provides peripheral vision for mobility and orientation.

### **Intel Israel Buys Oplus**

Intel Corporation has announced that it will purchase Yokne'am, Israel-based digital screen display company Oplus Technologies. The value of the deal was not disclosed, but sources close to the deal said it was \$100 million.

Oplus CEO Yair Alpern said in a telephone interview that the Israel company would retain its more than 100 employees and hire more personnel. Sources in Israel and in the US indicated that Intel Israel was also planning to hire additional workers in the near future.

The acquisition is Intel's second here recently. It purchased Herzliya-based wireless network chip designer Envara for 40 million USD last year.

Oplus is a privately held hi tech fabless semiconductor company in Israel that designs, develops and markets integrated circuit and software solutions for flat panel plasma and LCD-TVs, projection systems, LCD multi-function monitors and emerging digital display applications.

### **Alcatel buys Native Networks for \$55m.**

Alcatel SA, a provider of communication solutions to telecommunication carriers, Internet service providers and enterprises for delivery of voice, data and viinfrastructure, said that it has signed an agreement to Israeli company Native Networks for \$55 million.

### Taiwan's Winbond buys NSM Unit for \$75m.

National Semiconductor Corporation has signed a definitive agreement to sell the company's Israel-based PC Super I/O (the advanced PC division) business to Winbond Electronics Corporation, based in Hsinchu Science Park, Taiwan. No value was disclosed, but it is estimated that the price is \$75 million cash.

Winbond will acquire intellectual property, assets and approximately 150 employees, most of whom are based at National Semiconductor's research and design center in Herzliya, Israel.

The PC Super I/O business unit's business accounts approximately 4% of National Semiconductor's current quarterly revenue.

Winbond chairman Arthur Chiao stated, "National's Advanced PC division will be a tremendous addition to our company and accelerate our ability to deliver high-end mixed signal, I/O and advanced system solutions to our customers".

The sale is expected to close during the fourth quarter.

### Security Exports up by 65%

Security and safety technology exports totaled about \$1 billion in 2004, a gain of about 65 percent compared to 2003, Manufacturers Association figures show.

About \$200 million worth of security products were sold to companies and organizations tasked with providing security at the Athens Olympics.

About 100 new security technology companies opened last year, while 15 such companies closed down, according to the Association.

Manufacturers Association President Shraga Brosh estimates that the security and safety industry's exports would reach \$2.5 billion a year by the end of the decade.

"The security and safety industry has turned into the golden egg of Israeli exports," he said. "The American and global market are expected to invest more than a trillion dollars in this field in the coming decade."

### \$724m. Capital raised by Israeli VCs

The IVC Research Center has published its report covering Israel's venture capital industry.

In 2004, a renewed wave of capital raising by Israeli venture capital funds began in earnest. Several successful fund raisings ended two years of severe

drought among Israel's VC funds when more capital returned to the investors than raised.

Capital raised by Israeli venture capital funds in 2004 was \$724 million, primarily reflecting \$300 million raised by Pitango for a fourth fund, \$200 million raised by Gemini for a fourth fund and Giza Venture Capital's first closing of \$120 million for its fourth fund.

### \$1 billion available for investments

According to IVC estimates, \$1 billion in capital is currently available for investment by Israeli VCs, of which \$500 million is intended for First high-tech company investments. The remainder is reserved for Follow-on investments.

Additional \$1.5 billion is expected to be raised in 2005 by Israeli VCs for investments in the Israeli high-technology.

Zeev Holtzman, Chairman of IVC Research Center and Giza Venture Capital, said, "Total capital sought by Israeli funds is more than \$4 billion. We estimate, however, that in 2005 only about \$1.5 billion will be raised by VCs. As a result, a shortage of capital for investments in technological companies is expected. This situation is in contrast to the US where there is an overhang of capital. Israel, as a result, will continue to have attractive opportunities."

### Top funds dominate capital raising

Between 1992 and 2004, Israeli venture capital funds raised approximately \$9.1 billion that was exclusively allocated to investments in Israeli related technology companies. Approximately \$5.6 billion (61 percent) was raised between 2000 and 2004.

### Israeli Armour Saves Lives in Iraq

Rafael, the Israel Armament Development Authority received a letter of recognition from the US Army. The letter praises Rafel for its armour that has been installed on American APCs in Iraq and reportedly has saved many lives. The Bradley and 7AV APCs in the service of the US Army and the Marines, which play a central role in the armed operations in Iraq, have been fitted over the last year with armour by Rafael. The project has been carried out in cooperation with the American General Dynamics company. The armour is said to be the most advanced in the world. It is made up of passive protection, which is constructed of strong material that diverts the rocket, and of reactive protection, which is comprised of plates that contain

explosives. The minute the rocket jet stream hits one of those plates the explosives go off, preventing the rocket from penetrating the APC.

**Israeli firm wins \$3m. Contract from India**

Israeli firm, Lipman Electronics Engineering, (LPMA: TASE) which develops technology to read and handle credit and smart card transactions, has won orders worth USD 3 million from various Indian banks and business customers, the company informed.

The Nasdaq listed company is planning to establish a subsidiary, Lipman India, in the second quarter of this year, to cater to the Indian market.

Most of the Indian orders are for NURIT 8320, NURIT 2085 landline and NURIT 8010 GPRS and WIFI terminals, it said.

Lipman develops a variety of handheld, wireless and landline POS terminals, electronic cash registers, retail ATM units, PIN pads and smart card readers, integrated PIN and smart card (“chip & PIN”) solutions.

It also develops advanced software platforms for transaction processing, and managed professional services such as on-site and call-center support.

“The evolving electronic payment market in India represents a significant opportunity for Lipman to provide its solutions not only to the banking sector, but also to multiple government-driven projects and the cellular industry,” Lipman’s Vice President for marketing and sales, Lazy Yanay said in a recent press release.

An orphan drug status is granted by The FDA Office of Orphan Products Development (OOPD) to promote the development of products that demonstrate promise for the treatment of rare diseases or conditions. Orphan drug designation provides for various regulatory and economic benefits, including seven years of market exclusivity in the U.S. to the first entity that obtains marketing approval in the designated indication.

The company recently gained the continued support of our partner TEVA, which is to invest \$25 million in a joint venture with Gamida Cell to develop and market StemEx(R).

Gamida Cell Ltd. specializes in the expansion of hematopoietic (blood) stem cell therapeutics in clinical development for cancer, as well as future regenerative cell-based medicines including cardiac, pancreatic and neurological repair and autoimmune diseases



**Gamida Cell Drug Granted Orphan Drug Status**

Gamida Cell announced that the FDA has granted orphan drug designation to the company’s flagship product StemEx(R) for use as hematopoietic support in patients with relapsed or refractory hematologic malignancies (cancer of the blood system) who are receiving high dose therapy.



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