

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, PUBLISHER

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## Long-term Well Being Assured *Slimming* is in Progress

A number of e-publications have contacted us and requested our opinion as to the effect that the current call up of reservists following the increased level of hostilities is having on this country's high tech sector. In the 'Wired News' article Farhad Manjoo reported, "Morgenstern, like many others who commented on how Israel's high-tech sector might be affected by the turmoil, painted a surprisingly upbeat picture of the situation".

One of our friends, employed at a well-known high-tech company, forwarded us the following memorandum sent to the company's employees.

"Dear colleagues,

"In light of the current political situation in Israel and the concern it causes in our team, I wanted to update you on the situation in our company.

"I would like to inform you that our company's activities continue as usual, and surprising as it may sound, the preparations for IPEX and new product launches keep us all pretty busy, very focused and motivated.

"The situation is quite complicated and the Israelis have changed their life style. We spend our time at work and at home, we try to avoid crowded public places and we listen to the news very frequently. The everyday routine goes on: children go to school and we go to work. Morale is somber and the feeling of personal security is reduced. In this difficult time, work provides us with some sense of sanity and stability.

"Everything in Herzlia (the hub of Israel's high-tech companies) is the same: the hotels, sun and beaches, although the tension zones are only dozens of kilometers away everyday life has not changed much. Only the restaurants are not as crowded as they usually are.

"As for our campus, we have increased security and work closely with the local police to reduce the risk of terrorist attacks.

"The partial reserve service draft throughout the country

has only slightly influenced our company so far.

"Never in Israel's history was the company unable to ship products to customers. We see no threat that something will change to prevent us from shipping products today but we will take some precaution steps, if needed, to minimize exposure to our company. "I would also like to remind you that the media reports coming from the tension zones emphasize extreme situations and not our everyday reality."

The publicly announced threat of a boycott of Israeli goods

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by European countries is unlikely to be enacted by the European Union. Denmark has already unequivocally stated that it would veto such a move. Israel's high-tech products due to their sophisticated level of performance are mostly bought by demanding American buyers. There is no evidence whatsoever, that high-tech companies would falter in fulfilling contractual obligations in the foreseeable future. Even as Saddam Hussein launched 40 Scuds into Tel-Aviv, during the Desert War, Israeli high-tech never faltered in its obligations.

The new generation of high-tech executives is, more than ever, flying overseas for meetings with clients, their high-tech counterparts and existing investors. Presently, most foreign businessmen will not visit Israel. "I regret to inform you that my firm has cancelled our participation. I am very disappointed. If you call me I would be delighted to talk to you," read this e-mail received by the Israel High-Tech & Investment Report, (IHTIR) in Tel-Aviv; Mr. Testa was the announced scheduled keynote speaker at the IVA-Annual Israel High-Tech Conference, the most important venture capital conference in Israel. Mr. Richard J. Testa is a co-founder and chairman of Testa, Hurwitz & Thibault, LLP, one of the largest law firms in Boston. His biography states that the American National Law rates him "one of the 100 most influential lawyers in America". Mr. Testa, during our lengthy telephone discussion, said "that he has a long relationship with both Israel, the Israeli venture capital community and has an incredibly large base of Israeli technology based companies that are served by his firm". He added "I attended four out of the last five meetings of the IVA and I have many friends in Israel but the cancellation of our participation was the judgement of the firm. The events that are occurring are extraordinarily unfortunate. Once the current troubles are over, and I hope that they will be over shortly we will renew our friendships. I personally view the current situation as temporary. A decision has been made at my firm to send a group to Israel in the fall." said Mr. Testa.

A welcome exception to the rule was the presence of members of the global Coudert Brothers law firm which, since its founding in 1853, has specialized in international corporate and commercial law. The firm represents clients in their investment and commercial transactions on a worldwide basis through a network of offices in North America, Europe, Asia and Australia. A number of members of their firm were at the IVA Conference. We met attorney Gary Benton, a



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Table 2.2: 20 Largest Israeli Venture Capital Funds by Capital Allocated to Israel (\$m)

Rank	Management Company	Total Capital Raised 1998-2001	Rank	Total Capital Raised 1992-2001
1	Apax Partners	700 <sup>2</sup>	1	740 <sup>1</sup>
2	Pitango VC	500	2	645
3	JVP	320 <sup>4</sup>	4	415 <sup>3</sup>
4	Star Ventures	300 <sup>3</sup>	3	493 <sup>5</sup>
5	Giza VC	271	8	311
6	Genesis Partners	263	5	364
7	BRM Group	253 <sup>6</sup>	7	350 <sup>6</sup>
8	Evergreen Partners	241 <sup>7</sup>	6	351 <sup>7</sup>
9	Israel Seed	240	10	258
10	Benchmark Israel	220 <sup>8</sup>	14	220 <sup>8</sup>
11	Gemini Israel	200	7	350
12	Jerusalem Global	190	16	190
13	Concord Venture	180	9	260
14	Sequoia Israel	180 <sup>9</sup>	18	180 <sup>9</sup>
15	Cedar Financial	175	13	225
16	Carmel Ventures	170 <sup>10</sup>	19	170 <sup>10</sup>
17	Challenge Funds	161	12	242
18	Vertex Israel	160 <sup>11</sup>	11	250 <sup>11</sup>
19	Tamir Fishman	150	15	210 <sup>12</sup>
20	Walden Israel	150	17	185

conference attendee from the Coudert Brothers, Palo Alto, California office. "I am not bothered by the current spate of violence but my wife is concerned so I keep in touch with her by telephone." said Mr. Benton.

David Blumberg, managing partner of Blumberg Capital, an eminent venture capitalist whose company has offices in the region of the Silicon Valley, told the Israel High Tech & Investment Report that he was delighted to attend. The challenge lying ahead is clearly for the Government of Israel to restore stability. The foreign investor would like to feel that he can visit Israel without the fear of dining at a restaurant or a café and becoming an innocent victim of a suicide bomber. At a recent briefing by the heads of Israel's venture capital industry, it was pointed out that investments into local high tech companies for the first quarter of 2002 are likely to reach a highly satisfactory level of \$400 million -- in keeping, on a proportional basis, with venture capital investment in Europe and the United States. The coming six month rate of investment may trend considerably lower, impacted not only by the past recession in the US but by the violence perpetrated by terrorism, notably Palestinian suicide bombers.

The valuations of Israeli high-tech companies publicly traded on Nasdaq have fallen. This has been the result of the current global slump in this sector rather than for any other reason. In 2002 the Israeli shekel has been devalued and this should improve the profitability of these companies that traditionally export more than 95% of their sales. Their revenues are in dollars, but their salary and other expenses are paid in New Israeli Shekels.

The challenges currently faced by the Israeli technology sector are twofold. Dark clouds are forming which presage the possibility of the Israeli venture capital industry becoming a casualty of the current Middle East violence. The Israeli government just announced an austerity budget, which many view as placing an unequal burden on various sectors of the society. The budget may bring about unwelcome short-term shocks to the country's economy, which has been stable for many years and in 2001 recorded zero inflation. On balance Israel's high-tech sector may become leaner, but its long-term wellbeing is assured.

### ***IVA Sees 2002 Fund-Raising 95% Off Peak***

Mr. Yigal Erlich, the chairman of the Israel Venture Association doesn't expect local funds to raise even \$200 million this year - a sharp blow for an industry that amassed a record \$3.7 billion just two years earlier. Fund-raising and investment sank in 2001 because of the collapse in the global technology industry and the slowing U.S. economy. This year, the escalation of the Israeli-Palestinian conflict will play a much bigger role in depressing Israel's venture industry.

As a result, the high-tech beneficiaries of these venture funds will shut down in even bigger numbers than the roughly 200 that closed last year. "Some would have closed anyway, but in good times, funds would have kept money flowing," he added. Erlich would not speculate how many casualties there would be. He spoke ahead of a news conference where the IVA released its annual industry yearbook and discussed industry developments.

The affiliated IVC Research Center reported earlier this year that Israeli venture funds raised \$1.4 billion in 2001, down from \$3.7 billion a year earlier. Investments in venture-backed high-tech companies sank to around \$2 billion in 2001, from \$3.1 billion the previous year.

Most of the money raised in 2002 will come from foreign investors, who traditionally have provided the bulk of Israel's venture capital. But for the most part, foreign investors, who once saw Israel as a high-tech darling, are staying away, he said.

He added: "In 2001, there was a (Palestinian) uprising, but somehow foreign investors got used to it," he said. "In 2002, it intensified nearly to the level of war, and that certainly makes people less willing to come to Israel and to invest. Even veteran investors don't come if they don't have to."

The increase in violence is prompting foreign investors to put added pressure on Israeli high-tech companies to relocate, Ehrlich said. Local investors will also shy from venture investments this year, Ehrlich said. Domestic banks lost money on their technology investments and domestic institutional investors aren't receiving government incentives, such as guarantees backing venture investments, he said.

The dearth of cash is

**Capital Raised by Venture Capital Funds and High-Tech Companies in the US, Israel and Europe**

	<u>Venture Capital Funds \$ bil.</u>			<u>Companies</u>		
	<u>USA</u>	<u>Israel</u>	<u>Europe</u>	<u>USA</u>	<u>Israel</u>	<u>Europe</u>
2001	40.6	1.4	4.6	36.5	2.0	5.2
2000	104.6	3.7	7.6	99.6	3.1	9.7
Change	(61%)	(62%)	(40%)	(64%)	(36%)	(46%)
1999	59.2	1.9	4.5	52.5	1.0	5.7

IVC Research Center

putting Israel high-tech sector "in defensive posture," Ehrlich said. He hopes that this year will be the worst year and that next year will be better.

There was a 23% sequential quarterly rise in high-tech investment

in Israel in the fourth quarter, to \$464 million, but Ehrlich said numbers for that period and the first quarter of 2002 were influenced by a few companies that raised a lot of money.

***Simbionix Raises \$4m***

Simbionix will move its marketing operations to the US, retaining its R&D in Israel. The company postponed its public offering in Switzerland to 2003.

Simbionix was established in 1997, aiming to become

a participant in the minimally invasive surgery industry. The company aims to become a leader in computer-assisted endoscopy. One of its divisions is active in the development and sale of medical training simulators for endoscopy.

***Recent Financing Deals***

Target Technology Center closes initial \$1m for pre-seed fund.

StarVest Venture Capital will invest \$150,000 in each project at the incubator.

\*

Bladefusion raises \$1m

**Initial Public Offerings**

	<u>USA</u>		<u>Israel</u>	
	<u>Deals</u>	<u>Value</u>	<u>Deals</u>	<u>Value</u>
2001	37	3,231	2	83
2000	226	21,077	20	1,068
Change	(84%)	(85%)	(90%)	(92%)
1999	233	17,805	14	601

**Mergers and Acquisitions**

	<u>USA</u>		<u>Israel</u>	
	<u>Deals</u>	<u>Value (\$m)</u>	<u>Deals</u>	<u>Value (\$mil)</u>
2001	305	14,755	6	631
2000	290	66,748	9	10,586
Change	(%)	5% (78%)	(33%)	(94%)
1999	235	36,506	6	2,967

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seed stage. BladeFusion is developing a patented technology that allows it to build integrated security platforms for organizations, utilizing innovative BladeServer and InfiniBand technologies.

\*

International venture capital funds MPM Capital is joining a consortium headed by Ofer Technologies, which is submitting its candidacy for the biotechnology incubators tender.

\*

Digital signal processing company DSP Group (Nasdaq: DSPG) announced that it was buying Irish company Parthus Technologies plc (Nasdaq: PPTH) (LSE: PRH) and DSP Group, Inc. for \$390 million.

\*

Israeli start-up Ayeca, which develops cellular applications technologies, is about to close its \$5 million second financing round.

### ***IVC Launches the IVA 2002 Yearbook***

The IVA Yearbook is the Israeli Venture Capital and Private Equity Directory, published by the IVC Research Center with the cooperation of the Israel Venture Capital Association and Globes, is the most comprehensive source of information on Israel's venture capital industry anywhere.

The IVA 2002 Yearbook includes extensive data on 83 firms managing Israeli venture capital funds (compared to 80 in the previous edition), 38 investment companies (40), 850 portfolio companies (1,000), articles by prominent figures in the industry, statistics on the high-tech economy and a comprehensive directory of IVA members. A new addition is a directory of 58 firms that serve the high-tech industry: accountants, attorneys, investment banks and more. Included for the first time in the current edition is Corporate VCs – local and foreign – which are active in Israel.

### **New IVC Findings**

The IVC Research Center compared developments in Israel's venture industry with those in the US and Europe in 2000-2001. Four findings were noteworthy: (1) Regarding total investments, Israel ranked first in Europe and fifth in the US. (2) Capital raised by Israel and US VC funds, showed a similar rate of decline, while European funds recorded a more moderate decrease. (3) Capital raised by high-tech companies showed a moderate decline in Israel and Europe compared to the US. (4) There was a sharp decrease in exits in Israel and in the US.

### **Israel Ranked First in Europe and Fifth in the US**

A comparison of Israel with states in the US, rank Israel fifth in terms of capital raised by high-tech companies in 2001. California, Massachusetts, Texas and New York (descending order) each ran higher. Compared to Europe, Israel ranks first ahead of the United Kingdom, France, Germany, Italy and Spain.

### **Decline in Capital Raised by VC Funds and High-Tech Companies**

A comparison of Israeli trends with those in the US and Europe indicates that capital raised by venture capital funds declined in 2001 in all three economies. The decrease in Israel and the US from the previous year (62% and 61%, respectively) is nearly identical, the decline in Europe is more moderate (40%). Capital raised by high-tech companies in the US fell by 64%, while European and Israeli firms fared somewhat better with decreases of 46% and 36%, respectively.

### **Greater Biotech Share of Total Investments**

The biotechnology industry stood out in each of the markets. In the US, biotechnology's share of investments in 2001 jumped to 8.2% from 3.5% in 2000. In Israel the increase was to 6.0% from 3.4% while in Europe biotechnology accounted for 11% up from 7%.

### **Sharp Decrease in Exits**

Venture-backed exits saw a drastic drop during 2001. Initial public offerings (IPOs) of Israeli companies (in the US and in Europe) plunged 92% in dollar terms from 2000 levels, while US company IPOs skidded 85%. The value of M&A deals in Israel declined by 94%, while in the US, the value of M&A deals fell 78%.

(see page 4 table Initial Public Offerings)

### **About IVC**

IVC is Israel's leading Venture Capital/High-Tech research center, providing analysis of trends and developments.

### ***Blumberg Capital Launches Early Stage Technology Fund***

Blumberg Capital, L.L.C., announced the launch of a new venture capital fund -- Blumberg Capital Ventures I, L.P. The fund invests in early-stage

information technology companies on a global basis. The lead investor is RIT Capital, PLC (a public unit trust based in London, headed by Lord Jacob Rothschild). The Principals of the fund will be David J. Blumberg, Mark Pretorius, and Bruce Taragin. The firm is located in San Francisco.

### ***Venture Capital Investments in Seed Stage Companies Take a Plunge***

The Money Tree™ Survey (Israel), which was conducted by Kesselman & Kesselman PricewaterhouseCoopers (PwC), show a decrease in the investments in high-tech companies backed by venture capital funds (where one of the investors in the first round of financing is a venture capital fund) in the first quarter of 2002 (\$ 344 million) as compared to the last quarter of 2001 (\$384 million).

This quarter showed a decrease of approximately 10% in the total amount of venture capital investments in Israel as compared to the previous quarter, aggregating \$ 344 million. The decrease in investments (in monetary terms) was accompanied by a yet sharper decrease of 28% in the number of companies that raised capital during the quarter (76) as compared to the previous quarter (106) and 42% as compared to the corresponding period in the previous year (132).

The average investment per company was \$ 4.5 million in this quarter, an increase of 25% as compared to the previous quarter (\$ 3.6 million). The trend of increase in the average investment per company reflects the focus of venture capital funds on later stage rounds.

A notable finding is the decrease, for the first time since this survey was first carried out, in the number of venture capital funds that made no investments during the quarter (neither in new companies nor in their portfolio companies): 21 venture capital funds this quarter, as compared to 27 venture capital funds in the previous quarter, constituting 28% and 36%, respectively, of the venture capital funds participating in the survey.

Another fact reflected in the findings of the survey is the continuing decrease (in monetary terms) in the relative weight of local venture capital funds in total investments for the quarter (35% as compared to 38% in the previous quarter).

Another ongoing trend is the decrease in the volume of investments made by local venture capital funds: \$ 122 million as compared to \$ 144 million in the previous quarter (a decrease of 15%). The remaining

About 37% of the companies that raised capital in the first quarter received grants from the Chief Scientist.

\*

There was 42% decrease in the number of companies that raised capital this quarter as compared to the corresponding period in the previous year.

\*

There was a sharp decrease in the life sciences sector, constituting only 7% of investments for the quarter, as compared to 17% in the corresponding

part was invested both by foreign venture capital funds and by other investors.

Aside from the investments in companies that have a connection to Israel, as mentioned above, the local venture capital funds invested only \$ 11 million in foreign companies that have no activities in Israel, which constitute 8% of total investments made by these funds during the first quarter of 2002.

### **Analysis by geographical area**

In the first quarter of 2002, 76% of the transactions were carried out in Tel-Aviv and the central area (58 transactions, aggregating \$ 178 million). 11 companies in Haifa and the northern area raised approximately \$ 74 million.

In the Jerusalem area, \$ 91 million was infused into 9 companies. One transaction took place in the south. The findings of the Money Tree™ Survey show that of the 76 companies that raised capital this quarter, 50% are registered as foreign companies (the vast majority of which are registered in the United States) and the rest are registered as Israeli companies. The analysis by technological sectors shows that life sciences companies are clearly more inclined to be registered as an Israeli company rather than as a foreign company.

### **Analysis by leading technological segments**

According to the findings of the survey, despite the decrease in the field of communications and networking, both in the volume of investments (in monetary terms) and in the number of transactions, this field continued to lead the investments in the first quarter of the year. In the first quarter of 2002: 21 companies in this field raised \$ 175 million, as compared to \$ 183 million which were infused to 33

companies in this field in the previous quarter.

The software industry registered a further decrease in the volume of investments (in monetary terms), attracting approximately \$ 52 million (15% of total investments). However, the number of companies that raised capital during the quarter increased to 24 companies (32% of total number of transactions), as compared to 19 companies (18%) in the previous quarter.

The semiconductor field was characterized by a significant increase both in the volume of investments (in monetary terms) and in the number of transactions, as compared to the previous quarter: 7 companies in this field raised \$ 84 million this quarter, as compared to 10 companies and \$ 41 million in the previous quarter. (It should be noted that a large investment was made in this field during the quarter that, neutralized, leaves the volume of investments in this field unchanged as compared to the previous quarter).

The life sciences sector took a specially hard blow this quarter, constituting only 7%, in monetary terms, of total investments for the quarter, as compared to 17% in the previous quarter and attracting investments in the volume of only \$ 24 million which were infused to 15 companies this quarter (as compared to \$ 67 million which was invested in 26 companies in the preceding quarter). The field of medical instrumentation led the investments in the life sciences, with investments in the volume of \$ 21 million, which was invested in 12 companies (a decrease of 46% in monetary terms and 25% in the number of transactions). Only 3 companies in the field of biopharmaceuticals raised capital this quarter, aggregating \$ 3 million (as compared to \$ 26 million which was infused into 10 companies in this field in the previous quarter).

## Analysis by investment round

### The seed round

The survey's analysis of investments by rounds shows a continuing decrease in investments in the seed stage: only 6 seed stage companies raised capital this

quarter, aggregating approximately \$ 7 million, as compared to 10 companies and approximately \$ 5 million in the previous quarter.

### The early stage rounds

The early stage (the first and second stages together) registered a further decrease both in the volume of investments (in monetary terms) and in the number of transactions: in this round, 25 companies raised \$ 85 million, as compared to 35 companies and \$ 150 million in the previous quarter.

Dan Tolkowsky, in the presence of the Prime Minister Arye Sharon received the Israel High Tech Award at the recently held IVA Conference 2002. Mr. Tolkowsky is Israel's first venture capitalist. He was Partner of Adler & Tolkowsky Management Associates, the general partner of Athena Venture Partners L.P., a venture capital partnership, from May 1985 to September 1997. Prior to that, he was Vice Chairman and Managing Director of Discount Investment Corporation (Tel-Aviv) and Chairman of the Executive Committee of BTG Israel from 1983 through October 1989. He serves now on the board of directors of a number of Israeli high-tech companies.

### Third round

In this round, 6 companies raised approximately \$ 105 million, which includes two major transactions, the aggregate amount of which is estimated at approximately \$ 90 million.

### Later stages

This quarter shows a continuing increase in the volume of investments made in later stage rounds (from fourth round to

Mezzanine round):

According to Joseph Fellus, Partner & High Tech Practice Leader at the accounting and consulting firm Kesselman & Kesselman PricewaterhouseCoopers (PwC), in view of their difficulties in raising capital, follow-on funds tend to invest in relatively well-established companies that are likely to return the investment in the near term, although such investments may not necessarily coincide with the declared policy of the fund and even at a low return rate.

### Bridge loans

32 of the companies raised \$ 32 million through bridge loans this quarter, as compared to \$ 38 million that were infused to 38 of the companies in the previous quarter.

28 companies receive grants from the Chief Scientist, 37% of the total number of companies that raised capital in the aggregate amount of approximately \$ 72 from venture capital funds during the quarter,

representing 21% of the capital raised by such companies, received grants from the Chief Scientist. This data reflects the fact that companies that receive grants from the Chief Scientist depend less on financing from venture capital funds.

### Stage of development- definitions

#### Startup

A business that is in a purely conceptual phase in which product development has not begun. This stage corresponds to the seed round of venture capital financing.

#### Early

The Early stage of development represents a business that is currently developing one or more products but has not yet begun shipping. At this stage, a company can have received any number of venture capital rounds, from an initial round through the final round before a liquidity event such as an IPO or acquisition. For technology companies, the Early stage is an intermediate period when the company is technically still in product development but a prototype is being tested by select customers prior to market introduction. For Biotech and Medical Device companies, this signifies that the product is out of development and has progressed to clinical trials.

#### Expansion

Expansion indicates that at least one product is being shipped for which revenues are being received, regardless of the number of other products still in development or beta test. For service companies, this stage indicates that the company is providing services to a customer base and receiving revenues for those services.

#### Profitable

This stage indicates that the company is shipping products or providing services from which it derives revenues, and that the company has reported that it is profitable.

### Analysis of companies (receiving grants from the Chief Scientist) by leading technological segments:

Life sciences - 9 companies: 7 medical instrumentation companies and 2 biopharmaceutical companies.

Communications and Networking - 6 companies.

Software - 6 companies.

Semiconductors - 4 companies.

The survey also shows that 21 (76%) of the companies that received grants from the Chief Scientist during the quarter are registered as Israeli companies, as compared to only 7 that are registered as foreign companies.

Joseph Fellus adds that the relative weight of the Chief

Scientist in financing appears to be on the increase recent months. During the peak period in the venture capital industry, companies preferred to raise capital from venture capital funds rather than from the Chief Scientist, due to the restrictions imposed by the latter on the sale of intellectual property. However nowadays there appears to be a change in preference of sources of finance, as the Chief Scientist comes to be considered as yet another investor in the field.

### Analysis regarding internet-related companies

The first quarter of 2002 registered an increase in the volume of internet-related investments (the reference is to companies from all industries whose product service or technology has some bearing on the Internet): 25 internet-related companies raised \$ 17 million. (as compared to 32 companies and \$ 10 million in the previous quarter).

### Analysis regarding companies not related to the Internet

The survey's findings show a decrease in the weight of companies that are not related to the internet, both in the volume of investments and in the number of transactions. In the first quarter, 51 companies attracted approximately \$ 232 million, as compared to \$ 280 million infused into 74 companies in the previous quarter. The average investment for this quarter was 4.5 million, as compared to \$ 3.8 million in the previous quarter.

### **Anti-Piracy Company Doc-Witness Negotiating to Raise \$5m**

Doc-Witness is in advanced negotiations to supply its products to one of the world's leading CD producers. The company was founded under the auspices of the Israel School of Entrepreneurial Management and Innovation.

### **Given Imaging Hosts Conference on Capsule Endoscopy**

The company was host to more than 90 physicians from 12 countries gathered in Rome recently. They attended the first Given Imaging (NASDAQ: GIVN) Conference on Capsule Endoscopy. The meeting of internal investigators offered a forum for the exchange of scientific and clinical experience from physicians using the M2A Capsule Endoscope, a ingestible color video mini camera that visualizes the small intestine in a revolutionary development.



Leading gastroenterologists from the United States, Europe and Israel drew on experiences from more than 850 capsule endoscopy procedures. They delivered nearly 60 presentations during the three-day conference. Presentations demonstrated usage of the capsule to diagnose a wide variety of conditions in the small bowel including Crohn's disease, celiac/sprue, unexplained abdominal pain, nonsteroidal anti-inflammatory drug (NSAID) injury, polyposis, intestinal tumors, iron deficiency anemia and obscure bleeding.

"Investigators from 12 countries presented consistent results with diagnostic yields of nearly 70 percent, demonstrating that video capsule endoscopy represents a revolutionary, rather than evolutionary, step forward in patient management", said David Cave, M.D., a gastroenterologist at St. Elizabeth's Medical Center, Boston, Mass. "As a result of the data presented at the Rome conference, it is now clear that the M2A capsule will be the test of choice after upper and lower endoscopy, he added. Ahead of the termination of the lockup for Given Imaging insider shareholders, the company's shares temporarily slumped to \$9, and had rebounded to above \$13 by the end of the third week of April.

Given Imaging recently announced that sales of its Given Diagnostic System and M2A® capsule endoscope exceeded \$5.0 million in the first quarter of 2002.

### ***Check Point Warns Investors***

Check Point Software (Nasdaq: CHKP) tumbled 18 percent after disclosing that its first-quarter results would fall short of expectations.

Internet security software maker, Check Point Software Technologies Ltd. (CHKP) warned that its first-quarter results would fall short of Wall Street estimates because of continued depressed spending on technology by large companies.

The software security sector is still vulnerable to anemic technology spending by corporations, despite previous beliefs that the Sept. 11 attacks would boost demand for security products. "They (corporations) are just not spending money as they planned," President Jerry Ungerman told analysts. "They're just delaying projects or buying in smaller and smaller pieces."

Check Point also adjusted its forecasts for the remainder of the year, saying it expects revenue and earnings to grow by 5 percent to 10 percent in the second and third quarters and by more than 10 percent in the fourth.

## **Biotechnology Update**

### ***Proneuron Set for Clinical Trials***

Proneuron Biotechnologies Inc, one of Israel's most promising biotech companies, announced that it has reached its targeted eight patients for its Phase 1 clinical trial of activated autologous macrophage therapy for acute complete spinal cord injury (SCI). Follow-up of each patient continues for one year.

Proneuron's clinical trial of the macrophage therapy began in 2000, under an 'Investigational New Drug' (IND) authorization from the US FDA and the Israeli Ministry of Health. Patients from the US, Europe and Israel participated in the study following the referral of leading hospitals. Those patients who met eligibility criteria were transported by Proneuron to Israel for administration of the experimental cell therapy and follow-up at the Sheba Hospital in Israel, before returning to their homes for long-term follow-up.

Over the course of the trial, Proneuron has had enquiries from hundreds of prospective patients wishing to enroll in the study. Dr. Valentin Fulga, Proneuron's Senior VP of Development, noted the enormous effort that patients, their families and their referring physicians have made in helping to advance Proneuron's clinical investigation and hope to continue and help others in return for their support.

Dr. Lammertse expressed cautious optimism for the potential of this treatment noting that, "the Phase 1 results suggest a positive treatment effect, giving clinicians hope that a new era of intervention is at hand." Proneuron is planning the next clinical study.

The use of activated macrophages for nerve regeneration is based on technology developed in the laboratory of Prof. Michal Schwartz, of the Weizmann Institute of Science in Israel and licensed to Proneuron. Prof. Schwartz and her team have made the initial discovery that activated macrophages induced neurological recovery in the damaged spined.

### ***Scientists Identify A Gene Causing A Fatal Heart Condition, Common In An Israeli Bedouin Tribe***

A team of researchers from the Weizmann Institute of Science and the Sheba Medical Center has identified a gene causing polymorphic ventricular tachycardia (PVT), a fatal heart condition.

### **Saudi Company Buys Communications Equipment from Israeli Firm**

An unnamed Saudi Arabian company has purchased equipment for cellular phones manufactured by Israel company Sygnet Technologies.

The Saudi company's order was made recently, despite Israel's confrontation with the Palestinian Authority and the tension between Israel and the Arab countries. The equipment will be supplied to Saudi Arabia soon.

Jerusalem-based Sygnet will supply 12,000 headsets for cellular telephones. The sets, a new type that does not emit radiation, were developed in Israel at a cost of \$2 million. The sets are being offered for \$20 each in competition with wireless headsets costing \$100.

The deal is worth \$250,000. According to Sygnet CEO Sharon Elidan, the headsets will be supplied through a Western European company that has business connections with Saudi Arabia. He added that the company had begun marketing its products in 30 countries.

## **PEPTOR LTD.**

### **Leader in Autoimmune Development**

Peptor engages in the development of novel therapeutic vaccines for the treatment of human autoimmune diseases and cancers. Peptor bases its therapeutic approach on two platforms: (1) a class of proteins, known as heat shock proteins, that are able to modulate the immune system to reduce and/or eliminate its destructive effects against the body's own cells, and (2) proprietary technology to design, synthesize and screen large numbers of compounds for the discovery of novel therapeutics, referred to as SCAPL technology.

Peptor's lead product, DiaPep277, is in phase II of human clinical trials for the treatment of autoimmune diabetes. Peptor has several other compounds undergoing pre-clinical studies and research for the treatment of other autoimmune diseases, such as myasthenia gravis and rheumatoid arthritis. Initiated collaborations with a discovery program that focuses on the autoimmune aspects of atherosclerosis and development for the treatment of various forms of cancers.

Peptor estimates a massive market for its drug for the treatment of juvenile diabetes, or type 1 diabetes.

Dr. Dana Elias, VP Research and Development at Peptor, estimates that sales could reach between \$1 billion to \$2 billion a year by 2007 or 2008.

Peptor's treatment helps to preserve insulin-producing cells and reduces the frequency of injected insulin supplements. Elias claims Peptor's treatment is at least two years ahead of competing medications.

Peptor is negotiating partnerships with leading international drug manufacturers for clinical trials it wants to hold in Europe and the U.S. The partnerships could lead to strategic investments.

World Health Organization figures show that diabetes is the seventh most prevalent cause of mortality among humans. Over 150 million people worldwide suffer from the disease.

The number of diabetes patients has increased substantially in the last 25 years, possibly due to changes in diet. There are now over 50 million diabetic patients in North America, Japan and Europe, of whom 10 million could benefit from the new Peptor development.

The company has begun the second phase of the clinical trials of the DiaPep2777 in the U.S. in early 2002. Third phase trials will begin in mid-2002.

Peptor is conducting five international multicenter phase II studies in type 1 diabetes patients as well as an international multicenter phase II in LADA patients. These studies are designed to test the safety and efficacy of DiaPep277™.

#### **Peptor Ltd.**

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General Manager: Dr. Yoram Karmon

Year established: 1993

Number of Employees: 53

Contact person: Shaun Marcus, CFO

Areas of activity:

Therapeutics: Ethical

Platform Technologies

Potential areas for collaboration: R&D, Marketing

Peptor plans to apply for FDA approval of the drug in 2004, and to launch the commercial distribution of it in 2005. A similar schedule is planned for the drug in Europe.

To date, nineteen issued United States patents, five granted European patents (as well as all of the

additional foreign counterparts) and seven Israeli patents are either owned by or assigned to Peptor Ltd., or licensed exclusively to Peptor. These patents claim all of Peptor's technologies and products in development, including DiaPep277™, Somatoprim and others as well as the processes for generating them.

Peptor, founded by Yoram Karmon, PhD, now its president and CEO, employs 41 people at its R&D center in Rehovot and seven in Germany.

**Delayed issue** Since its establishment in 1993 Peptor has raised a total of \$65 million. Its last funding round was in November 1999, when it secured \$15 million at a post-money company value of \$70 million.

Shareholders include Teva Pharmaceuticals (Nasdaq:TEVA), Johnson & Johnson (NYSE:JNJ), Citibank, Clal Biotechnology Industries, Nomura, Walden Israel, and the British 3i group.

The company planned to go public in Europe during 2000, at a company value of \$115 million to \$300 million. It shelved its plan after the market crash.

#### **.Autoimmune Diabetes**

Diabetes is a potentially life threatening medical condition which impairs the body's metabolic control of blood sugar levels. Diabetes is characterized by the body's inability either to produce insulin (type 1 diabetes) or to respond to insulin (type 2 diabetes). Insulin is a hormone produced by the pancreas that controls the blood sugar levels. Recently, it has been increasingly accepted by clinicians that there are two distinct clinical conditions that result in insulin dependent diabetes. Type 1 diabetes is a well-known disease that begins either during childhood, adolescence or during early adult life. The second, type 2 diabetes, is characterized by several subtypes, one of which is latent autoimmune diabetes of the adult ("LADA"), a recently defined subpopulation. Both type 1 diabetes and LADA are autoimmune diseases in which the insulin-producing beta-cells of the pancreas are attacked and destroyed by the body's own immune system. Peptor believes that these attacks on beta-cells can be prevented or stopped by re-educating the immune system. Peptor's objective is to achieve this re-education process in a diabetes-specific manner without using general immunosuppressants that compromise the immune system of the patient.

Peptor's approach to autoimmune diabetes is based on understanding how the immune system attacks the

insulin-producing beta-cells of the pancreas and the hsp60 protein's role in that process. In experiment models, Professor Irun Cohen and Doctor Dana Elias at the Weizmann Institute found a link between an hsp60 epitope and type 1 diabetes. Peptor has used this hsp60 epitope to develop DiaPep277™ as a potential therapy for autoimmune diabetes. The Company's research indicates that DiaPep277™ triggers regulatory T cells. These T cells secrete anti-inflammatory natural hormones, referred to as cytokines, that can turn off the misdirected immune cells, thereby stopping their attack and destruction of healthy beta-cells. The Company's research in animal models has shown a significant reduction in inflammation of the pancreas with continued insulin production, suggesting that the progression of the disease could be prevented. This change in the immune response is diabetes-specific, suggesting the development of a disease-specific vaccine that re-educates the human immune system without immunocompromise is possible.

The company intends to target DiaPep277™ for the treatment of newly diagnosed and established type 1 diabetes patients as well as LADA patients.

#### **Israel's MOD Signs Contract with AI'S ELTA for \$250 Million**

The Israel Ministry of Defense (IMOD) has awarded a contract to Elta Electronics Industries Ltd., (Elta), wholly owned subsidiary of Israel Aircraft Industries Ltd. (IAI), to provide the new generation of airborne signal intelligence (SIGINT) systems to be installed on Gulfstream V (GV) business jet aircraft for the Israel Air Force.

The total value of the program is estimated to be \$250 million of which \$60 Million of the workload will be conducted in Israel. Elta will provide the SIGINT systems on board three Gulfstream V aircraft, which were purchased separately by IMOD under a United States Foreign Military Fund (FMF) contract with Gulfstream Aerospace Corporation, Savannah, Ga.

Elta was selected by IMOD to be the mission system prime contractor and assumes total responsibility, which includes development, manufacturing and integration of the systems into the aircraft and additional ground support equipment.

IAI's Commercial Aircraft Group's Engineering Division will support Elta as a subcontractor for aeronautic

design. IAI's Bedek Group was chosen as a subcontractor to Gulfstream Aerospace Corporation for in-country maintenance of the modified platforms.

The Gulfstream V aircraft was selected as the most suitable platform to perform the intelligence mission due to its unique features and attractive cost of operation. The advanced SIGINT airborne systems are comprised of Elta's new generation of electronic intelligence (ELINT), communication intelligence (COMINT), communications, and command & control subsystems.

"The selection of Elta's system and leadership for this important program strengthens Elta's position as a world leader in the intelligence field and is further confirmation of IMOD's confidence in our team, products and capabilities," said Mr. Israel Livnat, Elta's managing director.

### **"Computer for Every Child" Project**

The "Computer for every child" is a project financed by Microsoft, which initiated the project and has been joined by other individuals and companies. Recently, 2,000 additional computers were distributed to children in 50 communities throughout Israel. The project has obtained backing from Prime Minister's Office and aims to "assist Israeli society in dealing with social inequalities".

So far, 10,000 computers have been distributed to children in 80 communities throughout country.

### **Commuture to Distribute for VocalTec**

VocalTec Communications Ltd. (Nasdaq:VOCL) (VocalTec), a leading Israeli telecom equipment provider, offering packet over voice solutions for carriers and service providers and Commutur Corp., a leading provider and system integrator of info-communications solutions headquartered in Japan, announced the signing of a distribution agreement intended to bring the full range of VocalTec VoIP solutions to Tier 1 carriers. Commutur is a newly-formed JY3.8 billion company based on the consolidation of KTK Telecommunications Engineering Co., LTD. and J-COS Corporation.

### **Compaq Setting Up Israeli Outsourcing Subsidiary**

Compaq Computer International (NYSE: CPQ) has decided to establish an outsourcing services subsidiary in Israel. The company, which will be fully owned by Compaq, will be called Outsourcing and Management Services (OMS). The subsidiary will manage computer resources for various organizations. Compaq Israel has 250 employees, and is considering additional acquisitions in order to penetrate new markets.

Compaq International chairman and CEO Michael Capellas declared the company wished to derive a third of its revenue from services by 2004. OMS will be responsible for outsourcing services, while Compaq Israel will retain support and systems integration in Israel.

The decision to set up the new subsidiary was backed by Compaq International after the merger between Compaq and Hewlett Packard (NYSE: HWP) was announced and received all the necessary approvals.

### **Key Points of the Government's Emergency Economic Plan**

Israel's Finance Minister (as we went to press) announced an Emergency Program aimed at slashing the country's budget by \$3.0 billion.

Tax on stock market and savings  
Freeze on salaries, even in private sector  
Benefits to be cut 4%, including children and handicapped  
VAT to 18%, gasoline and cigarettes tax increased  
15%-25% tax on interest earnings from savings

The initial reaction is that the proposals including the taxation on savings, reduced social benefits and the freezing of wages, in the private and public sector until the end of 2003, will face stiff opposition in the Knesset, Israel's parliament and on the part of the Histadrut, the country's influential labor union.

The likelihood is that a considerably watered down version will be implemented over the following months.

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