

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
July 2003 Vol. XIX Issue No.7

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

Winning Investors Get their Timing Right

Over a lifetime of observing successful participants in the financial world, I have learned that they invariably share certain unique personal qualities.

Obviously, they are smart and highly educated and without these qualities they would be unlikely to reach the very top. But others have both the smarts and the education and do not reach the top. What is the missing quality? Less visible is a finely honed ability to apply exquisite timing. In retrospect, it is the right move at the right time, a change of professional direction or a move to another company. Invariably it is the timing that has resulted in a winning result.

In that context I have noted the move taken by the very talented investment banker Ron Lubash, has announced that he is leaving the post of managing director of the Lehman Brothers Israel office. It was the young Lubash, in his mid 30s who convinced Lehman Brothers to establish a full-fledged investment banking office in Israel.

In retrospect, 1994 could not have been a better year to set up shop as for the rest of the decade business boomed and the Israeli office led by Ron Lubash garnered more IPOs and M&A transactions than anyone expected. Wall Street loved Israel and Israeli entrepreneurs, especially the high-techies. They flocked, either to Robertson Stephens or Lehman Brothers to discuss their financial needs and to cut deals.

Then came 2000 and the beginning of the end of the frothy period when money was flowing, prices escalating and investment bankers were

admired for their skill in creating wealth. Ron Lubash, no less than Andy Kaye, his counterpart at Robertson Stephens conducted himself admirably. Always available for interviews or a conference appearance, his presence and comments were sought, but there was little that Lubash could do as equities plummeted and scandals overtook Wall Street. The Israeli activities of the Lehman Brothers Tel-Aviv office, without seeing actual figures, could hardly support the cost of

<http://ishitech.co.il>

Winning Investors Get their Timing Right

U.S. Approves Israeli sale of Phalcon to India
IAI Phalcon 707

The Growing Weight of Defense Exports

Korea-Israel Fund approves \$5m in grants for 6 R&D projects

Science Corner

Israel Aircraft Industries at the 2003 Paris Air Show
Boeing 737 Multi-Mission Aircraft, Equipped with
Missile Protection System

Homeland Security Systems

IAI's MLM Division to Present Command & Control
Systems and Integrated Training Systems

Israel Raises \$750m at 4.73%

Gamida-Cell Gets \$1.4m. Grant From OCS

Medtronic and MindGuarded Collaborate on Therapy
for high risk stroke patients

Venture Capitalists express cautious optimism

staying open. Robertson Stephens closed its Israeli office and the firm eventually went out of business.

Ron Lubash has made his next move and it is worth analyzing. He has assumed the position of director of a new private equity fund aimed at investments in Israel. The fund intends to raise \$250 million and will be called Markstone Capital. The fund will target "old economy" business such as real estate and leveraged buyouts of firms. The fund has already received pledges of \$100 million from the New York State pension fund and the remainder of the monies will be raised from other foreign investors.

The fund's offices will be in Tel-Aviv at first. Markstone is named after Mickey Stone Marcus the Israeli-American general, who was killed by friendly fire in battle, near Jerusalem in 1948. The fund will invest in both public and private Israeli companies, and will undertake leveraged acquisitions. It will compete with Apax Partners and First Israel Mezzanine Investors (FIMI), in private equity investments. The New York pension fund is the second largest institutional investor in the US, after the Calpers, the California state employees pension fund and is the largest investment so far of the New York fund in Israel.

The timing of the founding of Markstone Capital, in our view is nothing short of brilliant. Economists in the United States are looking ahead to 2004 as a possible date for an upward turn in the American economy. Wall Street professionals are not expecting, for the time being, a return of an active new issue market. Venture capital funding for Israeli companies, is scarce. The funds have lost massively and are trying to find funding for their old investments. They cannot, at this juncture think of raising new capital for new investments.

Markstone Capital, in our view, will be courted and will have the choice of the very top investments. By the time these investments will mature, in 2-3 years, the capital markets will have returned to

buoyancy, capital will be more accessible and the prospect for mergers, joint venture and strategic partnerships will have improved.

The timing is "spot on" for still another reason: investments are very reasonably priced.

Few financial managers know Israel as well as Lubash does. He is a home grown product, US trained and Israeli experienced. Investors in Markstone Capital will be getting a good run for their money.

Adding a touch of optimism as to the future of the Middle East we were treated to the first face to face meeting between Israeli and Palestinians after more than 32 months of strife, during which more than 2,000 Palestinians and nearly 800 Israelis were killed.

The Aqaba summit ended during the first week of June on an upbeat note, with Palestinian PM Abbas pledging an unequivocal end to terrorism; PM Sharon promising to immediately dismantle settlement outposts, and President Bush reiterating U.S. commitment to two states living side

Israel High-Tech & Investment Report

Published monthly since January 1985

Publisher and Editor in Chief

Joseph Morgenstern, B.A. Chem,

Technology Review Board

Prof. S.J. Joel-Cohen, MD, FRCS. FRCOG (1996-2002)

Prof. Hylton Miller, M.B. Ch.B.

Dr. Clive L. Carpel, M.B. Ch.B.

Copy Chief

Debbie Mor

Web Master

Marty Bokel

Graphics Consultant

Daniel Morgenstern

Subscription Inquiries

Tel-. +972-3-5235279 Fax. +972 3-5227799

E-mail: htir_1@netvision.net.il

Annual subscription \$95.- per year, for 11 issues,

Israeli residents add 18% VAT

Web Edition and Archives

<http://ishitech.co.il>

by side in peace and security. Both Sharon and Abbas went to great lengths to express understanding of the suffering of the two peoples. At least for a moment there was a feeling that a new chapter in the history of the strife torn Middle East may have been opened. For investors nothing beats a scenario of peace, security and stability.

U.S. Approves Israeli sale of Phalcon to India

The USA has approved the sale of the Israeli produced Phalcon airborne radar system to India. In early 2002, the U.S. requested that Israel postpone the proposed sale, because of increasing tension between India and Pakistan. Since then it has been frozen, waiting for U.S. approval.

The Phalcon is a long-range Israeli-made radar mounted on a Russian-built cargo plane. The radar will extend the range of the Indian air force, enabling very long-range identification of targets and control over the weapons aimed at them. There is no American equipment on the plane. Israel coordinates its defense sales with Washington, since it vetoed a similar sale to China three years ago. A diplomatic crisis between Beijing and Israel, followed that veto.

The White House is also considering lifting limits on Israel exporting defense systems against ballistic missiles. If those restrictions are lifted, India will be able to purchase Arrow missile systems, which were developed with American financing and therefore require American approval for sales.

The change in policy on Israeli weapons sales to India is the result of American interest in maintaining a balance of power between India and Pakistan.

IAI Phalcon 707

Israel Aircraft Industries (IAI) developed its Phalcon system for Israeli defence forces and for export. Airborne Early Warning, Command and



Control (AEWC&C) systems play a major role on the modern battlefield by providing real-time intelligence. command and control needed to achieve and maintain air superiority over the combat area, and to enable surveillance of borders in peacetime.

The AWE&C phased array radar replaces the conventional rotodome radar. It is mounted either on the aircraft fuselage, or on top of the aircraft inside a stationary dome, providing full 360° coverage. This electronically steered beam radar, offers a tremendous advantage over mechanical rotating antenna, as it supports the tracking high maneuvering targets.

The radar can detect even low flying objects from distances of hundreds of kilometers, day and night, under all weather conditions. Verification beams sent at specific, individual, newly detected targets, eliminate false alarms. Moreover, track initiation is achieved in 2 to 4 seconds as compared to 20 to 40 seconds with a rotodome radar

The PHALCON systems can be installed on a variety of platforms, such as the Boeing 707, Boeing 767, Boeing 747, Airbus and C-130. This system has already been sold to Chile, where it is designated as "Condor.

The Growing Weight of Defense Exports

Defense exports hit an all-time record last year, as signed contracts for defense industry deals with foreign armies reached \$4.18 billion, a nearly 70 percent rise compared to

2001, when overseas weapons sales totaled \$2.5 billion.

The main customers of Israeli weapons systems and military know-how are the United States, followed by India and several southeast Asian countries. European and Latin American countries are also on the list, while military exports to African countries total only tens of millions of dollars.

The ministry also keeps a lid on the identity of the countries acquiring weapons systems, largely because of fear of competition between the Israeli firms and their foreign competitors. But the ministry is also worried about political pressure applied to customer states to dissuade them from purchasing Israeli security equipment and know-how. One example was the American administration's pressure on the UK not to purchase Spike anti-tank missiles made by Rafael. The British acquired Javelin missiles from the American Lockheed Martin.

The ministry says the world's leading arms exporters are the United States, EU, Russia and Japan, followed by Israel. Israel's greatest achievement is that while other countries manufacture and sell military platforms - i.e. tanks, planes, ships - Israel's specialty is electronic systems and high-tech military equipment. Only about 40,000 people are employed by the local industry, far fewer than the number of workers in military industries in the U.S. and Europe.

According to "Defense News" whose figures differ somewhat from those made available by Israel's Ministry of Defense Israeli weapons exports reached a record \$3.7 billion in 2002, nearly 40% higher than the \$2.6 billion exported in 2001.

Israel's orders backlog for weapons and defense equipment in 2002 was equal to Russia's in 2001. For the first time, Israel's arms exports in 2002 put it in third place, after the US and Russia.

"Defense News" noted that Israeli officials do not comment on the country's arms exports.

Analysts suggest that the increase in defense exports was mostly due to the Turkish Army deal to upgrade 170 M-60 tanks for \$668 million. The deal was closed late last year. Other large-scale deals in 2002 were sales of unmanned aerial vehicles (UAVs), ground radars, missiles, communications equipment and electronic counter-measures to India, East Asian, Eastern European and Latin American countries.

The US had \$12.1 billion in new orders for arms and defense equipment in 2001. The UK was in second place, with \$6.1 billion; Russia in third, with \$3.7 billion; Germany in fourth, with \$3.2 billion; followed by France - \$2.9 billion; Israel - \$2.6 billion; and Italy - \$764.6 million.

Pharmos raises another \$8 million through placement with institutionals

After raising \$4.3 million in March this year to pay off bond-holders, drug discovery and development company Pharmos Corporation (Nasdaq:PARS) announced it had obtained another \$8 million, from ten institutional investors.

The company sold 9.41 million shares at \$0.85 each.

Proceeds from the transaction will be used to fund Pharmos' advanced Phase III development of dexanabinol for traumatic brain injury, Phase II trials for prevention of post-surgical cognitive impairment, and other research and development activities, the company said.

For the first quarter of 2003, Pharmos reported losing \$4.5 million, or 8 cents per share. It had \$16.6 million cash in hand, now augmented by the extra \$8 million and a \$4.4

million grant from the Chief Scientist of the Ministry of Industry and Trade.

Korea-Israel Fund approves \$5m in Grants for 6 R&D projects

The Korea-Israel Industrial R&D Fund has approved 19 joint projects since being founded in July 2001.

The Korea-Israel Industrial R&D Fund (KORIL-RDF) board of directors, headed by Chief Scientist Eli Oppor, recently approved \$5 million in six grants for joint projects by Israeli and Korean companies.

KORIL-RDF has approved 17 grants for joint R&D projects and two initial R&D feasibility studies to date. The fund supports 50% of a joint project, up to \$500,000.

KORIL-RDF is part of Israel's system of joint international R&D programs. It operates similarly to joint R&D programs between Israel and the US, UK, Canada, and Singapore. The Ministry of Industry and Trade has matching support cooperation agreements with 13 other European and Asian countries.

The six approved joint bi-national projects are as follows:

1. Sigtic Vista and Samsung Techwin (KSE:12450). Sigtic Vista will develop an innovative digital signal processor (DSP) for Samsung Techwin's improved-performance next generation camera.

2. Mobit Telecom and Korea's Solda Information Technology will jointly develop an innovative security system for remote viewing of security video cameras via the Internet. The system will enable security centers and subscribers to watch images, supervise the security of people, pets, and property.

Mobit Telecom specializes in video and data com-



munications. Solda develops and manufactures video recorders for security and closed-circuit televisions.

3. Nextec 3D Inspection Technologies and Korea's Inus Tech. Nextec develops 3D scanning lasers, and

Inus develops automated laser quality testing systems for production lines of plastic injection products.

4. Itran Communications and Korea's Planet will jointly develop an IP over electricity wires solution for the Korean market.

5. Israel's Columbus Application Provider and Korea's Mostech will jointly develop an interface box to bring real time information, live video and event from remote locations to command centers.

6. Israel's Visus and Jong Moon Information (JMI) will develop energy efficient lighting for liquid crystal displays (LCDs).

Science & Technology Corner

WEIZMANN INSTITUTE SCIENTISTS discovery may help design effective therapies for the genetic disease that mainly affects Ashkenazi Jews

An interdisciplinary team of Weizmann Institute scientists has solved the three-dimensional structure of an enzyme called glucocerebrosidase. Mutations occurring in this enzyme cause Gaucher's disease, a genetic

illness that mainly affects Ashkenazi Jews. The Institute study, published recently in EMBO Reports, may lead to the design of effective new therapies for treating the disease.

Gaucher disease was first described in 1882 by the French physician Philippe Gaucher. It is characterized by swelling and enlargement of the spleen and liver, and disruption in the function of these organs, and in rare cases it also affects the brain. In the 1920s, the disease was found to be caused by the excessive accumulation of a fatty substance, or lipid, called glucosylceramide. In the 1960s, researchers discovered that the accumulation occurs due to a defect in the glucocerebrosidase enzyme, whose function is to break down this lipid and regulate its level. In the 1980s, the gene responsible for manufacturing the enzyme was isolated; scientists found that mutations in this gene, disrupt the function of the enzyme, leading to the development of Gaucher disease.

By the early 1990s, the U.S. company Genzyme started producing the enzyme – first from placenta, then by genetic engineering. Today thousands of Gaucher patients are treated by injections of the enzyme, an approach called enzyme replacement therapy, or ERT. The annual cost of the therapy per patient is approximately \$100,000 to \$300,000. Obviously, more affordable alternatives, such as the ones that may emerge from the Weizmann Institute study, are urgently needed.

The first step in solving the three-dimensional structure of an enzyme is to grow its crystals. In the case of the glucocerebrosidase enzyme involved in Gaucher disease, crystallization was a formidable challenge.

The Weizmann Institute scientists succeeded in this task by cutting parts of certain sugar molecules on the surface of the enzyme.

The scientists then resorted to X-ray crystallog-

raphy, a method in which the crystal is exposed to X-rays and the structure of its molecules is determined by the diffraction pattern of the X-rays. The X-ray data were collected at the European Synchrotron Radiation Facility in Grenoble, France.

The elucidation of the enzyme structure may lead to the development of new therapies for Gaucher disease. First, the structural information may help design a more effective enzyme that will improve today's ERT therapy. This approach is most likely to provide effective additional treatments for Gaucher disease, until the development of gene therapy for this disorder is developed.

Another type of therapy likely to emerge from the Weizmann findings is the designing of small molecules that will supplement the damaged enzyme in the patient's body, thereby restoring its normal functioning.

REPRODUCING MATTER

Recent results of a joint experiment conducted by 460 physicists from 57 research institutions in 12 countries strongly indicate that the scientists have succeeded in reproducing matter as it first appeared in the universe; this matter is called the quark-gluon plasma. The experiment, called PHENIX and conducted at the Brookhaven National Laboratory on Long Island, New York, has brought together physicists from Brazil, China, France, Germany, Hungary, India, Israel, Japan, South Korea, Russia, Sweden and the United States. The Israeli team is led by Prof. Itzhak Tserruya, head of the Weizmann Institute's Particle Physics Department. Tserruya and his colleagues have designed and built unique particle detectors that are a central part of PHENIX's detecting system.

In the first millionth of a second after the Big

Bang, the atoms of different elements, as we know them today, did not yet exist. The main components of atoms, protons and neutrons, had not yet been "born" either. The jets of blazing matter that dispersed in all directions in the first few fractions of a second in the existence of the universe contained a mixture of free quarks and gluons, called the quark-gluon plasma. Later on, when the universe cooled down a bit and became less dense, the quarks and gluons got "organized" into various combinations that created more complex particles, such as the protons and neutrons.

Scientists studying the unique physical properties of the quark-gluon plasma have been trying to recreate this primordial matter using an accelerator, called RHIC, built especially for this purpose at the Brookhaven National Laboratory. This accelerator creates two beams of gold ions and accelerates them one towards the other, causing a head-on collision. The power of the collisions (about 40 trillion electron volts, also termed 40 tera electron volts) turns part of the beams' kinetic energy into heat, while the other part of the energy turns into various particles (a process described by Einstein's well-known equation $E=mc^2$). The first stage in the creation of these new particles, like the first stage of the creation of matter in the Big Bang, is assumed to be the stage of the quark-gluon plasma.

One of the ways to identify the quark-gluon plasma is to observe the behavior of particles entering the plasma. When a single quark propagates through regular matter (containing protons and neutrons), it emits radiation that slows down its progress somewhat. In contrast, when it enters a very dense medium like quark-gluon plasma, it will slow down much more. That's precisely the phenomenon that has recently been observed and analyzed in the PHENIX experiment.

According to the physicists taking part in the experiment, these findings could indicate that they have succeeded in creating the quark-gluon plasma.

The detectors designed and built by Prof. Tserruya are capable of providing three-dimensional information on the precise location of the particles ejected from the collision area. These particles' direction, together with their energy and identity, help distinguish the matter's properties in the collision area.

Israel Aircraft Industries at the 2003 Paris Air Show

Boeing 737 Multi-Mission Aircraft, Equipped with Missile Protection System

Israel Aircraft Industries is celebrating its jubilee this year. IAI presented its impressive technological abilities at the recent 2003 Paris Air Show. We are exhibiting new products and solutions in various scopes for our customers," says IAI President & CEO, Mr. Moshe Keret. Since its founding in 1953, IAI sales have totaled \$50 billion.

For a first time presentation outside the State of Israel, Elta Systems, a Group and wholly-owned Subsidiary of IAI, presented its Multi-Mission B737 aircraft. The aircraft is capable of performing the following missions: Signal Intelligence (SIGINT), Image Intelligence (IMINT), Tactical Electronic Support, Maritime Patrol, and Airborne Early Warning (AEW) and Control.

Elta's "Flight Guard" Self-Protection System,

designed to protect passenger and fighter aircraft, also protects the Multi-Mission B737 aircraft. Prior to its arrival to the Paris Air Show, the aircraft performed a successful maiden flight on May 21, 2003, with all systems operating.

Potential customers will be able to observe the aircraft and be briefed on the systems capabilities onboard the aircraft at the Air Show. Final development stages and a certification of the



"Flight Guard" are due to be completed within a short period of time,

which will make the "Flight Guard" the first Aircraft Self-protection System for commercial aircraft. The military version is already installed in airplanes and helicopters of various air forces throughout the world.

Homeland Security Systems

IAI will also present Homeland Security Systems at the 2003 Paris Air Show. Elta Systems has developed a wide range of Homeland Security products, designed for the protection of ground and coastal borders and international border crossings, such as: command and control centers, various radar systems, and advanced optronic sensors manufactured by IAI's Tamam Division.

All these systems perform under day and night all weather conditions, and are controlled via a command and control center that collects all relevant data.

The I-View Close Range Tactical Unmanned Aerial Vehicle system will be displayed at the

2003 Paris AirShow. The I-View is the newest addition to the line of UAVs developed and manufactured by Israel Aircraft Industries' MALAT Division.

The I-View UAV system is capable of performing close-range surveillance, reconnaissance, target-acquisition, and artillery adjustment missions making it an ideal cost-effective UAV for front-line battlefield operations.

The I-View uses automatic catapult assisted launch and automatic precision parafoil recovery eliminating the need for a runway and adding to its effectiveness a front line UAV system.

The IAI exhibit at Paris Air Show also featured other MALAT UAVs including the Searcher and the Hunter.

The Searcher Mk-II multi-role tactical system will be equipped with the ELTA Systems EL/M-2055 Synthetic Aperture Radar (SAR) payload. Searcher is operational with the Israel Defense Forces and other international forces.

The Hunter multi-role tactical UAV that will be displayed was manufactured for the Belgium Army by the Belgium Eagle Consortium, an association between IAI's MALAT Division, SONACS s.a. and Thales Communications Belgium s.a. . The Belgium Hunter is an upgraded version of the U.S. Army Hunter UAV co-produced by IAI and Northrop Grumman (formally TRW) and has successfully operated both in Kosovo and more recently in Iraq.



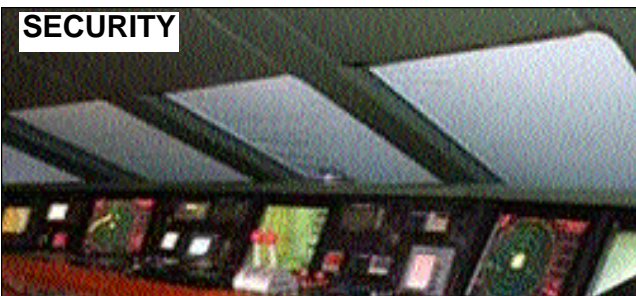
Israel Raises \$750m at 4.73%

The Ministry of Finance has announced that it has successfully sold \$750 million State of Israel 10 year bonds at 4.73%, only 1.53% above the benchmark US note which offers a return of 3.18%.

The amount of the offering was increased from \$500 million. The issue was oversubscribed four times the original amount on offer..

Ministry of Finance Accountant General Nir Gilad said the offering marked Israel's return to the US bond market after a three-year absence. Lehman Brothers and Citigroup served as underwriters for the issue.

Fitch Ratings, the international rating agency, has assigned a long-term foreign currency rating of "A minus" to the State of Israel's \$750 million ten-year bond, issued yesterday



Defense Ministry Purchases NIS 205m UAVs

Elbit Systems (Nasdaq: ESLT; TASE:ESLT) notified the Tel Aviv Stock Exchange today that it had signed a contract with the Ministry of Defense to supply \$47 million (NIS 205 million) worth of unmanned aerial vehicles (UAVs).

Elbit Systems subsidiary Silver Arrow will deliver the UAVs over the next three years.

Elbit Systems is bidding in the \$1.3 billion British Army Watchkeeper UAV tender. The

company reached the final stage in the tender, one of the largest UAV tenders currently underway. Elbit Systems is offering Silver Arrow UAVs. The winner of the tender is due to be announced in late 2003. The British Army is replacing its obsolescent UAVs for intelligence gathering, surveillance, tactical intelligence and target acquisition for the ground and air forces.

Remon Medical: First Implants of Artery Device

Caesarea-based Remon Medical has launched the first human use of an implantable intra-vascular wireless telemetric communication system.

The Remon ImPressure™ offers on-demand, non-invasive means to monitor intra-aneurysm ressure following endo-vascular graft procedures.

The first implants of the ImPressure™ device took place at the Mount Sinai Medical Center in New York. In all three cases, aneurysimPressure readings were successfully transmitted to an external monitor during the procedure and in subsequent follow-ups. The Remon ImPressure™ was attached, prior to the procedure, to a polyester endovascular stent graft.

Remon Medical's technology is integrated into minute implants, requiring no antenna, battery, or connecting leads, allowing a tiny device implanted deep inside the body to communicate by wireless with an external system.

These devices either monitor a variety of physiological parameters or stimulate tissues and organs or activate other devices, creating therapeutic responses.

This procedure is the first human use of an implantable intra-vascular telemetric communication system.

The Remon ImPressure™ will allow physi-

cians to monitor the pressure within an excluded Acute Aortic Aneurysm, a condition in which the largest artery in the body balloons to a diameter where there is an increased risk of rupture.

EM Sleep Device Could Assess Heart Attack Risk

Israeli technicians have developed a device that detects the stage of sleep at which rapid eye movement (REM) takes place and could, in turn, help prevent heart attacks.

Most heart attacks occur during the early morning hours, coinciding with the time that rapid eye movement – also known as "dream sleep" – takes place.

The novel device, recently presented at the annual meeting of the Associated Professional Sleep Societies in Chicago, identifies the onset of REM sleep by tracking changes in the blood through the finger. Researchers believe the device could identify physiological changes that are unique to this stage of sleep and may signal cardiac stress.

The device reads the peripheral arterial tone (PAT), which is associated with the state of dilation or constriction of the peripheral blood vessels. It has revealed a decrease in blood flow in the peripheral arteries during REM sleep.

The appliance, known as Watch PAT 100, is worn on the wrist. It uses probes slipped over two fingers to register PAT signals, which can then be stored in a memory card and downloaded to a computer for analysis.

"Increased resistance to blood flow in the periphery during REM sleep suggests that REM can be used as a stress test for the heart," says principal investigator Professor Peretz Lavie. "This monitor could do for heart disease what the home blood pressure monitor has done for stroke prevention." The researchers reached their conclusions after using the device on 156 subjects from Israel and

Sweden. They discovered that the device correlated in an "excellent" fashion with conventional means of measuring REM sleep, including looking at eye movements, brain waves and muscle tone.

Watch PAT 100 was developed jointly by the Technion-Israel Institute of Technology and Israeli technology company Itamar Medical Ltd.

CureTech, Biokine Therapeutics to Merge

Israeli biotechnology start-ups CureTech and Biokine Therapeutics announced that they were merging by way of a share-swap transaction, worth \$15 million. As part of the deal, Clal Biotechnology Industries will make a "significant", but undisclosed investment in the merged company. Clal Biotechnology has previously invested \$4 million in CureTech.

Both companies are developing therapies for cancers and immune system-related disorders, and will have candidate drugs for phase IIa clinical trials by the end of the year. The merged company will focus on developing new treatments for inflammatory diseases and cancers, through modulation of certain immune system features. Clal Biotechnology stated that the merger will create synergy between the two companies, promoting growth at less risk.

Gamida-Cell Gets \$1.4m. Grant From OCS

Gamida-Cell Ltd. (www.gamida-cell.com), a specialist in blood stem cell therapeutics in clinical development for cancer and autoimmune diseases, as well as future regenerative cell-based medicines, announced the approval of nearly \$1.4 million in grants from the Office of the Chief Scientist, Ministry of Industry, Trade and Labor.

The grants are part of an overall approved

budget of \$3.2 million by the OCS for Gamida's StemEx research and are earmarked for both in-house and subcontractor activity.

"We decided to award Gamida-Cell's in-house team the top allocation, given the highly encouraging nature of stem cell therapeutics and the pioneering efforts of Gamida-Cell," said Dr. Eli Oppor, Chief Scientist of the Ministry of Industry, Trade and Labor, Israel.

Gamida-Cell's flagship product, StemEx offers a novel solution for the expansion of the stem cell supply without differentiation. StemEx is the only biological product at the clinical trial stage today that utilizes a small molecule that enables large-scale, self-renewal of stem/progenitor cells *ex vivo* in a reasonably short time. Gamida-Cell technology is applicable to both umbilical cord blood stem cells as well as stem cells from adult organs like the liver and heart. It also shows promise to expand populations of skin, neural and pancreatic stem cells.

"We are delighted that our application has been approved by the CSO. This excellent news follows the announcement of Gamida's leadership role in the newly established Stem Cell Therapy Consortium in Israel and Gamida's strategic agreement with Teva, which includes an equity investment of \$3 million by Teva in Gamida. We look to the future with great expectations and the anticipation of further expanding this list of prestigious partners to include additional collaborations with other leading pharmaceutical companies," said Mr. Ehud Marom, Gamida-Cell CEO.

Gamida-Cell Ltd., headquartered in Jerusalem, Israel, was founded in 1998, based on technology for stem cell expansion licensed from and jointly developed with Hadassah University Medical Center, Jerusalem, Israel. The company is currently engaged in a Phase I study in the U.S which, pending regulatory approval, will be followed by a pivotal multi-center study in the US and Europe. The combined market potential of



Gamida-Cell products and indications is estimated at \$30 billion worldwide.

The Company's first commercial product is expected in 2006. Scientific and clinical collaborators include The University of Texas M.D. Anderson

Cancer Center, Dana Farber Institute, Duke University and Stanford University Medical School. Investors include Elscint (Europe-Israel) headed by Motti Zisser, Biomedical Investments, Denali Ventures, Teva, Auriga Ventures, Pamot and Comverse.

CanFite closes \$12 mil. financing

CanFitec BioPharma, a biopharmaceutical start-up, completed a \$12 million financing at a \$10 million before the money valuation.

Giza venture capital fund Other participants included BPW, an American VC firm that invested \$500,000 via its Israeli subsidiary, three other Israeli VC funds - Yozma, Ascend Technology and Vitalife and a group of doctors who invested privately. CanFite develops drugs to treat various types of cancer and rheumatoid arthritis. Can-Fite's research and development is currently focused on drugs for treating cancer and inflammatory diseases. The company is headquartered in Petach Tikva, Israel and has a US office in Boxborough, Mass.

The company's lead drug CF101 has successfully progressed through Phase I trials and will enter Phase II trials in the second quarter of 2003 for the treatment of colorectal cancer and for rheumatoid arthritis

The privately owned company was founded in 2000 by Prof. Pnina Fishman and Dr. Ilan Cohn.

VC funds Cautiously Optimistic

VC Indicator survey: 46% of Israeli capital fund managers expect the economic climate to improve; 63% predict foreign investment will grow.

Israeli venture capital fund managers are cautiously optimistic that their sector's business climate will improve, according the second quarter 2003 VC Indicator survey by CPA firm Deloitte and Touche - Brightman Almagor.

The head of Deloitte and Touche - Brightman Almagor high-tech group, Ilan Birnfeld CPA, said the main reasons for the optimism were the rises on Wall Street, the end of the Iraq War, and the anticipated resumption of the peace process. The Israeli figures indicate that its venture capital fund managers are more optimistic than their Silicon Valley counterparts.

Medtronic and MindGuard to Collaborate on Therapy for High-Risk Stroke Patients

Medtronic, Inc. (NYSE:MDT) announced that it has completed an equity investment in MindGuard Ltd., a privately held developer of devices for high-risk stroke patients. As part of the agreement, Medtronic will secure European distribution rights for MindGuard's Divertersystem. The size of the investment was not disclosed.

MindGuard, based in Caesarea, Israel, has developed The Diverter System, an implantable system intended to be deployed in the carotid arterial bifurcation - the main bifurcation point for blood flow to the brain from the heart. There it serves to divert cardioemboli (plaque-like debris) in the arterial system away from the brain. Without this potential diversion therapy, cardioemboli can flow to the brain, creating blockages that may lead to ischemic stroke.

"We are pleased to initiate this relationship with MindGuard in order to help bring to market this technology for potential stroke victims," said Bill Hawkins, president of Medtronic Vascular. "The Diverter System offers a minimally-invasive and preventative therapy option to physicians treating

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

high-risk stroke patients. This agreement serves to further expand Medtronic Vascular's expertise into the area of stroke prevention."

MindGuard Ltd. is an Israeli company, founded in 2000 focused on developing and marketing a portfolio of unique catheter and implant technologies to treat and prevent stroke, and other cardiovascular and cerebrovascular diseases.

Medtronic, Inc., headquartered in Minneapolis, is the world's leading medical technology company, providing lifelong solutions for people with chronic disease.

ISRAEL HIGH-TECH REPORT
A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
JOSEPH MORGENTHAU, EDITOR

KEEP YOUR FINGER ON THE PULSE OF ISRAEL'S TECHNOLOGICAL PROGRESS

When you get the latest news about Israel, you know how difficult it is to find an authoritative source of intelligence on technology.

Did you know, for instance, that Israel has developed:

- UAV-Piloted aircraft that report on enemy positions
- Medical lasers used in microsurgery
- Laser systems used for night-time vision
- Vision guidance systems for robots
- Monoclonal-antibody health care diagnostic kits
- Telecom systems which double as medicine

Israel High-Tech Report analyzes them in detail and gives insights into their past performance, current operations and future expectations. The price performance of these shares is monitored on a continuous basis. Interviews with top executives provide deeper understanding as to what makes their companies "tick" and what may be expected in the future.

WHO BENEFITS FROM ISRAEL HIGH-TECH REPORT?

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

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

I am providing you with my name, title, mailing address, e-mail, telephone and fax numbers.