

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, PUBLISHER

October 2001 Vol. XVII Issue No.9 You are invited to visit us at our website: <http://ishitech.co.il>

The Good, the Bad and the Ugly

There are Good and Bad Catholics; there are Good and Bad Muslims, just as there are Good and Bad Jews. Those in between rarely take important actions.

The war that has been proclaimed by the US President George W. Bush is one where America can exercise massive striking power or act with "surgical precision". That is a given, considering the dispersal of the Bad people in countries occupied by multitudes of Good people. Some incorrectly assume this to be a war of a democratic, peace-loving civilization, on the one side, against the whole Muslim world, on the other side. The terrorists of the world, wherever they may be are the Enemy! America's war will be aimed squarely at terrorists and those who harbor and abet them.

"When the Unimaginable Happens and it's Right Outside Your Window", the New York Times reporter, Clyde Haberman, wrote immediately in the aftermath of the attack on New York City, "Americans have now experienced what Israelis have to face every day."

With bowed heads we at IHTIR repeat the message posted on our web site after the attacks on the United States: "We offer our condolences, thoughts and prayers, to our colleagues, readers and friends, and especially to the families who have been affected by the events. We strongly empathize with you because Israelis know suffering and are subject to terrorism." More than a fortnight later, as we survey the "New World", we continue to empathize. We harbor few illusions that the blocked road to peace for the Middle East can be reopened with so many gaping wounds. 30 years of instigating and fomenting terror against the people and the State of

Israel, define Yaser Arafat as an Arch Terrorist. To Israelis he is their Osama Bin Laden, against whom America's first attack will be directed. Our only caveat for America, as it attempts to form a global anti-terror coalition, is to exclude from its coalition terrorists and those states that sponsor terror or harbor terrorists, specifically Iraq, Iran, Syria and their ilk, as well as the Yaser Arafat led Palestinian Authority.

Israel's own painful experience with terror that resulted in the murder of children and innocent civilians,

<http://ishitech.co.il>

In this Issue

The Good, the Bad and the Ugly
Security and Anti-Terror Technology
Rafael Armament Development Authority
Elbit Systems Ltd.
A Word About the Development of Infrared Technology in Israel
There May Never Again be a Place Like Camelot
VentureOne: Q2 Investment in Venture Capital Backed
Companies Down 44%
Gene Responsible for Hereditary Muscle Disease
is Prevalent Among Jews of Persian Descent
The Money Stays at Home
Neoprobe to Acquire Biosonix
InterWise Raises \$28m. at \$40m. Value
Indigo Bought by HP
Terayon Chip Receives US Standard Approval
Medtronic Enters Bidding for Medinol
Italian Venture Capital Fund
Intel is Adding Staff
Bio Information Technology Raises \$7.8m. in First Round
More Dual Listings Expected on TASE Due to New Tax Policy
Some Facts and Data About Israel's Biotechnology Industry
American Venture Capital Slows
Shares of Israeli Security Firm Surge
Given Imaging Postpones Planned IPO
Robertson Stephens Hosts 7th Annual
Technology Conference in Tel-Aviv
Finance Minister Announces Tax Relief for Overseas

compels the people of Israel to unequivocally back the United States as it prepares for a global war on terrorism. There are only the Good, the Bad and the Ugly. The people of Israel fall in and line up with the Good.

Security & AntiTerror Technology

Acts of terror perpetrated against the State of Israel and its citizens have a long history. The shooting down of an El-Al Israel Airlines plane with civilian passengers, was a signal to take security seriously. El-Al, for the past 30 years thanks to its stringent, though lengthy and sometimes unpleasant pre-flight procedures, has not suffered another act of terror in the air. The development of Israel's defense industries has always been connected with an eye to "uncovering the unseen" threat. The expertise is built on home-grown technologies, which are being used by Israel's Defense establishment, the US and many other countries. The Israel Export Institute, in a directory it is about to publish, lists 90 active security companies in Israel. There may be more than that, as not all of those active in the field appear in IEI listings.

Israel Aircraft Industries (IAI), is the country's largest high-technology complex, with approximately 12,000 employees.

MBT - a division of IAI Electronics Group, is a multi-disciplinary missiles and guided weapons design and development plant, and the national space systems house.

MBT expertise covers a wide spectrum of products and services, including:

- * Space and satellite systems
- * Naval weapon systems
- * Precision guided munitions
- * Radar, laser and electro-optical seekers

It produces Gabriel and Barak missile systems; systems and electro-mechanical, electronic, and optronic systems and combat aircraft. The remotely piloted vehicles are small pilotless planes that can fly over designated targets and transmit a real time pictures of the area they scan.

Originally used for oil search topography planning, they detected the exact position of SAM-9 Syrian missile bases in Lebanon's Bekaa Valley a decade ago. These bases were rendered inoperative by the Israel Air Force, removing a major threat to the security of Israel.

Rafael Armament Development Authority

Rafael is Israel's largest research and development house for weapons systems, including missiles, guided and unguided weapons, electronic warfare systems, simulators, and thermal imaging. Airborne infrared targeting and navigation pods and the Pyramid TV-guided, low-cost, precision glide bombs are also developed and produced by Raphael.

Elbit Systems Ltd.

Elbit is a leader in Israeli defense electronics, with a staff of more than 1,700. Sales are in the order of \$700 million a year; the company's order backlog currently stands at \$1.3b., mostly export orders. Since the early 1970's, Elbit has been

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

Publisher and Editor in Chief
Joseph Morgenstern, BA, Chem,

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

Copy Chief
Debbie Mor

Web Master
Marty Bokel

Subscription Inquiries
Tel. 972-3-5235279 Fax. 9723-5227799
E-mail: htir_1@netvision.net.il
Annual subscription \$95.- per year, for 11 issues,
Israeli residents add 17% VAT

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

supplying weapons-delivery and navigation systems. The company equips all F-15s and F-16s of the Israel Air Force. Other products include: Dash, a display and sight helmet system representing an important advance in air-combat capabilities, enabling pilots to aim weapons by simply looking at the target. Opher, terminal-guidance kits that transform "dumb" general-purpose bombs into "smart" weapons which allow pinpoint target hits.

A Word About the Development of Infrared Technology in Israel

Israel's advanced standing in the field of IR detectors and military systems employing this technology, was developed in direct response to the country's perceived security needs. This will undoubtedly continue to be the driving force behind further developments in detector technology, related to new systems utilizing the IR detectors.

IR systems are of particular interest to the military sector since they emit no signals of their own. Radar-like systems are becoming less acceptable as a result of new developments in electronic countermeasures using IR heat seeking missiles. Among the military applications is Rafael Armament Development Authority's use of IR technology in the Python 3, its infrared air-to-air missile, with long range capabilities.

The development and production of IR detectors is highly advanced. The United States Department of Defense, under former President Ronald Reagan, had a program, valued at \$500 million, which aimed at developing and acquiring new IR detectors. Israel became a valued source for the US Varo Industries, a major supplier and part of the American program.

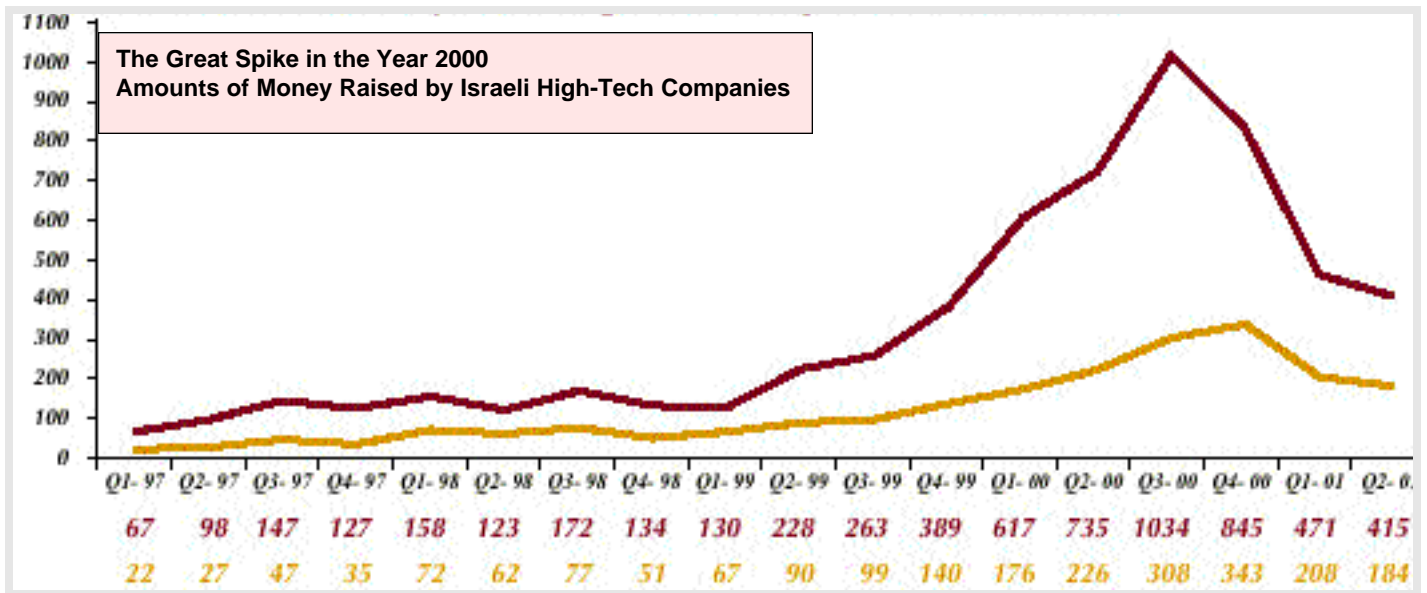
There May Never Again be a Place Like Camelot: Myths and Markets

Camelot was the most famous castle in the medieval legends of King Arthur, and where, according to legend, he reigned over Britain

before the Saxon conquest. At Camelot, Arthur established a brilliant court and hosted the greatest and most chivalrous warriors in Europe, the Knights of the Round Table. Camelot was the starting point of the Quest for the Holy Grail.

The mythology of Camelot and the story of King Arthur have been retold over the centuries. The legends of Arthur may have originated with an actual chieftain named Arthur who lived in Wales in the sixth century. Retellings have moved the story far away from that place and time. Because of the belief that Arthur will return, he is sometimes called "The Once and Future King", and Camelot itself has come to be viewed as a place, as well as a state of mind, and a reflection of a shining lost ideal. Tennyson, in the "Idylls of the King", writes that Camelot is symbolic of "the gradual growth of human beliefs and institutions, and of the spiritual development of man."

The year 2000, according to guest speakers at the one-day Ernst & Young Journey 2001 conference, may best be written into history as an illusory event. Indeed, it was like being in legendary Camelot. The money flowed incessantly into the coffers of the venture capitalists. These in turn bravely fought for "pieces of the action". Speakers valiantly set about to convince those present (almost 2000 hi-tech professionals, investors, entrepreneurs and service providers) who came to hear the wisdom of their seniors, namely that the year 2000 was a year out of sync. This was a year when the tidal wave of events resulted in situations which bore no resemblance to past performance. Common sense, proclaimed the speakers, is to accept the fact that 2000 was an aberration, a "once in a life-time event". They said it was an event that would best be forgotten, and that the proper attitude is "to get on with it". The conference colored identity name tags showed whether the attendee was an entrepreneur or an investor. Walking among the attendees, it was clear that the dominant color was red, (entrepreneus seeking investors) with few other colors in evidence. One participant said that he came because "if I didn't my competitors would assume that I was dead". Another, a chief financial



Price Waterhouse Cooper Kesselman & Kesselman

officer of a young medical products company, said that all was well. However, in an unexpected rash of candor he revealed that if the company did not receive an injection of cash, they might be facing serious problems.

"The conference is a success. The large number of attendees testifies to the strength and resiliency of Israel's high-tech sector," said Yoram Tietz, head of Israel's Ernst & Young (E&Y) Hi-tech practice. E&Y has invested heavily in the future of this country's high-tech sector. The Israeli group numbers more than 200 professionals, and has a greater market share than the next four competitors combined. Yet, beyond the stark reminders of the exit of many of the denizens of Silicon Valley and the two thirds drop in the valuation of Nasdaq, were the additional dark clouds of Israel's current security problems. In the aftermath of the attack on the US and the declaration of a "War on Terror", developments in the technology may be severely negatively affected. Only a handful of overseas participants arrived to the conference. It seems that lawyers are more venturesome than bankers. Larry Lopez of the Silicon Bank of California, which continued as a perennial co-sponsor failed to make it to the conference. John Roos, a partner in the Silicon Valley law firm-

Wilson, Sonsini, Goodrich & Rosati, with more than 3,000 corporate clients, delivered a lecture on the current state of affairs and suggested that firms need to "clean up the mess of 2000".

In the aftermath of the disastrous events of 2000, when so much went wrong, many private investors in Israeli high-tech stated openly that while they are now on the sidelines, they will invest again when conditions improve. This recalls Camelot, which has come to be viewed not only as a place, but as a state of mind. 2000 though a period gone by, will continue to imprint itself as part of the tales and tapestry of financial mythology. Hoping for the "Once and Future Market".

VentureOne: Q2 Investment in Venture Capital Backed Companies Down 44%

Second quarter investment in venture capital-supported Israeli companies plummeted 44%, according to a survey by the research company VentureOne. 37 investments were made in such companies, for a total of \$224 million, compared with the \$398 million invested in 63 deals in the first quarter of 2001.

The survey's figures showed that the average valuation of venture capital-supported Israeli

companies in the second quarter, was \$7 million, compared with an average of \$20 million in the first quarter.

VentureOne attributes the fall in company valuations to the effect of the US market. It also indicates an increase in the deal flow at companies' early stages, which pushes company values down.

There was a decline in deal flow at different levels in all investment rounds and all company development stages. Total later-stage investments in the second quarter fell 63%, to \$56 million from \$89m. in the preceding quarter. First round investments fell 30% and second round investment fell 38%, while seed-stage investments fell only 12%.

The survey noted a slow trend of returning to early stage investments, which were much smaller in the fourth quarter of 2000 and the first quarter of 2001. VentureOne states that investments in these stages accounted for two-thirds of all investments in the second quarter.

According to the survey, investment in all sectors plummeted except in the semiconductor sector, which raised \$57 million in the second quarter, compared with \$40 million in the first. Investment in the software sector was \$27 million, less than 25% of investments in the sector during the preceding quarter. Investment in the life sciences sector fell more than 50% compared with the first quarter, and totaled \$33 million.

Gene Responsible for Hereditary Muscle Disease is Prevalent Among Jews of Persian Descent

Researchers from the Weizmann Institute of Science and from Hadassah University Hospital, have identified the gene that, in its mutated form, causes a degenerative muscle disease known as Hereditary Inclusion Body Myopathy, or HIBM. This disease is common in

Jews from Iran and from the neighboring Middle Eastern countries, but it also occurs in non-Jews in different parts of the world. The findings are reported in the September issue of Nature Genetics.

The most common form of HIBM was first described in 1984 by Prof. Zohar Argov of the Department of Neurology at the Hebrew University-Hadassah Medical School in Jerusalem. The disease usually develops in adulthood and is characterized by progressive muscle weakness that starts in the legs but later affects the arms and leads to general disability. Scientists began to unravel the molecular origins of the disease in 1996, when they mapped out the potential location of the gene responsible for HIBM: the short arm of chromosome 9. This discovery was made by Prof. Stella Mitrani-Rosenbaum of the Unit for Molecular Biology of Hadassah University Hospital, Mount Scopus, Jerusalem.

However, it took five more years of intensive research to solve the HIBM puzzle. Scientists from the Crown Human Genome Center and from the Molecular Genetics Department of the Weizmann Institute of Science in Rehovot, played a prominent role in this effort. The Weizmann team, which was headed by Prof. Doron Lancet, made sophisticated use of the databases created within the framework of the international Human Genome Project. Thanks to this research, scientists from the two Israeli institutions managed to identify the genetic mutations that cause HIBM. These mutations have been identified not only in people from the Middle East, but also in patients from eastern India, the Bahama Islands and Georgia in the US.

The mutations affect an enzyme that plays a crucial role in the synthesis of sialic acid, a vital carbohydrate ingredient in the formation and functioning of numerous proteins. The scientists hypothesize that lack of sialic acid leads to accumulation of defective proteins in muscle

cells, thus causing muscle degeneration. This discovery will facilitate the understanding of degenerative diseases of the muscle and may eventually lead to advanced methods for treating HIBM.

Based on the findings, the researchers have already developed a genetic test for prenatal diagnosis of HIBM in high-risk populations. Such genetic screening is particularly important for Jews of Persian descent, among whom 5-10% are believed to carry the mutated HIBM gene.

The Money Stays at Home

Medax 2001 was the 14th Israel Medical Week, when scores of medical equipment suppliers exhibited their wares to visitors. Concurrently, a tremendous variety of papers on medical



Flight Medical's Ventilator is Creating a Stir in the US

research studies were presented. This year's Medax was held the first week of September at the sprawling Fair Grounds adjacent to Tel-Aviv University. Unexpectedly well attended, Medax 2001 provided the window on leading medical technology. One of the exhibitors was Medtechnica, a major importer and distributor of medical equipment for the Israeli healthcare market. Medtechnica among others, represents Newport Medical Instruments, Inc. That company, established in 1981, became America's largest privately owned medical ventilator company and is ranked fourth in worldwide market share. The company's line of ventilators serves to improve patient comfort, speed patient recovery and provide respiratory

support for extended care. These are designed for use with neonate, pediatric and adult patients. Applications range from the emergency room, to intensive care, to patient transport, as well as home care.

Newport recently introduced its newest product, the HT 50, exhibited by Medtechnica, the Israeli distributor for Newport Medical Instruments.

Elie Malka, Medtechnica's Respiratory and Sleep Equipment specialist, revealed to IHTIR that the HT50 is a "blue and white" product, the local terminology for Made in Israel. "We are bound by the agreement between Flight Medical Ltd., the Israeli company that developed and produces HT50, and Newport Medical Instruments, its sole global distributor. Newport therefore, is our supplier of the ventilator, but the *"money stays at home,"* says Malka.

"An important user feature of our ventilator is that it can operate up to 10 hours on a battery without recharging. The battery life of most other ventilators is usually limited to 1 1/2 hours," says Yosi Aldar, marketing manager and a founder of Flight Medical. One of the target markets was the Air Force, which is alluded to in the company's name. Aldar, a biomedical engineer by profession, relates that the development of the unique ventilator took three years before it became a saleable product in 1999. Intensive collaborative effort with Israel Defense Forces preceded the army's approval of the ventilator.

Flight Medical is positioning itself to become a major factor in the \$400 million American ventilator industry. Six of the company's 30 employees are active in research and development which has led to 20 patents. "Our R&D and pipeline of new products will help us to realize a projected 50%-100% annual growth rate over the next three years," predicts Aldar.

Neoprobe to Acquire Biosonix

Neoprobe Corporation (OTCBB:NEOP) announced that it has entered into an agreement with Biosonix Ltd., to acquire all of the outstanding shares of Biosonix.

Based in Hod Hasharon, Israel, Biosonix has developed a novel Angle-independent Dual Beam Flow (ADBF) technology, that enables surgeons and other medical personnel to measure in real-time, and in a simple non-invasive manner, the volume of blood flowing in the vascular circulation. It is useful in the Emergency Room, and Vascular and Neurosurgery departments.

The Biosonix Blood Flow Product Series, provides innovative solutions for the accurate quantitative real-time measurements of blood flow and hemodynamic assessment. The ADBF technology is already incorporated into three product lines.

Friendly Robotics Rounds Up \$7.0m.

Friendly Robotics designs home robotic products. The company's first product is a battery powered robotic lawnmower, with a manual override and "whisper-quiet" motor. Friendly Robotics is based in Israel, with offices in the US and Canada as well as Europe. The company plans to use the funds to expand its product portfolio to include robotic surface cleaners, snow blowers and garbage disposal units.

Friendly Robotics recently faced a reduction of its capital reserves, and thus the current round will allow the company to continue with its business program. Investors in this fourth round were led by the Challenge Fund. Other participants included Canit Group, China Development Industrial Bank, Concord Ventures, Coral Ventures and Kardan Technologies.

ChiLight Technologies Obtains \$5.5m

ChiLight develops and manufactures high-end components and modules for DWDM optical networks. The company's first product is an optical, tunable wavelength converter. Founded in September 2000, the 14-strong team (8 of whom hold PhD degrees in physics) plans to complete its primary model by the end of this year, and will use the funds for the development of new

products, including cost-effective modulators and signal regenerators. Investors in this first round, led by the Yozma Group, include Lucent Technologies and the Plentyum Group

InterWise Raises \$28m.at \$40m. Value

Israeli start-up InterWise, which develops remote learning technology, has raised \$28 million from foreign investors at a company value of \$40 million, before money. The company did not respond to the report.

CEO Hillel Kobrinsky and president Zvi Frank founded InterWise in 1994. In its previous capital raising round in May 2000, the company raised \$30 million at a company value of \$60 million, before money.

Company shareholders include STI Ventures, The Challenge Fund-Etgar, UBS Capital, SAP AG, JP Morgan Funds, Texas Pacific Group, Shrem-Fudim-Kelner, Leeds Equity Partners III, and Link Technologies Fund.

InterWise developed a software-based solution for transmitting and selling information, data, and systems for managing relations with customers, partners, suppliers, and distributors over the Internet. The company's customers include Ford, Bank Hapoalim, Bank Leumi, Pele-Phone, Comverse Technology (Nasdaq: CMVT), Eden Springs (Mayanot Eden), SAP (NYSE: SAP), Applied Materials (Nasdaq: AMAT), and Bristol-Myers Squibb (NYSE: BMY).

InterWise employs 200 in offices in Israel, the US, and in other countries.

Indigo Bought by HP

American giant Hewlett Packard (HP) will acquire the Israeli company Indigo (Nasdaq: INDG) for \$629 million in HP stock, and a cash payment of up to \$253 million, depending on Indigo's ability to achieve revenue goals. Meanwhile, Indigo CEO and company founder Benjamin Landa, said he would stay on with the company. He added that there would not be any cutbacks or layoffs. After the announcement was made public,

Indigo's stock rose 26.1 to \$6.96 in the two days

Editorial comment:

Benjamin Landa, in the 1970s, sold photocopying technology to Savin Business Machines for \$10 million. It was an example of developing and selling know-how, without taking it to production and marketing levels. At the time we observed that Mr. Landa's forte is research and development. The current sale of the company to HP is indicative that Mr. Landa, after an unsuccessful effort at industrializing the Indigo technology, felt that his technology would be best marketed under the aegis of a global industrialist and marketer.

Terayon Chip Receives US Standard Approval

Terayon (Nasdaq:TERN) was awarded certification from CableLabs, the North American cable TV industry technology center. The certification will include Terayon's technology, which meets the new DOCSIS US cable modem standard, and probably represents a major breakthrough for Terayon as a leading supplier for the US Cable TV industry.

Medtronic Enters Bidding for Medinol

Merrill Lynch analyst Daniel Lemaitre believes that major US medical equipment company Medtronic may buy Boston Scientific, which owns a stake in the Israeli company Medinol. Medtronic needs Medinol's coated stents to keep up with competitor Johnson & Johnson, which has successfully tested such stents. Boston Scientific is currently embroiled in a major dispute with Medinol's controlling shareholders Kobi and Judith Richter.

Italian Venture Capital Fund

Alice Ventures, which manages \$150 million in capital, opened an Israeli branch. The branch will be managed by Hillel Milo, one of the fund's three partners, a co-founder of Zoran (Nasdaq: ZRAN) and a former General Manager of Clal Venture Capital.

Intel is Adding Staff

Intel (Israel) has launched a recruitment campaign for scores of hardware and software engineers for its development centers in Haifa and Yakum. The centers develop processors for mobile computers.

Shellcase to Invest \$8m. in Jerusalem Facility

Shellcase, a leading developer and provider of Wafer Level Chip Size Packaging (WLCSP), announced that it is expanding its production facility in Jerusalem at a cost of \$8 million. The expansion began in May 2001, following the successful closing of a \$20 million private placement in April 2001. The new facility will increase the production floor three fold, and will be completed in November 2001.

Business Layers Raises \$25m.

Business Layers, which develops applications for eProvisioning for business partners and customers, has completed a \$25 million financing round in which the company's current investors participated, excluding Garage.com. The absence of new investors reportedly considerably depressed the company's valuation.

The week ending Friday September 21 was the Dow Jones Industrial Average's worst week since the Great Depression. Altogether \$1.38 trillion was wiped off from equity values. In five days more than 1,400 points were lost on the Dow. Moreover, the Nasdaq, the technology laden market experienced the worst week in its history. (a loss of 16 percent).

We have decided not to publish our monthly Israel High-Tech Model Millenium Portfolio. The TASE Publicly Traded Venture Capital Companies Report will appear as part of the Venture Capital Corner. The companies in the IHTIR Model Portfolio are great companies and we have not changed our belief in the fundamental strengths of these enterprises. We are therefore putting the Israel High-Tech Model Millenium Portfolio on "hold" and hope to resume its publication at some point in the future.

Bio Information Technology Raises \$7.8m. in First Round

Bio IT is focused on the discovery of novel compounds targeting G-protein coupled receptors (GPCRs) through a unique computational structure based approach. The GPCR family is believed to be the most important class of receptors in drug discovery. Bio IT's technology is based on three proprietary elements: algorithms for the prediction of the 3-dimensional structure of any member of the GPCR family, proprietary technology for high throughput computational screening, and proprietary technology for designing virtual molecular libraries. Using these technologies, Bio IT is developing the first fully integrated computational shortcut to GPCR drug lead discovery.

Bio-IT was established on November 2000 by Dr. Silvia Noiman, Prof. Haim Aviv, Dr. Oren M. Becker and Tel-Aviv University. The core technology was developed by Dr. Oren Becker and Dr. Sharon Shacham at Tel-Aviv University.

"I believe that this novel computational approach of Bio IT has the potential of significantly changing the way drug discovery will be practiced in the future," commented Prof. Haim Aviv, Chairman of Bio IT. "I am very pleased that OrbiMed and Yozma became significant investors in this company. This fund-raising will enable us to advance our discovery operations, increase our staff and establish a US office in Boston later this year," he added.

Bio IT utilizes a set of computational algorithms to predict the 3-dimensional structures of GPCRs. It has successfully completed 30 models of GPCRs to date from a wide variety of sub classes. It also has begun screening efforts to find novel compounds against those receptors.

Bio-IT will utilize the capital to expand its number of models, as well as to develop research programs from in silico hits to "wet" drug discovery leads. The size of the drug market to which Bio IT's solutions are targeted is estimated to be tens of billions of dollars.

More Dual Listings Expected on the TASE Due to New Taxation Policy

The Tel Aviv Stock Exchange expects additional dual listings in the near future, as a result of a recent Finance Ministry decision, to exempt local investors in foreign companies from capital-gains taxes when they invest in the shares of companies that dual-list their shares on the TASE.

The tax exemption applies to individual and institutional Israeli investors. Until now, Israeli investors were required to pay taxes on capital gains from sales of foreign companies' shares, regardless of where the shares were traded, while investments in all TASE-listed Israeli shares have been exempt from capital-gains taxes.

The companies' founders and employees will also enjoy substantial tax benefits from dual listing.

Saul Bronfeld, managing director of the Tel Aviv Stock Exchange, said that many Israeli-related companies were incorporated abroad and were thus considered foreign companies under Israeli tax law. A number of these companies, whose shares are traded on U.S. markets, are expected to take advantage of the new taxation policy by dual-listing their shares on the TASE.

"New large dual-listings would increase the TASE's trading volumes and encourage both local and international investors to trade shares on our exchange," Bronfeld said.

The dual-listing law, which was enacted last October, enables U.S.-traded companies to dual-list on the TASE with no additional regulatory requirements. So far, 13 U.S.-traded Israeli companies have dual-listed their shares on the TASE. The volumes of most of these shares have increased significantly since they dual-listed. With the new tax exemption, the TASE hopes to see more dual listings in the near future.

Similar tax exemption (due to dual listing) has recently boosted trading volumes of Partner Communications (TASE:PTNR) and Blue Square Israel (TASE:BSI).

Algotec Instals \$2m. Imaging System in California Medical Center

Start-up Algotec Systems announced it had installed a clinical imaging system at Antelope Valley Hospital, in California. The deal, which was signed in November 2000, is worth \$2 million.

The system installed by Algotec combines medical image-processing technologies produced by various imaging techniques, such as MRI and CT scanners, ultrasound, X-rays, mammograms, and nuclear medicine, with digital reading and reporting methods.

The system enables medical information to be distributed over the Internet, and allows complex databases to be managed. It is designed to save on hospital information storage space, expedite medical diagnoses, and the storing of medical information of high standard over the long term.

This technology replaces the existing system for producing and evaluating medical images using film, which the patient must carry with him to the doctor for every examination.

Algotec installed the system in cooperation with Israeli company Magnetics, which markets magnetic and optical media and provides duplication and CD "burning" services and data storage solutions and serves as the Israeli representative of the American Rimage.

Algotec president and CEO Menashe Benjamin founded the company in 1993 as a joint venture with Elscint (NYSE: ELT).

The company develops and markets software products for processing, managing, distributing, reading, and storing medical images.

Since 1996, Algotec has had OEM agreements with Elscint, Picker, Toshiba, Shimadzu Medical Systems, Elekta Oncology Systems, Eclipsys, and other companies.

Some Facts and Data About Israel's Biotechnology Industry

* Israel's biotech industry has grown rapidly over the past five years.

* Approximately 160 biotech companies and 400 medical device firms are active in Israel.

The number of start-ups in the industry is high and equals the number of companies in countries such as Switzerland, Sweden, and France.

*About 15 life science venture capital (VC) funds operate in Israel. Five of them are dedicated to life sciences investments, and the other 10 invest in both life sciences and high-tech industries. In 2000, VC funding for the life sciences increased by 66% over 1999 levels. The sector raised about \$600 million last year—\$400 million from initial public offerings and \$200 million from VCs.

*Israeli biotech companies focus mainly on product development for cancer and auto-immune diseases.

* Medical device firms are involved in a variety of fields, including diagnostics, digital imaging, and information management.

*A core of firms are developing technologies in function genomics, pharmagenomics, and proteomics. These areas have substantial potential because they merge biotechnology with computer technology, an area of substantial expertise in Israel.

Biotech companies currently have about 20 biotechnology products in clinical trial and another 50 products in the pre-clinical stage.

American Venture Capital Slows

Venture capitalists face a difficult crossroads compared to the dilemmas facing many other Americans. For four consecutive weeks total funding in the US has remained below \$500 million. The first two weeks can be attributed to the summer slowdown and the last two weeks can

be attributed to the aftereffects of the attack. There is significant uncertainty in the period ahead ahead.

So, will venture capitalists sit out the uncertainty and sit on their cash — making the funding totals become the rule of the day? Or will they look to future and to better times ahead, re-launching their investment plans?

As the public equity market turns from computer technology to life sciences, a trend has emerged where publicly traded biotech firms spin off new developments into new companies, according to Douglas Mintz, editor of Ventures.net.

Shares of Israeli Security Firm Surge

The Wall Street Journal, in a September 23 assessment of the prospect of various share sectors in the period ahead wrote: "Security: Shares of previously little-known companies like Invision Technologies, Visage Technology and Magal Security surged last week after the attacks. Think twice before jumping on the bandwagon. These are small stocks, now trading at lofty multiples".

The Magal shares as of September 22 traded at a multiple of 22 and a market capitalization of \$63m. The company's stock has surged 75.4% on the Nasdaq exchange since the terrorist attacks in the US.

Magal Security Systems Ltd., mentioned in previous issues of IHTIR, develops, manufactures, markets and sells computerized security systems. The product line includes perimeter security systems and a video motion detection system, which automatically detect and locate intruders, x-ray screening and detection systems, including AISYS, an explosive device detection system that automatically detects, locates and identifies explosive devices in luggage, packages and other parcels. Also included are pallets x-ray screening machine used to screen large cargoes, and those loaded on standard pallets, and MagNet, a security management system that integrates the management, control and display of various security systems into a single, real-time database.

Given Imaging Postpones Planned IPO

Given Imaging has announced that due to current market conditions, it has postponed its Initial Public Offering of 5.0 million ordinary shares. Given had planned to raise \$65 million at a company value of \$260 million.

IHTIR learned from well placed Wall Street sources, that Given Imaging was a "hot deal" and prior to the attack on NYC and Washington Lehman Brothers, Credit Suisse First Boston, Robertson Stephens and Fidelity Capital Markets would have easily placed the Given Imaging shares.

Magal systems are used to protect aircraft, national borders and sensitive facilities, including military bases, power plant installations, airports, postal facilities, prisons and industrial locations, from terrorism, theft and other security threats.

Magal Security Systems (Nasdaq:MAGS), has been hired by the Israeli Ministry of Defense (MOD) to protect its headquarters, in a deal worth a total of \$1.5 million.

Robertson Stephens Hosts 7th Annual Technology Conference in Tel-Aviv

Leading investment bankers Robertson Stephens expressed their commitment to continue and expand their relationship with the Israel high-technology entrepreneurial sector. The Conference featured management presentations from more than 100 of Israel's leading public and private growth companies.

Brian Bean, Managing Director and head of the Technology Group stated that "Israel's electronic industries continue to provide leading edge technologies that place the country high among global innovators".

Andrew Kaye, managing director of RS International and in charge of investment banking operations in Tel-Aviv expressed satisfaction with the results of the office which has recently added personnel, including a securities analyst.

Finance Minister Announces Tax Relief for Overseas Investors

On September 24, Israel's Minister of Finance, Mr. Silvan Shalom, announced that henceforth, until the end of calendar 2003, foreign investments in Israeli technology companies will benefit from a "full tax exemption".

Concurrently the minister of finance has announced, "a total tax exemption" for non-residents who invest in Israel venture capital funds, henceforth until the end of calendar 2003.

"The global economy and, in particular, the technology markets are experiencing tough times," Shalom said. "When the Government identifies a market failure, this is exactly the right time to intervene," he added.

Shalom added that the Israeli technology industry has a weighty and central role to play in economic growth and that the Government must make immediate decisions to help this important industry, a locomotive of growth in which tens of thousands of Israelis are employed.

Israeli Police Awards Elbit \$8m. Contract

Elbit Systems Ltd. said today that it will develop and supply a computerized system for registration and control at all the border crossing points of the

State of Israel, in a \$8 million contract.

The system, which will be deployed at all the airports, sea ports and land entry points throughout the country, will support the border inspection processes and will help control the passage of vehicles and goods. The project, named BCR 2000, is under the full responsibility of the Israeli Police and will be carried out over 18 months.

eNOW Raises \$9.5m.

Israeli start-up eNOW has raised \$9.45 million in a third round of financing from US and Israeli funds, led by the Hudson Ventures, Phoenix Partners, Broadband Partners, and CAP Ventures funds.

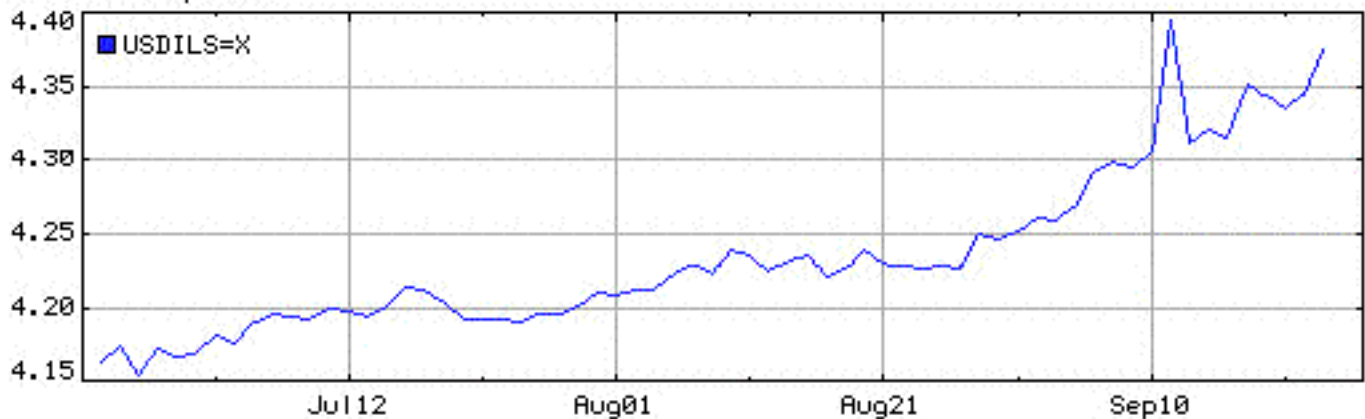
The company developed an advanced information system that delivers real-time information from over 5,000 news agencies, television and radio stations, newspapers and magazines worldwide. The funds raised will be used to continue development and to adapt the system for commercial use.

eNOW was founded in late 1999 by company CEO Edo Segal and Arik Kopelman, general manager of development. The first investor in the company was Michael Anghel, chairman and CEO of CAP Ventures Capital, Dankner Investments, and Eurocom Israel.

eNOW's is based in New York and its development center is in the Ramat Gan Diamond Exchange building.

Stable Trading Pattern in Israel's Currency vs. US Dollar after the Terror Attack on the US

USDILS=X
as of 21-Sep-2001



Copyright 2001 Yahoo! Inc.

<http://finance.yahoo.com/>