

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
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Beginning the Third Decade

In 1977, I woke up one morning infused with the notion that Israel's future, as an independent nation, would rest on the prowess of its science based industries. Shortly afterward in the International Edition of the Jerusalem Post appeared a series with my articles describing the activities of six science based companies. President Ephraim Katzir, a chemist by profession, urged me to continue to report on Israeli developments in science and technology. Articles penned by me appeared in the Wall Street Journal, Business Week and in many other prestigious publications. Time Magazine chose to interview me. I became a source for information. I published four books and at least one was widely read. Barron's Magazine chose to interview me about Israel's high tech. I had fulfilled the President's directive.

In 1985 I founded the Israel High-Tech and Investment Report. The monthly newsletter focused not only on the technology but on the investment worthiness of the companies described. At the outset there did not seem to be enough material for a 12-page publication. As the years moved on there was more news than space available. Many companies went public and required follow on coverage. As the markets warmed up we created a Model Portfolio of Israeli high-tech companies. Among others it included such stars as CheckPoint and Comverse.

At the end of the 1990s we were busy figuring out the hodgepodge created by the era of the dot.coms. It was a period of gamblers' delight. Some of us even made money. The most difficult period consisted of the three years that followed 2000. The bubbles had burst and we began to concentrate on fundamentals.

In the 1990s Israel's strength in high-tech had grown substantially and companies, once again, began to flourish. Investment funds flowed more freely and even Internet companies were acquiring a following.

Our web site is experiencing a growing following and statistics indicate that in the past twelve months there were more than 400,000 entries.

Perhaps the heroes for the next generation will not be the swinging high-techies but Nobel Prize winners. In case you haven't noticed we have six of them now.

We are celebrating 20 years of publishing the Israel High-Tech and Investment Report. It has been an exciting period in our lives and we hope to continue way into the foreseeable future.

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Business Week: Israel is Emerging from Financial Drought

"Israel's high-tech sector finally is emerging from a long financial drought... The global recovery has energized Israel's so-called 'silicon wadis'," stated Business Week in a recently published feature article.

"There is buzz on the streets of Tel-Aviv about several of the major global technology players who are on the verge of cutting deals in the next few weeks."

"Why the renewed interest in Israel? First, for a small country, Israel has lots of start-ups. And start-ups, unlike Western tech giants, didn't have the luxury of cutting back R&D to get through the downturn. So the Israelis kept innovating, even as the global tech industry swooned, and fighting surged between Israelis and Palestinians," writes Business Week.

"Now there are lots of small survivors with leading-edge technology in areas such as Internet security, wireless broadband, and medical devices. No wonder acquisition activity is up by some 25% over the past year. Tech exports surged 20% in the first six months of 2004, to more than \$6 billion, and the Tel-Tech 15 index is up 48% in the past twelve months.

"Israeli high-tech companies after a long hiatus, are also returning to Wall Street. So far this year, three outfits Lipman Electronics Engineering (Nasdaq: LPMA; TASE: LPMA), which develops electronic payment systems; PowerDsine (Nasdaq: PDSN), a maker of integrated circuits for telecoms; and Syneron Medical (Nasdaq: ELOS) have joined the 70 plus local high-tech outfits traded on Nasdaq," Business Week points out.

"There are at least a half-dozen initial public offerings, and a number of follow-on offerings ready to go to market by the end of the year," Lehman Brothers managing director and head of Israeli business Leonard G. Rosen was quoted as saying.

The number of financing deals is increasing, but 17 of 31 deals in the past year have been for less than \$10 million. Apparently a similar situation is developing with new public offerings.

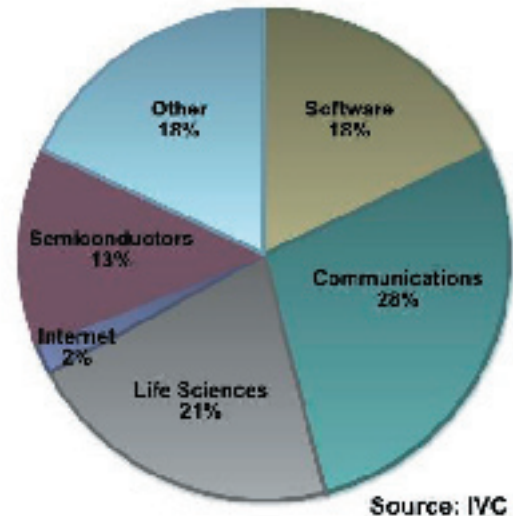
Israeli Venture Capital Soars in Q3

\$438 million has been raised in Q3 2004 by Israeli technology firms - the highest level in three years. The amount raised in the first three quarters of 2004 reflects an increase of 43 percent over the same period in 2003.

According to figures released today by the IVC Research Center, the positive trend in the Israeli venture market has continued through to 2004's third quarter.

113 Israeli high-tech companies raised \$438 million from venture investors. The amount was up 30 percent from the \$338 million raised by 91 companies in the previous quarter and was 55 percent higher than the \$283 million raised by 103 companies in the third quarter of 2003.

"Third quarter capital raising was at its highest level in three years," said Efrat Zakai, Director of



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Research at IVC. "In fact, in Q3 Israeli high-tech companies raised more than twice the amount raised in Q4/2002, which was the lowest quarter recorded in the past three years. The current figures reflect the continuous recovery of the Israeli high-tech sector, as well as an increase in levels of capital invested by both Israeli and foreign investors".

The average company financing round was \$3.87 million, compared with \$3.71 million in the previous quarter and \$2.74 million in the third quarter of 2003.

In the third quarter, Israeli VCs invested \$194 million in Israeli companies, compared with \$156 million in the previous quarter and \$129 million in Q3 2003. The Israeli VC share of the total amount invested in Israeli high-tech companies was 44 percent, slightly below the 46 percent share of the previous quarter.

One-of-five Nobel Prize Laureates are Jewish

In the 20th century, Jews, more than any other minority, ethnic or cultural, have been recipients of the Nobel Prize, with almost one-fifth of all Nobel laureates being Jewish. Of the total Israel has six Nobel laureates.

In December 1902, the first Nobel Prize was awarded in Stockholm to Wilhelm Roentgen, the discoverer of X-rays. Alfred Nobel, 1833-1996, a Swedish industrialist and inventor of dynamite, bequeathed a \$9 million endowment to fund prizes of \$40,000 in 1901. Today the prize has grown to \$1 million, to those individuals who have made the most important contributions in five areas. The sixth, "economic sciences," was added in 1969.

Nobel could hardly have imagined the almost mythic status that would accrue to the laureates. From the start "The Prize" (as it was sensationalized in Irving Wallace's 1960 novel) became one of the most sought-after awards in the world, and eventually the yardstick against which other prizes and recognition were to be measured.

A total of nearly 700 individuals and 20 organizations have been Nobel recipients, including two who refused the prize (Leo Tolstoy in 1902 and Jean-Paul Sartre in 1964.) Thirty women have won Nobels. The United States has about one-third of all winners. Also remarkable is the fact that 14 percent of all the laureates in a 100-year span have been Californians, most of them affiliated with one



or more of the world-class higher education and research institutions in that state.

Jewish names appear 127 times on the list, about 18 percent of the total. This is an astonishing percentage for a group of people who add up to 1/24th of 1 percent of the world's population. But this positive disproportion is echoed even further in the over-representation of Jews, compared to the general population, in such fields as the physical and social sciences, and in literature. An examination of the large professional communities from which Nobel laureates are selected would reveal an even more dominant disproportion. As an example, it is estimated that about one-third of the faculty at Harvard Medical School is Jewish.

The figure for the total number of Jewish Nobel Prize winners varies slightly, depending on the strictness of the "Who's a Jew?" definition. But the figure cited most frequently is 161, or 22 percent of Nobel Prizes in all categories awarded between 1901-2003. With the 2004 additions, the total stands at 166.

Bandage Using Peptides and Collagen Heals Wounds and Regenerates Tissue

Hapto-Biotech, an Israeli start-up company, and New York-based Ortec International Inc., have joined forces to develop a bandage capable of healing wounds and regenerating tissue. The method employs a unique combination of peptides and collagen.

The new technology could also have an important impact on orthopedic and dental procedures.

The active peptides were developed by Hapto, a start-up company established by Hadasit Medical Research and Development Ltd., the commercial subsidiary of the Hadasah Medical Organization. The collagen-based biomaterial was developed by Ortec. The Hapto-Ortec collaboration is the second stage of a joint research project the two companies began in 2002, the results of which produced the potential for the biotech bandage.

This joint venture is an important landmark in our company's development plan," said Ira Weinstein, Hapto-Biotech CEO. "I am confident that during the next 24 months, we will make significant progress in the development of the biotech bandage, which will move us even further ahead," he said, anticipating positive results from clinical trials on humans, being conducted at the present time.

Haptide, Hapto's core technology, utilizes proprietary syn-

thetic peptides that mimic the mechanism of cell attachment to fibrin. It was developed by Dr. Raphael Gorodetsky of Hadassah and Dr. Gerard Marx of Hapto.

FDA Approves InSightec System

The United States Food and Drug Administration has approved an InSightec ultrasound device, ExAblate, to treat uterine fibroids. These are clumps of tissue that can cause miscarriages, painful menstruation and related problems in women, explained InSightec.

The system uses ultrasound waves to break up the clumps and can provide an alternative to the removal of a uterus, or hysterectomy. But the FDA cautioned that the ExAblate 2000 System is not intended for women who want to get pregnant in the future.

About 80 percent of women suffer from uterine fibroids at some point in life, according to the National Institutes of Health. Symptoms include pain, bleeding and uterine swelling, accompanied by a heightened need to urinate. But many women have no symptoms. Up to 25% will eventually require a hysterectomy, while the ExAblate proffers a non-invasive alternative to many. Sometimes fibroids are treated with hormone therapy, but in that case the growths tend to recur, InSightec explains.

The ExAblate uses magnetic resonance imaging to pinpoint the non-cancerous tumors. Heat from carefully guided ultrasound waves then selectively kills the fibroid tissue, which is flushed from the body naturally. The company says its treatment is practically painless, and obviates the need for hospitalization, which sharply reduces healthcare costs. Patients lost an average of 1.2 working days compared with 19 in the case of women who underwent hysterectomy.

GE Healthcare, a unit of General Electric Co., said it was collaborating with InSightec to deliver the ExAblate system, which works with GE's Signa MR system. GE also owns 21% of InSightec, and the medical-technology venture capital fund MTA owns 7%. The rest of the company's shares are owned by its workers, management and founders.

InSightec says the FDA approval followed trials on 109 women in seven medical centers around the world. Significant improvement was reported in 71% of cases, it said.

InSightec president and chief operating officer Dr. Jacob Vortman said his company is investigating possible use of the device to treat breast, liver, bone and brain cancers. "Today's approval ... underscores the importance of imaging

technologies not only as diagnostic tools, but also as therapeutic treatment," Vortman said.

Recently, InSightec completed a \$21 million financing round from its existing shareholders. For the purpose of the investment the company was valued at \$100 million.

Shopping.com in Stunning Debut

On its first day of trading on the Nasdaq, Shopping.com's share price soared more than 50%, reflecting a company value of \$750 million.

At that valuation, Shopping.com (Nasdaq:SHOP) is the largest Israeli Internet company on Wall Street in history and the fourth-largest online shopping destination behind eBay, Amazon and Yahoo!

The company succeeded in raising \$90 million through its IPO.

The company was set up in 1997 and employs 300, about 100 of them in Israel. Shopping.com is registered as an American company, operating from Brisbane, California, and trades on the Nasdaq exchange under the ticker SHOP. The on-line comparison shopping site maintains offices in Netanya, Israel industrial zone.

Shopping.com operates an online comparison-shopping service in which it receives revenue every time a user clicks through to a merchant's Web site.

Renaissance Capital, a Greenwich, Conn.-based independent research firm that tracks new issues, noted that Shopping.com has come a long way since its first ill-fated attempt to go public four years ago, just before the Internet bubble burst.

At that time, Shopping.com had a miniscule \$525,000 in trailing sales and mounting losses, Renaissance noted. By contrast, it is now the largest online comparison shopping service in the U.S. with more than 20 million users a month and with revenue of \$67 million in 2003. That was more than double sales of \$29.1 million in 2002 and more than five times the sales of \$12.7 million in 2001.

Ido Security Introduces MagShoe

Walk-through gate detectors are not reliable in detecting metal in shoes or on the lower body extremities. As a result, passengers at airport security check-in are required to remove their shoes to pass 'securely', causing passenger discomfort, anxiety and annoyance, air traffic delays and most importantly, compro-

mised security.

Magshoe not only closes this gap but it speeds passengers quickly and easily through security without compromising safety alleviating passenger tension and reducing departure delays. Magshoe is a new and unique metal detector for shoes and the lower body extremities that is suited for many applications including airports, railroad stations, prisons, stadiums, and any other high security portals such as VIP homes, offices and office buildings.

The company estimates that it takes only 1.6 seconds for the examination.

Technology Review Board Member Presents Research Results

Prof. Hylton Miller, Director of the Catheterization Department at Tel-Aviv's Sourasky Medical Center and a member of the Technology Review Board of the Israel High-Tech & Investment Report, presented at the Scientific Sessions of the American Heart Association, in New Orleans, the results of research studies related to progenitor endothelial cells, the cells which facilitate healing of damaged organs. In instances of heart failure that are treated with erythropoietin, there is evidence of an increase in the number and function of progenitor endothelial cells.

Israel Negotiating \$230m. Drone Deal with India

Israel Aircraft Industries (IAI) is in advanced negotiations with the Indian army and about to sign a contract to supply \$230 million of its Heron/Eagle drones.

Security sources in India confirmed that the parties have agreed on the details.

According to the agreement, IAI will sell India the drones, officially called unmanned aerial vehicles, as well as a ground station, communication equipment and intelligence-gathering devices that use optics and radar. The drones carry an electro-optical payload system and maritime patrol radar, according to IAI.

Heron/Eagle is a Medium-Altitude Long-Endurance type unmanned aerial vehicle, that can operate at a distance of more than 1,000 kilometers and at altitudes above 25,000 feet for more than 24 hours, providing real-time intelligence, according to IAI. The system also features automatic take-off and landing, integrated mission planning and sensor technology, and can simultaneously carry a wide range of payloads.

About five years ago IAI signed a similar deal for \$550 million to supply drones to India's air force, army and

special military forces. These unmanned planes operate along the border with Pakistan and in the Kashmir region.

AudioCodes Raises \$100m in Convertible Bond Offering

AudioCodes (Nasdaq:AUDC; TASE:AUDC) announced that it had raised \$100 million in an issue of convertible bonds to institutions.

Merrill Lynch and Lehman Brothers managed the issue. CIBC was co-manager.

The notes will be convertible at the option of the holders into AudioCodes' ordinary shares at an initial conversion rate of 53.4474 ordinary shares per \$1,000 principal amount of notes. AudioCodes may redeem all or a portion of the notes at any time on or after November 9, 2009. AudioCodes said it intended to use the net proceeds from the offering for general corporate purposes, including acquisitions.

Sources close to the offering said the deal was closed within two hours of the first calls to investors, even though this was AudioCodes' first bond issue and the investors that took part had no previous knowledge of the company. AudioCodes will have been helped by the good results it published for the third quarter, and by its recently announced OEM agreement with 3Com.

Israeli is Developing Airborne Car

The Hebrew daily Yediot Aharonot reported that Dr. Raffi Yoeli established his Urban Aerodynamics company with the express purpose of creating his conceived aircraft. His invention, the X-Hawk, can take off and land vertically, but, unlike a helicopter, the X-Hawk does not have external propellers – which constitute the chief obstacle to close-proximity landing and hovering. The X-Hawk incorporates the propellers into the body of the aircraft.

Another feature of the innovative aircraft is that the X-Hawk has no wings. This, together with the lack of exposed propellers will enable the X-Hawk to get close to the windows of skyscrapers and fly low in populated areas without endangering either passengers of bystanders. It's appearance is that of a car.

The X-Hawk is causing excitement in law enforcement and rescue forces circles as it promises to revolutionize



many existing methods. Some of the future prospects include enabling rescue from high-rise buildings and aerial police pursuit of ground targets. The X-Hawk is expected to be able to achieve a maximum speed of 125 mph and fly for up to an hour and a half non-stop.

The full-sized prototype is scheduled to be built in 2005, at which time Urban Aerodynamics will seek a license from the American Federal Aviation Administration. Officials at the company hope that in a few years the construction work on the plane will be completed, at which point it will be put to use. Urban Aerodynamics has built just one prototype of the new aircraft thus far, and it has completed several manned test-flights successfully.

Israeli Scientist Named Research Leader in Nanotechnology

Prof. Ehud Shapiro of the Weizmann Institute of Science in Rehovot, Israel, has been named Research Leader in the field of Nanotechnology and Molecular Electronics within the 2004 "Scientific American 50", for his work on DNA-based computing machines. The magazine's annual list recognizes outstanding acts of leadership in science and technology.

Prof. Shapiro has received this recognition for the creation of biomolecular computing devices. So small that more than a trillion fit into one drop of water, these devices are made entirely of DNA and other biological molecules.

A recent version was programmed by Shapiro and his research team to identify signs of specific cancers in a test tube, to diagnose the type of cancer and to release drug molecules in response. Though cancer-detecting computers are still in the very early stages, and can thus far only function in test tubes,

Shapiro and his research team envision future biomolecular devices that may be injected directly into the human body to detect and prevent or cure disease.

Recently, Prof. Shapiro received the 2004 World Technology Award for Biotechnology and his PhD student Yaakov Benenson received a 100 Top Young Innovators Award from MIT's Technology Review Magazine.

Telecom Israel 2004 IDF's Cellular Encryption Steals the Show

Telecom Israel 2004 is a bi-annual conference attended by the leading telecommunications companies and experts in the field from all over the world. Eric Benhamou of 3Com, Niel Ransom of Alcatel, Anthony Maher of Alvarion and Sam Arditi of Intel, were among many leading experts in the field of Telecommunication, gave plenary lectures at the TELECOM ISRAEL 2004 who. Major companies like Yahoo, Nortel Systems, AOL, France Telecom, Siemens, Telia Sonero, Cisco, Cegetel SFR, Huawei, Singtel, Motorola and DoCoMo participated in the event.

Telecommunications is one of Israel's major export sectors. In 2003 the Israeli export market for telecommunication equipment was \$3.2 billion. It is expected to rise by nearly 20% in 2004.

This year's conference was well attended with foreign visitors very much in evidence.

IHTIR sought out innovative products and systems and found one at the Israel Defense Force (IDF) pavilion. The pavilion covered several thousand square meters and focused the "network-linked IDF" – based on an innovative project to bring about interconnectivity between the land, air, and navy forces within the IDF. The goal is to have all these IDF forces function jointly as one unit.

In June 2004 Motorola Israel Ltd, reported that it began field trials for a secure mobile phone system allowing Israeli army commanders to contact officers in the field anytime, anywhere.

The system allows the secure transmission of voice and data running at a speed consistent with intermediate 2.5-generation mobile technology.

Field commanders under fire will no longer have to dash to a secure mobile telecommunications unit as they will have terminals sewn into their battle vests to allow communication with senior commanders.

The Israeli army's Signals Corp has embedded its top-secret encryption and information security software into Motorola's technology which is suited to the TETRA system.

The TETRA (Terrestrial Trunked Radio Access) cellular network is the European standard for commercial dis-

patch systems and has been adapted by many public safety organizations. An IDF officer confirmed to IHTIR that the army had spent \$100m. in developing the encryption logarithm, which is at the heart of the system. "The development program lasted three years. We obtained the mobile cellular phones from Motorola Israel, which has partnered in the development, and we programmed the encryption logarithm. Presently we have it functioning at 300 points in Israel," stated the officer. The new cellular system also provides data communication, with end users equipped to receive data on rugged palm computers supplied by Tadiran Communications. The computers will be allocated to commanders of combat units and will enable the transfer of text and pictures during military operations. This capability will allow the transmission of pictures and data captured by UAVs.

Mordechai Biran, Program Manager at Motorola Israel confirmed the firm's participation in what has been named as the Mountain Rose Project. Neither the IDF nor Motorola has confirmed that the latter is negotiating to supply a similar system to a foreign armed force,

The cellular devices will be used for secure telephone communication and will also offer "push to talk" capabilities and a GPS satellite location system.

Genoa Color Technologies wins Popular Science Award

Genoa Color Technologies, a four-year old Israeli start-up, won the Grand Award in the Home Entertainment category of Popular Science magazine's 2004 Best Of What's New competition.

The winning technology is the company's ColorPeak Multi-Primary Color, a television display system that substantially enhances the TV viewing experience by nearly doubling the color capability and brightness of TV displays.

ColorPeak is a radical departure from the RGB (red, green and blue) television display technology that has been the industry standard for more than 50 years. It adds one to three primary colors to expand a television set's coverage of the visible color gamut from 55% to 95% and increase its brightness by as much as 40%.

The result is a picture that, with its truer, more vibrant color and brighter image, looks more like cinema than video.

"It is a great honor for Genoa Color Technologies to have ColorPeak selected by the editors of Popular Science as Home Entertainment's top new technology," said Ilan Ben-David, Genoa's founder and CEO. "Their recognition affirms our belief that ColorPeak will transform the television industry."

Many industry professionals call its technology a breakthrough. "Genoa Color has revolutionized the industry with this breakthrough," said Ron Mintz, owner of The Listening Room in Scarsdale, New York, which specializes in home theater installations. "In a showroom setting where every set is tuned to the same movie or program, it will be difficult for the picture quality of RGB TVs to compete against that of Genoa-enhanced sets."

Genoa has over 40 patents pending that apply to the concepts, processes, algorithms and implementation of its ColorPeak technology.

Each year, the editors of Popular Science review thousands of products in search of the top 100 technology innovations of the year, breakthrough products and technologies that represent a significant leap in their categories.

To date Genoa Color, established in 2000, has raised \$10 million from investors including the PNV fund.

Phonetic Systems sets \$80m. Price

Startup Phonetic Systems is negotiating to be acquired by a publicly traded U.S. company for \$80 million. The Israeli firm, which makes voice recognition systems, says most of the compensation would be in cash.

The startup's business has been picking up, having recently won five North American contracts to automate directory services. The contracts are expected to raise Phonetic Systems' revenue in 2005 to about \$12 million.

Phonetic Systems improves upon the semi-automated system, such as that on Bezeq's 144 inquiry services: a human operator hears your request, searches for the number and if found, transfers your call to the computer, which reads the number to the caller.

Petah Tikva-based Phonetic Systems has developed voice recognition technology to facilitate information retrieval from data systems. A caller can call a center,

say the name and address he wants and the system will find it without human intervention.

The technology can also render switchboard operators at big companies obsolete once and for all.

Phonetic Systems' technology can handle databases with up to 6 million entries, while rival technology by the likes of IBM, SpeechWorks and ScanSoft can only handle up to 8,000 entries. The company, established in 1994, has raised \$48 million from General Electric, the Finnish phone company Sonera and venture capital funds including Pitango, Formula Ventures, Magnum, Evergreen, and Sadot R&D.

Ormat Closes IPO at \$500 million

Ormat Technologies, which completed its initial public offering on Wall Street last week at a company value of over \$500m., is not your typical Israeli offering in New York.

The Bronickis, a husband and wife team, founded the company in 1965, along with other investors who left over the years. Its original business was to produce electrical turbines for power generation. Today, its main operations are to initiate, establish and operate geothermal power stations around the world.

Ormat Industries (TASE: ORMT) completed the pricing phase of its subsidiary, Ormat Technologies (NYSE: ORA), on the New York Stock Exchange. The initial public offering raised \$93.8 million, after the company's shares priced at the bottom of the expected price range.

The Sparks, Nevada-based company's IPO priced 6.25 million shares at \$15 per share, the underwriter said. Ormat had filed for an offering in a price range of \$15 to \$17 per share.

Ormat took over its parent company's activities in developing geothermal and recovered-energy power plants. Its operations span the whole globe, with current operations in the United States, Israel, Guatemala, Kenya, Nicaragua and the Philippines. The parent company also has extensive operations in New Zealand, due to that country's vast geothermal fields.

The company plans to use proceeds from the offering for general corporate purposes and for potential investments or acquisitions.

According to its regulatory filing, the deal's underwriters have the option to purchase an additional 937,500 shares to cover over-allotments. Lehman Brothers

acted as the sole book-running manager of the offering. Deutsche Bank Securities acted as the joint lead manager and RBC Capital Markets Corporation and Wells Fargo Securities served as co-managers.

Ormat has been restructuring as a holding company, while shifting its operations to the subsidiary Ormat Technologies.

Retail Posts Record Revenues of \$33.9m.

Retail Ltd. (Nasdaq:RTLX - News), a provider of integrated enterprise-wide software solutions for the retail food and fuel industries worldwide, including supermarkets, convenience stores and fuel stations, announced its operating results for the third quarter ended September 30th, 2004.

Revenues for the quarter were \$33.9 million, an increase of 39.8% from \$24.3 million in the third quarter of 2003, and up 18% from \$28.7 million reported in the second quarter of 2004. The company reported net income for the quarter of \$1.8 million, or 10 cents per diluted share, compared to a net income of \$2.1 million, or 16 cents per diluted share, in the third quarter of 2003. Net income reflects the intensive investment in developing the next generation of supply chain management applications and their integration with the company's suite of products -- a process the company committed to and announced as part of the OMI acquisition.

Israeli Companies on Wall Street

Pinpointing winners

The Israel High-Tech & Investment Report has chosen a number of Israeli companies that we felt merited to be followed. We never touted the shares of these companies but from time to time suggested that they represented excellent value.

Agis Pharmaceutical

At the outset of 2003 we pinpointed Agis Pharmaceuticals (TASE:AGIS) as our choice for best performer for the year. A year later they had appreciated by 160%. Michigan-based pharmaceutical manufacturer, the world's largest maker of store-branded over-the-counter drugs, in November, signed a deal to acquire Agis Industries in a stock-and-cash deal valued at about

\$818 million. The transaction marks one of the largest buyouts in history on the Israeli capital market.

Israeli Companies on Wall Street

AudioCodes

For those of you with more venturesome inclinations, AudioCodes (Nasdaq:AUDC) a rapidly expanding specialist in the transmission of voice, data and fax over packet networks may be an interesting speculation. Packet networks are data communications networks that transport information compressed into packets over circuits shared simultaneously by several users. Since January 2003 until mid November 2004 +435%.

Retalix

Retalix Ltd. (Nasdaq:RTLX), a provider of integrated enterprise-wide software solutions for the retail food and fuel industries worldwide, including supermarkets, convenience stores and fuel stations

Retalix since January 2003 until mid-November 2004 + 106%.

We continue to believe that the shares of the above mentioned companies will continue to be strong performers and will considerably outperform the markets where they are traded.

Crucell to Produce West Nile Virus Vaccine

Dutch biotechnology company Crucell N.V. (Euronext: CRXL) (Nasdaq:CRXL) and the Netherlands Vaccine Institute (NVI) has announced that they have signed an agreement to manufacture West Nile virus vaccine for use in human clinical trials at NVI's new BSL-3 (Biosafety Level 3) plant.

Her Majesty Queen Beatrix of the Netherlands officially opened the plant earlier today. In June 2003, Crucell announced its decision to develop a West Nile virus vaccine for use in humans based on the company's PER.C6(R) technology.

To date, Crucell has successfully developed the vaccine production process, has concluded extensive animal studies in geese, and has produced West Nile virus veterinary vaccine. This work was carried out in collaboration with Israeli Kimron Veterinary Institute. Market authorization in Israel of a veterinary vaccine

for use in geese was granted in June 2004.

Removing Rust from the Brain

Researchers at the Technion-Israel Institute of Technology have developed three drugs to remove excess iron from the brains of patients with neurodegenerative diseases. The presence of too much iron in the brain is a hallmark of such diseases. The drugs, VK-28, HLA-20 and M30, mop up the iron before it can trigger a "brain rust" chemical reaction where highly active oxygen particles destroy brain cells.

Professor Moussa Youdim of the Faculty of Medicine and his colleagues – Prof. Avraham Warshawsky Prof. Mati Fridkin and Ph.D. student Hailin Zheng from China – have received U.S. and worldwide patents on VK-28, HLA-20 and M30. Youdim says the three drugs could treat and perhaps prevent a range of diseases including Parkinson's, Alzheimer's, Huntington's and amyotrophic lateral sclerosis (ALS).

Unlike other drugs currently used against these disorders – which attempt to replace the functions lost by dying neurons – these drugs halt the neuron destruction itself.

Prof. Youdim also discovered and co-developed Rasagiline, a drug that boosts levels of a brain chemical called dopamine that is normally depleted in Parkinson's patients; and Ladostigil, which boosts levels of acetylcholine in Alzheimer's patients.

Rasagiline has received a letter of approval from the FDA, while Ladostigil is currently in the clinical trials phase.

Looking Backwards

Looking over the past few years we can point to a number of highlights. We recently reached 50,000 clicks a month on our Israel High-Tech & Investment Report website (<http://ishitech.co.il>). Pinpointing new and exciting companies is one of our goals. We were the first to write about CByond's -- CMOS Imaging Technology: Miniaturized Cameras with "See through Blood Capability" and "3Dimensional Stereoscopic Display". We undertook to serve as financial consultants to the company and two months ago a leading American concern bought out Cbyond, now known as C2Cure. Some other exciting stories included Spinal Robots, interview with Prof. Ruth Arnon, the co-discoverer of Copaxone, continuous coverage of Israel's

involvement in human cell research, our hand at stock picking in the form of a Model Portfolio that scored a 168% gain between January 199 and May 2000., Israel' Nobel Prize winners, the tragic crash of the Columbia Shuttle that carried Ilan Ramon, an Israeli astronaut.

Hadassah Hebrew University to Create Biotech Park

Hadassah Medical Center is going to create a biotech park in partnership with the Hebrew University in the grounds of Hadassah Ein Kerem.

The park will function as a greenhouse for life sciences startups. Hadassah and the Hebrew University have started an equal partnership company called UNIHAD to start the venture. In the first stage the park will spread over 9000 meters and have five stories of offices and laboratories built on it, with three stories of parking spread over 4000 meters. This space could provide facilities for between 20 and 25 startups.

Both Hadassah and the Hebrew University generate many startups, and the park can be a home for them," said Doctor Rafi Hofstein, managing director of Hadasit Medical Research Services, the Hadassah application company. "The park will be a biotechnological equivalent of our science park in Malcha. I see it as only natural for the company Bioline, which Hadasit invests in, to find a place in the park and take advantage of the wide range of molecular research which will take place in the park."

The park will be built at an investment of \$12 million, of which a grant of \$2 million has been approved by the investment center of the Ministry of Industry, Trade and Labor. Hofstein also added that a future expansion of the park by 70,000 meters is planned to meet demand from the startups.

The companies in the park will be assisted by a research infrastructure provided by Hadassah Ein Kerem Medical Center and the School of Medicine of the Hebrew University.

Letter from a Subscriber

I received your November issue today and the lead story on Teva was a good refresher course for me on why I work with Israeli companies. I share your view that Teva is a model of success because its founders sought to fill a critical need rather than merely cash out at the first opportunity.

I advise entrepreneurs on the commercialization of new technologies because I believe innovation will improve our lives. Israel has been blessed with visionary entrepreneurs. Although few Israeli entrepreneurs will admit it, I know that, for many, their vision derives from the desire to improve the world in which we live.

Best regards to you,

Gary

Gary L. Benton
Coudert Brothers LLP
Palo Alto



Collaboration With Scientists at Tel-Aviv U.

Golden Hand Resources Inc. (OTC Bulletin Board: GDNH), an emerging company in the cell therapy space, has announced the payment of an initial License Fee and R&D installment to Ramot, the technology transfer arm of Tel Aviv University, pursuant to their Research and Licensing Agreement to collaborate on the development of cutting-edge technology

for differentiation of bone marrow derived stem cells into functional neuronal-like cells.

To lead the new venture, Golden Hands Resources has named Dr. Yaffa Beck as its President and Chief Executive Officer. Dr. Beck has over 22 years experience in the Israeli biotechnology industry and brings extensive management experience, including financing, operations, business development, pre-clinical and clinical development.

Golden Hand's NurOwn technology is based on collaboration between prominent neurologist, Prof. Eldad Melamed, Head of Neurology at Rabin Medical Center, and expert cell biologist Dr. Daniel Offen, at the Felsenstein Medical Research Center of Tel-Aviv University. The proprietary technology, to which Golden Hand has an exclusive license, involves induction of bone marrow stromal cells to differentiate into neural cells, capable of neurotransmitter release.

"We believe that the ability of these cells to reverse Parkinsonian behaviour upon transplantation into brains of animal models may translate into an effective therapy for Parkinson patients," said Prof. Melamed.

About Parkinson's Disease

Parkinson's Disease (PD), which was first described by James Parkinson in 1817 as "the shaking palsy", is a chronic, progressive neurodegenerative disorder, affecting the brain cells responsible for production of dopamine. The symptoms include tremors, rigidity, slowness of movement and impaired balance. Over four million people in the developed world, including as many as 1.5 million Americans, mainly over the age of 65, are diagnosed with PD. That figure is predicted to rise by 10% by 2010. Pharmaceutical treatments of PD with an estimated combined annual market value of \$4 billion, are insufficient to meet patient needs. The search for more effective treatments continues.

About Stem Cell Therapy

Stem cells are non-specialized cells with a remarkable potential for both self-renewal and differentiation into cell types with a specialized function, such as muscle, blood or brain cells. Stem cells may be sourced from fetal or embryonic tissue or from adult tissue reservoirs such as bone marrow. Use of embryonic stem cells, has become the center of significant ethical and moral debate. In contrast, use of adult stem cells does not face the same moral or legal controversy. Stem cell therapy aims to "cure" disease by replacing the 'diseased' cells with 'healthy' cells derived from stem cells. This approach has the potential to revolutionize medicine and, if successful, the implied commercial opportunities are great. Currently, both embryonic stem cells (ESC) and adult stem cells (ASC) are being explored as the potential basis for multiple cell therapy products.

Procognia raises \$23.5 million

Procognia, which develops and manufactures analytical devices for use by drug manufacturers, has raised \$23.5 million. Apex Partners Fund led the round with an investment of some \$10 million.

Procognia has developed unique technology to create "protein chips", which can imitate the biological function of the original glyco-proteins located in the human body. The technology helps analyze disease-related procedures at the molecular protein level, and can potentially help facilitate the development of new drugs.

Two years ago, Procognia purchased British biotechnology company Sense Proteomic, which is developing technology to analyze the biological function of proteins using chips.

Procognia expects to shortly market its first product, which will bear different configurations of a key protein in the development of cancer, namely P53. Recently, Procognia announced an alliance with the biotechnology firm, Sigma Aldrich, to commercialize the Israeli company's protein chip technology.

Procognia, established in 2000 under the name Glyco-data, is headquartered in the United Kingdom and has R&D facilities in Ashdod, Israel.

ScanSoft buys ART and Phonetic Systems

The American company ScanSoft has announced its acquisition of Phonetic Systems and ART. Phonetic develops recognition solutions for voice access to information. The main application of the technology is automatic service centers and telephone information systems, such as telephone number inquiries..

Under the terms of the agreement, ScanSoft will buy Phonetic, which employs 65 people, based on a market value of \$80 million. Its backers have invested \$50 million.

"ScanSoft's global reach, solutions expertise and reputation for stable and reliable operations are exactly what Phonetic Systems needs to take our solutions to the next level," said Phonetic chairman Yahal Zilka.

ScanSoft will pay \$21.5 million for Israeli ART Advanced Recognition Technologies.

ART develops voice recognition and writing systems for cellular phones and palm top computers as well as embedded speech and handwriting interfaces for mass-market wireless mobile devices.

With the acquisitions, the 100 or so workers between the two start-ups will join ScanSoft's 800-strong workforce.

Awards for Israeli Companies

Two Israeli companies have won Wall Street Journal 2004 Technology Innovation Awards, taking second and third place out of 120 semifinalists. Yokneam-based Given Imaging received the Wall Street Journal's silver medal overall - and first place in the medical technology category - for its patient-friendly, naturally ingested PillCam video capsule.

The PillCam is used for visualizing the gastrointestinal tract. The InSightec company, headquartered near Haifa, received the Wall Street Journal's bronze medal award for its ExAblate 2000. Newly approved by the

FDA, the ExAblate 2000 combines MRI with focused ultrasound for non-invasive surgery.

In the financial services industry, Fundtech has been ranked among the top 100 global technology and service providers. The company was listed 59th in the first annual FinTech 100 rankings, jointly developed by American Banker, Thomson Media's flagship publication for banking and financial services professionals, and Financial Insights, an independent research services firm. Headquartered in Ramat Gan and New Jersey, Fundtech products have reduced bank operating costs through innovative software solutions and services that facilitate payments, settlement and cash management.



Taiwanese Fund in Alliance with Giza VC

The Taiwanese government's Development Fund has formed a groundbreaking strategic alliance with Israeli firm Giza Venture Capital and agreed to invest in the VC's latest fund. The relationship highlights the growing importance of Asian markets to the international venture community and the efforts of

some groups to establish footholds in the region.

The alliance is designed to provide the Israeli VC and its portfolio companies with access to Taiwanese manufacturing facilities, at the same time as exposing Taiwanese businesses to cutting edge technologies and venture capital best practices.

Yi-Fu Lin, the chairman of the Development Fund, said: 'This is a perfect match-up of Israel's experience in S&T innovation and R&D with Taiwan's manufacturing prowess. In the long-term, it will certainly be helpful to tapping the mutual complementarities of our two countries' competitive strengths and creating more opportunities for industrial cooperation.'

The Development Fund has agreed to invest more than \$10m into Giza IV, the group's present fund. Some of this money will subsequently be invested into Taiwanese technology. Other Israeli groups have subsequently applied for investment from the Fund, signalling the likelihood that the relationship between

the two countries deepens further in coming months.

SuperCom Raises \$3.5m

SuperCom has raised \$3.5 million in a private placement of shares.

Ra'anana-based SuperCom, which develops touch-free smart cards, is preparing for a Nasdaq offering. It recently received the U.S. Securities and Exchange Commission nod for its prospectus, and is waiting to be accepted by Nasdaq, where it would appear on the bulletin board of small companies. SuperCom stock is already traded in Brussels under the ticker symbol SUP. Since announcing that it won a U.S. tender to use its technology in American passports, its stock has risen sharply from 98 cents to \$1.5 per share. The project involves processing for about 50 million passports, over five years.

IPO GuruNet Raises \$11.75m. on Amex

GuruNet, which provides integrated online reference information on the Internet, has raised \$11.75 million by selling 2,350,000 shares at an initial public offering price of \$5.00 per share. The shares are trading on the American Stock Exchange under the symbol GRU.

Guruset was founded by Robert Rosenschein, who is chairman and CEO of the company. It has offices in Wesley, New York, and in the Jerusalem Technology Park.



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