

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
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Now is a Good Time to “Buy”

Over the years we have been reluctant to advise, promote or recommend specific companies suitable for investment, yet this is one of the roles of a newsletter.

We have ample experience in the local stock market and listen carefully to the opinions of local analysts. We don't doubt that foreign investment banking firms may have superior analyst abilities. However, their direct contacts with the managements of local companies are minimal. The local analyst may find that he knows several heads of companies as they are his buddies in his reserve unit. The local grapevine is an invaluable supply of information. Some even went to school together.

The local daily press, available in English, is a good source of information. The daily newspapers have Internet web sites that publish the most important news that appears in the printed newspaper.

We believe that now is a good time to invest in Israel and would like to review various avenues open to the investor.

The Tel-Aviv Stock Exchange has several hundred securities listed for trading. The Exchange has a web site (<http://www.tase.co.il>); prices are posted daily and in near real time. We favor companies whose activities are international and whose products are internationally recognized.

Most Israel interested investors have heard off Check Point, Converse and Teva but how many know about Aladdin? Aladdin Knowledge Systems Ltd. (Nasdaq: ALDN) is recognized as the worldwide leader in Software Digital Rights Management (DRM) and USB-based authentication solutions. The company, is an innovator in enterprise secure content management (Enterprise Security). Its shares are traded on Nasdaq and the company has just reported record quarterly earnings of \$3.59 million for the second quarter. This

represents a 73.4 percent growth year-over-year and revenues of \$20.06 million, representing 21.4 percent growth year-over-year.

AudioCodes Ltd. (AUDC:Nasdaq) whose shares are traded on Nasdaq, designs, develops, and markets enabling technologies and system products for the transmission of voice, data, and fax over packet networks. The company's products are unique and its sales are growing as the Voice over the Internet. However, it should be kept in mind that AudioCodes

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Topical Drug Delivery Gel Awarded Patent
SuperCom gets \$500,000 passport contract
Largest Desalination Plant Opens in Ashkelon

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sales are only at the \$100m. level and profits are under 3%. The shares are favorably priced at \$10 and appear to have good support at that level and upside potential. In the second quarter revenues increase to \$28.5 Million, Up 6% Sequentially and 49% year-over-year. Net Income was \$3.1m, or \$0.07 per share.

Ormat Technologies, Inc. (NYSE:ORA) is a vertically integrated company primarily engaged in the geothermal and recovered energy power business. It designs, develops, builds, owns and operates geothermal power plants.

Additionally, the company designs, manufactures and sells geothermal and recovered energy power units and provides related services. More than 70 patents cover Ormat products and systems. Ormat currently has operations in the United States, Israel, the Philippines, Guatemala, Kenya, and Nicaragua. The company was founded by the Bronickis, husband and wife, and has been managed by them since its inception in 1965.

NICE-Systems Ltd. (Nasdaq: NICE; TASE:NICE) is a vehicle that enables the investor to participate in the burgeoning security industry.

NICE Systems (NASDAQ: NICE) headquartered in Ra'anana, Israel, is a leader of multimedia digital recording solutions, applications and related professional services for business interaction management. NICE products and solutions are used in contact centers, trading floors, air traffic control (ATC) sites, CCTV (closed circuit television) security installations and government markets.

NICE's subsidiaries and local offices are based in the United States, Germany, United Kingdom, France and Hong Kong. The company operates in more than 100 countries through a network of partners and distributors.

Other interesting companies, worthy of investment consideration include CheckPoint (CHKP:Nasdaq) leader in computer protection software, Comverse (CMVT:Nasdaq) messaging, Teva Pharmaceuticals (TEVA:Nasdaq), world's largest generic drug manufacturer and Retalix (RTLX:Nasdaq) computerization at the check out counter.

None of the companies described above are "cheap". Most have p/e ratios of more than 30. However, they are active in highly exciting technology fields.

We were not able to pinpoint neither any biotechnology companies nor those in the medical instrumentation

field. Most of the participants in these industries are young companies that have as yet to prove their investment worthiness.

For investors who are prepared to undertake the risks in private equity there are venture capital funds that are prepared to accept investments of \$100,000 or more. However, for the greater part, and partially due to the dot.com debacle these have not, for the greater part, outstanding track records.

We believe that a portfolio of the above-described companies would yield above average results.

Oracle to Open Technology Center in Israel

Oracle President Safra Catz and Israeli Chief Scientist

Dr. Eli Opper recently signed a cooperation agreement to

establish a center for technological excellence for Israeli start-ups. The agreement is part of a plan by the Office of the Chief Scientist in the Ministry of Industry, Trade, and Labor for industrial R&D cooperation with multinational companies.

The agreement is aimed to increase support for start-ups and software solutions producers through

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cooperation between the state and Oracle (Nasdaq: ORCL). The new technological excellence center will make available assistance in technology and provide access to scientific and research infrastructure. Joint projects by Israeli companies and Oracle in this framework that meet criteria set by the Chief Scientist will be eligible for partial financing of R&D costs.

Alon USA raises \$163.2m in IPO

Alon USA Energy Inc., issued 10.2 million shares at \$16 per share in the first stage of its Initial Public Offering on the New York Stock Exchange. The market cap of the company at that share price is about \$696 million. The company's shares trade under the symbol ALJ and began trading at nearly a 10% premium over the issue price. Dallas-based Alon USA is a subsidiary of Alon Oil Company Ltd. Alon USA has 1,415 employees. It operates 1,700 gas stations under the FINA brand, mainly in the Southwest, and 167 convenience stores in western Texas and New Mexico under the 7Eleven brand.



Teva to Buy Ivax for \$7.4b.

Teva Pharmaceutical Industries Ltd., has concluded a deal to buy Ivax Corp., (IVX:Nasdaq) its biggest U.S. rival, for \$7.4 billion in cash and shares. The deal will restore Teva's No. 1 position in the market for generic medicines. The purchase will be the largest ever by an Israeli company, surpassing Teva's \$3.1 billion purchase of the American Sicor Inc. in January 2004. Teva, with a market value \$19.4 billion, is Israel's largest company by market value.



Connecting Palestinian and Israeli Youth

This summer a group of 60 Palestinian and Israeli youth participated in a five-week rigorous computer summer program, taught by students from the Massachusetts Institute of Technology. The camp took place at the Hebrew University in Jerusalem, and provided an opportunity for the teenagers, to break misconceptions. The program, named

MEET (Middle East Education Through Technology) involves connecting an even number of Palestinian and Israeli teenagers, including six students from Bethlehem. The program's curriculum, consisted of Java programming, problem solving, entrepreneurship and leadership skills, was planned and taught by a group of MIT students and professionals, in English. At the end of the course, the students divide into groups and continue meeting throughout the school year as they work on developing programming projects they started in the course.

SightLine Raises \$10m.



Israeli start-up SightLine Technologies Ltd. recently completed a \$10 million financing round. NGN Capital, an American venture capital fund, along with SightLine's existing investors, participated in the round. SightLine, which was founded in 1994 at the

Matam incubator in Haifa, has raised \$16.5 million to date.

Last year, the US Food and Drug Administration (FDA) approved for production and marketing the company's flagship product, ColonoSight, a colonoscope. Unlike other products on the market, ColonoSight does not use fiber optics for colonoscopy, but an integrated LED light source and miniature video camera.

SightLine's two other products, ProctoSight and RectoSight, have both obtained FDA and EU-CE Mark approval, and are sold in the US, Europe, and the Far East.

SightLine's fourth product, ThimbleCam, is a miniature patented fingertip-mounted video camera for diagnostic or surgical endoscopic procedures. The camera, which has an integrated LED light source, enables doctors to see any place in the body reachable by the finger. It is designed for gynaecologists and proctologists. ThimbleCam has CE Mark approval.

The funds raised, will be applied towards bringing the company from the product development stage to marketing and sales.

Tescom floats on AIM

Quality control and software testing service provider Tescom Software Testing Systems Ltd (TASE: TSCM)



announced that its ordinary shares began trading on the London Stock Exchange Alternative Investment

Market (AIM). The company's ticker is "TSCM". The company has operations in Israel, the UK, the US, France, Singapore and Australia and reported profits before tax of \$3.04 million on revenues of \$45.76 million in the year ended 31 December 2004. In the three months ended March 31, 2005 the Tescom group reported unaudited profits before tax of \$1.04 million. The company issued 15,943,099 million ordinary shares, giving it an approximate market capitalization of £14.7 million. Teather & Greenwood Limited is the company's nominated adviser and broker.

Activepoint Prepares for Nasdaq

Israeli firm Activepoint is preparing to list its shares on the OTC Bulletin Board (OTCBB), the small company stock listing. Activepoint secured its initial financing from the Ministry of Industry and Trade's chief scientist. The company has developed a search engine rather than seeking specific words looks for the word's meaning in the context of a sentence. The company has obtained patent protection for its search technique. Activepoint has filed a prospectus with the SEC and at the moment is waiting to list on Nasdaq. It expects to win SEC approval for a listing by the end of 2005.



NasVax Aiming at TASE IPO

Israeli start-up NasVax will seek to raise \$10 million on the Tel Aviv Stock Exchange at a company value of \$20 million. The company is developing novel intranasal vaccines.

The company is planning human clinical trials in the fourth quarter of 2005. The first vaccine being developed by the company is a nasal spray against influenza. Intranasal vaccination is designed to replace injections. The company plans to develop other intranasal vaccinations in the future

against anthrax and jaundice. Prof. Yechezkel Barenholz of the Hebrew University - Hadassah Medical School and Dr. Nurit Eyal founded NasVax. Prof. Barenholz is the inventor of Doxil, an anti-cancer drug currently sold by Johnson and Johnson (NYSE: JNJ) and Schering-Plough (NYSE: SGP). Annual sales of Doxil have reached \$500 million.



Broadcom Acquires Siligent

U.S. Broadcom Corporation (Nasdaq:BRCM) announced the acquisition of Israeli start-up, Siligent Technologies, for approximately \$76 million in cash. Privately owned Siligent develops 10 Gigabit Ethernet network interface controllers with advanced Ethernet processing technology for server networking, network storage and clustering applications. Its headquarters are in Mountain View, California and its R&D center is in Tel Aviv.



UltraShape Receives CE Clearance

UltraShape Inc., a developer of non-invasive devices for aesthetic medicine, announced that it has received CE clearance for its first product, the Contour I, for non-invasive long-term body contouring. Ultrashape intends to start selling its product in Europe, Asia and the Pacific region immediately, followed by a formal market launch in the fall. Distribution agreements in several countries were already signed and

initial purchase orders for several millions dollar have been received. The UltraShape technology is based on focused ultrasound, which is claimed to selectively destruct fat cells without damaging any other tissue. The device can be used in an office environment by a trained technician under the supervision of a physician, guided by a state-of-the-art, real-time video-based technology.

The clinical trial used as a basis for the submission to the European regulatory agencies included USA and UK sites in which 66 patients received one treatment. Post treatment average reduction of approximately

2.5 cm in circumference was observed in the study. Overall, more than 300 people have been treated with the device to date, in the USA, UK, Japan and Israel, demonstrating the safety and efficacy of the treatment.

BrainStorm Cell Announces Advance in Adult Stem Cell Technology

BrainStorm Cell Therapeutics (OTCBB:BCLI), announced a breakthrough in the development of adult stem cell therapeutics for neurodegenerative diseases. The company's scientific collaborators at Tel Aviv University, have successfully used adult stem cells to produce glial derived neurotrophic factor (GDNF). GDNF producing cells hold great promise for treatment of Parkinson's and other neurodegenerative diseases.

In the current study, the research team at Tel Aviv University used proprietary technology, to differentiate human bone-marrow-derived mesenchymal-stem cells into neural supporting cells that produce GDNF. BrainStorm holds the worldwide rights to the results of the research,

GDNF has been shown to protect dopaminergic brain cells, neurons that produce dopamine that becomes depleted in Parkinson's patients. GDNF has also been shown to have a beneficial role in protecting neurons in animal models of Amyotrophic Lateral Sclerosis (ALS) and Spinal Cord Injury (SCI).

Living with Salt

Life thrives in all sorts of hostile environments, including the extreme salinity of the Dead Sea. A team of scientists at the Weizman Institute of Science has uncovered a strategy that helps a plant-like, microscopic algae to happily proliferate in such inhospitable surroundings. Their findings have unexpectedly shed light on the working of our own kidneys.

Over the years, a number of Weizmann Institute scientists have addressed the question of how molecules essential to life, such as proteins, have adapted to function in extreme environments. The proteins they investigated were isolated from halophilic (salt-loving) microorganisms from the Dead Sea. After determining the 3-D structures for several halophilic proteins, researchers were able to explain how these proteins not only cope with high salinities, but also are actually "addicted" to them.

However, the alga *Dunaliella salina* is an organism of a different streak: it is able to grow in any salinity, from the

extremes of the Dead Sea to nearly fresh water. The uniquely salt-tolerant *Dunaliella*, which is commercially grown as a source of natural beta-carotene, has been investigated at the Weizman Institute for over 30 years. Yet, the secrets of its exceptionally successful adaptation to salt remained unresolved.

In a recent paper published in the Proceedings of the National Academy of Sciences, USA (PNAS), Institute scientists revealed the structural basis of a remarkably salt-tolerant *Dunaliella* enzyme, a carbonic anhydrase, which may hold the key. Comparisons with known carbon anhydrases from animal sources showed that the *Dunaliella* enzyme shares a basic plan with its distant relatives, but with a few obvious differences. The most striking of these is in the electrical charges on the proteins' surfaces: Charges on the salt-tolerant enzyme are uniformly negative (though not as intensely negative as those in halophilic proteins), while the surfaces of carbonic anhydrases that don't tolerate salt sport a negative/positive/ neutral mix. This and other unique structural features may enable the algal carbonic anhydrase to be active in the presence of salt, though not dependent on it. The researchers hope that the knowledge gleaned from their study of a tiny alga might provide the basis for designing new drugs that could target enzymes based on their salt tolerance.

Merrill Lynch is Leading M&A Bank

The prestigious publication "Euromoney" has chosen Merrill Lynch as the leading bank involved in mergers and acquisitions in Israel in 2005.

Merrill Lynch ranked top in the league table for the period, having advised on three completed deals worth about \$2 billion - equivalent to 35% of the market.

The investment bank firm was involved in the largest ever takeover of a Tel Aviv Stock Exchange listed company, advising Agis Industries on its \$922 million sale to the Perrigo Company.

The bank also advised Elco Holdings (TASE: ELCO) on the \$212 million sale of its subsidiary ElcoBrandt to Fagor.



It also advised the State of Israel in the sale of Bezeq (TASE: BZEQ) to the Apax-Saban-Arkin group for a total of \$972 million.

This was Israel's largest privatization of a government corporation to date.

Retalix to upgrade Tesco stores worldwide

Retalix (Nasdaq:RTLX) has announced that it has signed a deal the British retail giant Tesco to upgrade the store management systems in every branch of the chain. Retalix develops, markets and sells support and management software for points of sale at the levels of shop, storage, supplier and chain stores. The transaction is estimated at \$10 million spread over 4 to 5 years. The company reported record second quarter results with \$4m. profits in sales of \$50m.

InkSure Offers Protection from Forgery

InkSure Technologies Inc. (INKS.OB), is a provider of covert machine-readable security solutions for the prevention of counterfeiting, fraud and diversion involving high profile brands and documents.

The Israeli company has developed a technology, based on ink, to protect documents and products from forgery.

Yaron Meerfeld, who founded InkSure four years ago, says about 5-to-7 percent of all global trade is in forged goods. InkSure's solution is a readable element, which marks the product as an original. InkSure's ink can appear in the stamp on a product, on a bottle's label, or on a hidden element on a bus ticket. Each original bottle is marked with ink, which serves as a type of customs stamp for the authorities, Meerfeld explains.

Another project being pursued with the customs authorities of a western country involves sticking a standard label onto all electronic devices. InkSure comes into the picture at the stage of producing the label, which gets marked with the conducting ink. Electronic readers can identify the product as original. InkSure's 2004 sales stand only at \$1 million. Its net loss is \$2 million. Meerfeld says he expects \$3.5 million in sales this year.

Info on the Go

RaySat was founded by its chairman Yoel Gat, a cofounder and CEO of Gilat Satellite Networks (Nasdaq: GILTF). RaySat's CEO and president is Samer Salameh, previously CEO of the satellite services firm rStar and of Prodigy Online, one of the pioneering Internet Service Providers.



In July 2005, the company raised \$27 million with Apax Partners and existing investors. RaySat was restructured in early

2004, when the company changed its name and then raised \$10 million from Benchmark Capital and Israel Seed Ventures.

RaySat has developed a two-inch receiver a flat antenna that receives satellite television broadcasts and provides Internet access from a vehicle -- a car, RV, train, or airplane. For the hardware, consumers can expect to pay \$2,000 for TV reception and an additional \$1,500 for Internet connectivity. Users who already have satellite TV service in the home will pay only a modest sum to add mobile service

The market for vehicles equipped with "backseat" entertainment is expected to reach 18 million units by 2008, according to a report by Frost & Sullivan. and management believes that RaySat could capture a significant slice of that market.

Internet Use Grows by 26%

In Israel the Internet is used most frequently to seek information. 95% of participants, in a recent survey, said seeking information about recreation, travel, financial data, and sports data was their primary use of the Internet. E-mail is the second most frequent use, followed by news, downloading content and files,]chat rooms and instant messaging. Games are the sixth most popular use. Conducting banking and financial transactions is seventh. Online banking has greatly increased since last year.

The survey reveals that 41% of Internet users reported that they regularly or frequently buying and/or ordering goods or services online. 43% reported making an online purchase and/or order in the 12 months preceding the survey, compared with 40% in the 12-month period preceding the May 2004 survey.

NICE to Supply Video Security to Singapore's Changi Airport



NICE Systems (Nasdaq: NICE; TASE: NICE) announced that, together with Tyco Fire & Security - Singapore, it has won the Changi Airport tender for new terminal security measures. The new terminal expects an added capacity of 20 million passengers

annually.

Changi Airport in Singapore is served by 74 airlines, connecting Singapore to 170 cities across 53 countries. The airport is the second largest in Asia Pacific. When it will be opened in 2006, Terminal 3 will expand the airport's annual capacity by 20 million passengers to 64 million.

Changi will apply NICE's capabilities for simultaneous advanced video content analytics on a great number of cameras, to give its site managers the power to identify risk in real time, make optimal decisions, and take action that improves security efficiency.

NICE will provide real-time threat detection including the identification of unattended luggage. The system flags unmanned luggage and enables security personnel to easily retrace the steps of suspicious individuals, to verify whether the event indeed constitutes a real security risk.



BIRD Approves New Investments of \$8m.

The Israel-U.S. Bi-national Industrial Research and Development (BIRD) Foundation has approved investments of approximately \$8 million in nine new projects with a total budget of more than \$18 million.

These investments are in addition to the \$210 million invested by the

Fund in over 670 projects that have generated direct and indirect sales of over \$7 billion.

Among the nine projects in which BIRD is investing, there are two medical device projects: in medical imaging and the non-invasive tracking of cardiac blood flow.

In the homeland security field, BIRD is investing in two projects: a control management system for airports, and a system for identification of explosives in piping.

OphthoCare Eyeglasses for “Lazy Eye” Syndrome

Israeli company OphthoCare has obtained FDA approval to market in the US its electronic eyeglasses, for treating lazy eye syndrome (amblyopia) in children, the most common cause of visual impairment during childhood.

The Liquid Crystal Glasses (LCG) comprise of an electronic shutter that is incorporated into the optical refractive lens. It is controlled by a pre-programmed

microchip and activated over the sound eye in short intervals. These CLOSE - OPEN sessions exercise the weak eye and force its use.

Exercising of the weak eye is performed all day long while the glasses are worn. It strengthens the amblyopic eye, improves the visual acuity and enhances binocular vision as well.

The fact that the sound eye is occluded for short periods only makes it very convenient to the child and easily adopted by him.

Exercise modality is adjustable via software and actual exercise time is recorded automatically in the microchip providing feedback to a “compliance unit” and presenting it to child and parents. This information is also valuable to the ophthalmologist and is an important part for further treatment prescription.

Israeli Fish Farm succeeds in Producing Caviar



Galilee Caviar, a subsidiary of Dan Fish Farms in Kibbutz Dan in the Upper Galilee, Israel, is producing caviar from sturgeon roe. The first 20 kg of caviar produced by Galilee Caviar was sent to several leading chefs in Europe, who proclaimed the Israeli-made caviar was of top

quality. Plans are now afoot to produce 100 kg of caviar by the end of this year, and during the first stage, to produce 4000 kg of caviar a year, to be sold at \$500 per kg, expecting annual revenues to reach \$2m.

The product, intended for export, has been developed with the support of the chief scientist at the Ministry of Agriculture, Professor Dan Levanon, following extensive research costing US\$1.33m.

Sturgeon, which mainly live in the Black Sea and the Caspian Sea, produce roe when reaching maturity at the age of 14. The Israeli research project led to a method to bring maturity forward to seven years. Since sturgeon do not naturally exist in Israel, Galilee Caviar imported sturgeons from Russia and raised them in special fish farms at Kibbutz Dan. “The research began about 11 years ago with the idea to find a way to grow sturgeon artificially in fish ponds,” according to Levanon. He explained that historically, almost all of the caviar originates from sturgeon caught in the Caspian Sea close to the former USSR and Iran. “Since the break up of the USSR, the hazards of over

fishing, habitat loss and pollution, there has been a dramatic decline in sturgeon population in the Caspian Sea, resulting in diminishing production of caviar,” Levanon added.

By 1998, the decline was so pronounced that the international committee known as CITES (Convention on International Trade of Endangered Species of Flora and Fauna) indicated that without international actions, “there is an imminent threat of extinction of sturgeon from the Caspian Sea. The report noted that this action has led to tight regulation and control of the international trade of caviar from all species worldwide.

Dan Fish Farms has specialised for years in developing new species for aquaculture, fish vaccines and vaccination systems, fish feeds and feeding experiments. Avshalom Hurvitz, a biologist at Dan Fish Farms, studying for his Ph.D. degree at the Hebrew University of Jerusalem’s Faculty of Agriculture in Rehovot, and who is a member of Kibbutz Dan, commented that the changing nature of the caviar industry due to the shortage of sturgeon “prompted us to launch the Sturgeon Project in 1994”. The project’s aim was to monitor and find a method to control the maturation of the female sturgeon, carried out by Galilee Caviar. For that purpose, the newly established subsidiary imported a small amount of sturgeons from Russia and raised them in the fish farms at the Kibbutz, Hurvitz explained.

The focus of the project was to learn how to grow the fish artificially, according to Levanon. He added that this has taken the bulk of the time, growing fish artificially instead of in a river. “We have fish ponds in the north with water taken from the Dan River; the optimal temperatures is not higher than 23 degrees Celsius. After many years, we have succeeded in this stage,” he remarked. The next step in the process was to speed up the fertility stage in which the female sturgeon produced the eggs from which the caviar is made. For the last two years, the fish farm produced caviar from the female sturgeons after they reached the age of seven years.

Novel Accordion Pill for Delivering Drugs

Intec Pharma Ltd. has successfully completed its first clinical trials of the company’s Accordion Pill, a novel gastro-retentive platform that channels and delivers drugs that must be absorbed by the body



through what is known as the narrow absorption window - the “intestine” segment below the stomach.

An oral drug delivery system, the Accordion Pill may look like an ordinary-sized capsule, but once inside the stomach it unfolds like an accordion and positions itself as a controlled-release platform. This unique technology, will enable Intec to be a conduit for major slow release drugs, that can be administered once daily, thus reducing the need for patients to take as many as five pills a day.

The Accordion Pill targets drugs that need to be absorbed by the bloodstream in a limited area of the upper small intestine known as the ‘narrow absorption window’, a physical area of the lower stomach and the upper part of the small intestine. Drugs that could benefit from Intec’s technology are used for treating a wide variety of conditions such as Parkinson’s, Alzheimer’s, hypertension, AIDS, obesity as well as for pain relief.

BOS’s Odem wins Maccabiah RDIF identification tender

BOS Better On-Line Solutions (TASE, Nasdaq:BOSC) group company Odem won the contract to establish an identification and monitoring system for the 17th Maccabiah Games, which were held in Israel in July. For the first time, the system was based on smart ID tags signalling on RDIF frequency.

About 6,000 Jewish athletes from 55 countries took part in the Games. Odem supplied all with ID tags and equipment to identify the people using the tags. It was also responsible for deploying the equipment and setting up the computer systems.

BOS is traded on Nasdaq and the Tel Aviv Stock Exchange at a company value of \$10 million.

Australian Patrol Boats Use Israeli Weaponry

The Australian Ministry of Defense launched its new Armidale Class patrol boats in July, fitted with the Typhoon naval stabilized gun mount produced jointly by Rafael Armament Development Authority Ltd General Dynamics Land Systems and the Toplite targeting payload produced by Rafael. The Armidales will be used to protect the northern coasts of



Australia.

Defence Minister Robert Hill said that the Typhoon, which will hold the Bushmaster cannon together with the Toplite electro-optic targeting system, would provide a capability not previously available to the Navy.

The Typhoon is a remote-controlled, lightweight, naval stabilized weapon station designed for medium-sized cannons (20-30mm).

The Toplite is a highly stabilized, multi-sensor, electro-optic targeting & observation payload used in the search and tracking of naval and airborne targets during the day, at night and in all weather conditions. The Toplite originates from the well-known Litening navigation and targeting pod. Both systems are already in use by the US Navy.

Lehman Repeats Overweight for AudioCodes

Lehman Brothers has repeated its "overweight" investment rating for AudioCodes (Nasdaq: AUDC) which designs, develops, and markets enabling technologies and system products for the



transmission of voice, data, and fax over packet networks.

The investment bank said that it expects AudioCodes to meet forecasts of \$28.3 million and \$.07 pr share in profits.

Its 12-month price target also remained unchanged at \$15 per share.

For the third quarter the analysts predict \$29.5 million sales, a gain of 4% over the second quarter, and earnings of 8 cents per share. Earlier the investment bank had expected sales a million dollars higher and earnings of 9 cents.

Lehman Brothers left its forecast for 2006 unchanged at \$0.53 earnings per share, an increase of 60% year over year. The investment bank believes that AudioCodes is positioned to benefit as voice over packet system market gains acceptance world wide, with wireless traction emerging in 2006. and the Israeli company should play a key role in enabling these deployments.

Israel Climbs to 25th in IMD Competitiveness Ranking

The International Institute for Management Development (IMD), a business school located in

Switzerland, rates Israel 25th out of 60 countries in its World Competitiveness 2005 IMD's index rates countries according to parameters collected from various business organizations. The parameters include economic efficiency, government efficiency, business efficiency, and infrastructure.

The top countries in the index were the US, Hong Kong, Singapore, Iceland, and Canada, and the bottom countries were, in reverse order, Venezuela, Indonesia, Argentina, and Poland.

Israel was rated in first place in spending on R&D as a proportion of GDP, second in entrepreneurship and education, and tenth in number of wireless handsets (the number of handsets in Israel did not fall, but it rose in other countries).

IMD rated Israel 30th in real GDP growth, ahead of Australia, Sweden, France, and Germany. Israel was rated 31st in per capita GDP in dollar terms.

FTS to raise \$40m in London at \$88m Value

Formula Vision Technologies Ltd. (TASE:FVT) is moving forward with an IPO of subsidiary Formula Telecom Solutions Ltd. (FTS) on London's Alternative Investment Market (AIM).

FTS plans to raise \$20 million at a company value of \$88 million,

The underwriter is British investment house Seymour Pierce Ltd. Avalon Capital is the advisor to the company and shareholders.

Founded in 1997, FTS provides billing and customer relations management (CRM) software solutions and applications, mainly for telecommunications companies. It also supplies comprehensive solutions for companies with telephone call centers. FTS posted a pre-tax profit of \$5.8 million on \$22.7 million in revenue in 2004. Its orders backlog was \$50 million at the end of 2004, including \$21 million for this year. The company has 248 employees, including 157 in Israel and 56 in Bulgaria. It has offices in Bulgaria and Russia, and sales reps in the UK and US.

FTS's main customer is Bulgarian communications operator MobilTel, which accounts for 65% of FTS's revenue. FTS has signed a maintenance contract with MobilTel through 2010.

West Pharmaceutical Buys Medimop for \$41.8m

Injectable drugs component manufacturer West Pharmaceutical Services Inc. (NYSE: WST), has acquired privately held Medimop Medical Projects

Ltd. of Raanana, a developer of disposable medical devices for injectable drugs, for \$41.8m.

Medimop's technologies and systems are used in the reconstitution, transfer and administration of pharmaceutical products in therapeutic areas including multiple sclerosis, rheumatoid arthritis, vaccines, hormones and blood derivatives for haemophilia.

Under the agreement, West Pharmaceutical Services will acquire 90% of Medimop's shares, paying \$36 million in cash, West Pharmaceutical Services shares valued at \$4 million and up to \$1.8 million of contingent cash consideration.

Medimop's business and management team will remain in Ra'anana, Israel. Medimop has 20 employees and manufactures its products at locations in Israel and Germany.

Topical Drug Delivery Gel Awarded Patent

Israeli drug delivery firm Foamix has been awarded a US patent for its OilGel technology, a semisolid matrix which turns into a liquid when rubbed onto the skin and can be used to deliver a broad range of therapeutic compounds.

Foamix maintains, that OilGel, has advantages over other topical delivery systems because it results in faster absorption with less greasiness and stickiness than conventional ointments and creams. The company is particularly interested in developing the system for ophthalmic treatments – such as antibiotics for eye infections – which can be uncomfortable to take.

The US patent covers the constituents of OilGel, methods of making it, and applications in the delivery of pharmacological or cosmetic agents to the skin or mucous membranes.. the cells lining the nose, mouth, eye, ear, vagina or rectum.

The patent mentions that many pharmaceutical carriers are known, but most have disadvantages when topically applied onto the skin or mucosal membranes.

For example, when ointments containing petroleum, a hydrophobic carrier often used for topical drugs such as corticosteroids, are applied onto a skin wound, metabolic products and excreta from the wound cannot be easily removed because of the difficulty of passing through the hydrophobic petroleum barrier. In addition, the active drug ingredient, which is dissolved or dispersed in the petroleum carrier, is not efficiently absorbed into the wound tissue, so the efficacy of the drug is negatively affected.

From the physiological aspect, petroleum, restricts respiration of a wound tissue and disturbs the normal transpiration through the skin.

Besides petroleum, other hydrophobic pharmaceutical carriers are known, including liquid paraffin, lanolin, beeswax, vegetable oil, glycerine monostearate, higher alcohols, polyethylene glycol and some emulsifying agents. All of these agents either suffer the limitations described above with respect to petroleum or have undesirable (fast) flow properties.

Foamix is in the process of raising funds in a round of venture capital financing which should provide around \$5 million, and is considering an Initial Public Offering sometime in the next 18 months.

The Israeli company is expecting to have revenues of around \$6 million this year, mainly from licensing revenues relating to its various foam-based delivery technologies to generic drugs. Meantime, it is also developing its own range of products based on the delivery technologies.

SuperCom gets \$500,000 Passport Contract

Smart card and electronic ID solution provider Israeli SuperCom(Euronext: SUP; OTCBB: SPCBF) has signed a three-year follow-on agreement worth \$500,000, with a European government for the supply of technology and maintenance services, together with an upgrade of existing passport production equipment previously deployed for the customer by the company.

SuperCom, Ltd. provides innovative solutions in smart card and e-ID technologies to the commercial and government sectors. It offers a wide range of standard and customized smart-card-based solutions for physical and logical security, education, corrections facilities and air & seaports. It is also a leader in the manufacturing of secure and durable documents such as national identity cards, passports, visas, drivers' licenses and vehicle registration to improve homeland security, governmental efficiency and document ease of use. Headquartered in Israel, SuperCom has subsidiaries in the US and Hong Kong.

SOLAR ENERGY PROJECT TO ADVANCE THE USE OF HYDROGEN FUEL

Innovative solar technology that may offer a "green" solution to the production of hydrogen fuel has been successfully tested on a large scale at the Weizmann Institute of Science in Israel. The technology also

promises to facilitate the storage and transportation of hydrogen. The chemical process behind the technology was originally developed at Weizmann, and it has been scaled up in collaboration with European scientists. Results of the experiments were reported in August at the 2005 Solar World Congress of the International Solar Energy Society (ISES) in Orlando, Florida.

The solar project is the result of collaboration between scientists from the Weizmann Institute of Science, the Swiss Federal Institute of Technology, Paul Scherrer Institute in Switzerland, Institut de Science et de Genie des Materiaux et Procédes - Centre National de la Recherche Scientifique in France, and the ScanArc Plasma Technologies AB in Sweden. The project is supported by the European Union's FP5 program.

Hydrogen, the most plentiful element in the universe, is an attractive candidate for becoming a pollution-free fuel of the future. However, nearly all hydrogen used today is produced by means of expensive processes that require combustion of polluting fossil fuels. Moreover, storing and transporting hydrogen is extremely difficult and costly.

The new solar technology tackles these problems by creating an easily storable intermediate energy source form from metal ore, such as zinc oxide. With the help of concentrated sunlight, the ore is heated to about 1,200°C in a solar reactor in the presence of wood charcoal. The process splits the ore, releasing oxygen and creating gaseous zinc, which is then condensed to a powder. Zinc powder can later be reacted with water, yielding hydrogen, to be used as fuel, and zinc oxide, which is recycled back to zinc in the solar plant. In recent experiments, the 300-kilowatt installation produced 45 kilograms of zinc powder from zinc oxide in one hour, exceeding projected goals.

The process generates no pollution, and the resultant zinc can be easily stored and transported, and converted to hydrogen on demand. In addition, the zinc can be used directly, for example, in zinc-air batteries, which serve as efficient converters of chemical to electrical energy. Thus, the method offers a way of storing solar energy in chemical form and releasing it as needed.

"After many years of basic research, we are pleased to see the scientific principles developed at the Institute validated by technological development," said Prof. Jacob Karni, Head of the Center for Energy Research at Weizmann.

"The success of our recent experiments brings the approach closer to industrial use," says engineer Michael Epstein, project leader at the Weizmann Institute.

The concept of splitting metal ores with the help of sunlight has been under development over the course of several years at the Weizmann Institute's Canadian Institute for the Energies and Applied Research, one of the most sophisticated solar research facilities in the world, which has a solar tower, a field of 64 mirrors and unique beam-down optics.

The process was tested originally on a scale of several kilowatts; it has been scaled up to 300 kilowatt in collaboration with the European researchers.

Weizmann scientists are currently investigating metal ores other than zinc oxide, as well as additional materials that may be used for efficient conversion of sunlight into storable energy.

Capital raised in Q2 2005 reaches \$387 m. – up 11% from Q1 2005

In the second quarter of 2005, 98 Israeli high-tech companies raised \$387 million from venture investors – both local and foreign (Chart 1). The amount was up 11 percent from the \$350 million raised by 102 companies in the previous quarter and was 14 percent higher than the \$338 million raised by 91 companies in the second quarter of 2004. In the first half of 2005, capital raised was \$737 million, up 15 percent from H1 2004 levels.



Largest Desalination Plant Opens in Ashkelon

The world's largest desalination plant, located along Israel's southern Mediterranean coast, started operation in the first week of August.

The water treatment plant will provide 100 million cubic meters (mcm) of desalinated water per year when it is fully operational by December 2005.

The plant will provide about 15 percent of the total household water in Israel when it's fully operational. The consortium comprises Israel's IDE Technologies and Elran Infrastructures, and France's Veolia Water. The total cost of the project is \$250 million.



“The plant at Ashkelon is the largest of its type in the world and will boost Israel’s position as world leader in the field of desalination,” said Gustavo Kronenberg, chief executive of VID Desalination.

The expansion of the plant’s operations will be gradual. Initially it will provide 50 mcm of drinking water. In December the plant will increase its annual production level to 100 mcm.

The Ashkelon, Israel, plant uses reverse osmosis technology to remove salt and provide high-quality drinking water. Mr. Kronenberg said that IDE’s reverse osmosis technology has also been upgraded through the use of three pressure centers.

The price of water produced by the plant will be approximately \$0.60 per cubic meter. The desalinated water is channeled to a nearby reservoir of Israel’s Mekorot Water Company and then distributed through the national water distribution network.

Under the terms of the BOT (build-operate-transfer) agreement, VID will sell the water from the plant to the state at a predetermined price over a 25-year period. At the end of the period, the facility will be handed over to the state.

The Israeli government is planning additional desalination plants along the Mediterranean coast. The target is to produce 315 mcm of water by 2008.

Antibiotics and First Aid Equipment were Flown from Israel to Aid the Flood Victims in Maharashtra, India.

The Ministry of Foreign Affairs, Ministry of Health, IDF Chief Medical Officer, Latet (“To Give”) Organization, Teva Pharmaceuticals, and Rafa Laboratories have combined forces to offer assistance to the flood victims in Maharashtra, India, and are sending antibiotics and first aid equipment to the stricken region.



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