

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, PUBLISHER

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## Technology Joins the War Against Terror

Modern day terrorism takes many forms. It could be a bomb placed in a city or school bus or in a civilian vehicle. It includes the killing of children in school classes, or suicide bombers exploding themselves in public places, murder in civilian communities or just direct mortar or machine gun fire aimed at a civilian population.

Part of everyday life in Israel is having armed guards positioned at the entrances of kindergartens and public schools. Security men stand in front of movies; supermarkets and places of worship.

Leaving the country entails a long check-in procedure, which includes questioning by airport security personnel, a thorough X-raying of hand bags, and the passing of luggage through low pressure tunnels, CT scanners or "sniffers". All of these are *techniques* in *high technology* in the war against terror.

El-Al, the national airline has anti-terror operatives stationed on its planes. Cockpit doors are bullet and tamper proof.

In spite of these precautions, it is not possible to hermetically seal out all terror incursions. Yet, every effort must be exerted because the applying of anti-terror procedures saves lives.

Anti-terror planning is a time and money intensive activity. Intelligence seeks to learn about the enemy, how he operates and where he is most likely to attempt to strike.

Israel has not been able to eradicate all the terrorist acts aimed at its citizens, but it has sent the message that it is vigilant and that no effort is being spared in the identification, the pursuit and ultimately the destruction of the sowers of terror.

The people of the United States who have been living a life of freedom and security will need to adopt similar and perhaps, even more intensive tactics.

Anti-terror devices, whether they be forward looking infrared (FLIR) night vision goggles, fences sensitive to the touch, explosive detection technology, and most recently security devices based on bioinformatics, are essential in protecting against terror and provide a feeling of

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security resulting from the knowledge that practical steps are taken before the terror is unleashed.

Recently, I was hosted at an Academy specializing in anti-terror procedures. There foreign trainees undergo anti-terror training, including the use of sophisticated weaponry, using live ammunition. Israelis, veterans of decades of experience in combating terror were transferring this know-how to them. They teach the techniques, necessary for carrying out the demanding duties of guards, not the least to a head of state. Their instructors, mostly graduates of elite commando units, insisted on raising the level of performance. The bullets ripped into the targets which were automatically replaced with new ones. It was a highly efficient training process.

Terrorists and those who send them on their deadly missions should be aware of the Biblical message and stern prophecy: "In the street the sword will make them childless; in their homes terror will reign". (Deut. 32:25)

### ***Anti-Terror Training Moves into High Gear***

IHTIR's visit to the IMI Academy for Security and Anti Terror Training took place one day after Israeli Tourism Minister Rahavam Zeevi was assassinated by Arab terrorists. The assassins infiltrated into the Jerusalem Hyatt Hotel, and gunned down the Israeli parliamentarian as he was returning from an early breakfast to his room. The assassination was immediately seen as a failure of Israel's security services. However, associates of Mr. Zeevi revealed that he would not allow Secret Service guards to accompany him in the course of his everyday activities.

Halfway between Tel Aviv and Jerusalem, in an area of agricultural villages, we visited the I.M.I. Academy for Advanced Security and Anti-Terror Training. The Academy offers a broad range of high level security, counter-terror and anti-crime, together with intelligence and counter-

intelligence training. These services are offered to local and foreign government agencies, as well as private institutions. Its interdisciplinary team is made up of former commanders from elite Israeli security units. They have been chosen for their experience, and their ability to pass on their expertise to others. The Academy exposes the trainees to crisis simulation exercises.



A variety of crisis situations are incorporated into the training. The trainees are taught to respond to open field terrorist situations, or possibly a scenario where a building occupied by terrorist, must be stormed.. In order to meet the challenges of these unusual crisis situations, the trainees are required to gain expertise in close-quarter combat, urban warfare, hostage release, operational driving, sharp-shooting, and personal security. The military hardware required for anti-

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terror operations is supplied by Israel Military Industries, which has acquired development and manufacturing experience over a period of more than 65 years. I.M.I. specializes in producing small arms and small arms ammunition.

"We chose this site from among the 18 producing plants that the Israel Military Industries has throughout Israel. We chose this location as it is in between Tel Aviv and Jerusalem, and not far from our international airport. The new Route 6 from Beersheva, now under construction will pass next to us. It is like Route 95 in the States, and will put us only five minutes driving time from the Ben Gurion International Airport," said Mr. Yigal Levin director of the Academy. He explained that the training area is a totally secure place, and trainees receive advanced on-the-ground training.

The campus includes advanced security systems, electronic fences, with combat posts and patrols. The Academy includes a complex high-tech firing range. Martial Arts were added to the training centers. "As we are talking here in my office, an anti-terror group from the Far East is undergoing an intensive course," stated Mr. Levin. Since its formation, Russians, South Americans and Africans have taken advantage of the company's specialized training.

Mr. Levin has a wealth of experience in security and training. He was deputy head of security services (Shin Bet) and retired holding a rank equivalent to that of general. He subsequently founded his own company. "The idea for creating an academy was always in the back of my head, but it began to take shape in 1998. It took one year to make all the agreements with IMI and to create the infrastructure before we opened the Academy", he points out.

Anti-terror education comes at a cost. One month's course in Israel costs between \$10,000 and \$11,000 per trainee. Higher prices are charged when the course requires an unusually large amount of ammunition. Courses vary in duration from one week to six months.

The training area was full of movement and activity as the participants in the course were exposed to various situations requiring an instantaneous responses.



The staccato sound of firing reverberated throughout the area, as members of the special VIP units were being coached to improve the speed and accuracy of firing.

"Can the courses now offered at the Academy, be applied for what is now needed in the United States?" we asked Mr. Levin. American units will not be visiting the Academy, however, Mr. Levin is about to travel to the United States. He is optimistic that negotiations will result in the establishing of a similar academy in the U.S.

Until most recently, airline hijackings were rare since hijacked planes could not stay in the air forever and few countries were willing to let them land.

All of that changed on September 11, when four hijacked planes were used as instruments of destruction. It is to be expected that the American civilian air industry is ready to acquire and to implement expertise for preventing terrorists from boarding flights.

Implementing anti-terror expertise undoubtedly will go a long way to rebuilding the shattered confidence of the American public, which is at present staying away from flying.

A very convincing argument for implementing this program is that El Al Israel's airlines, has not experienced a successful hijack in over 30 years. Each El Al flight has on board one or two security agents who are ready to act against threats at any given moment, as well as armored cockpit doors, and probably much more.....



Given Imaging on the Nasdaq Tower

### ***Against the Odds: Given Completes its IPO***

On October 4 the Israeli Given Imaging, (Nasdaq:GIVN) led by Lehman Brothers, completed its Initial Public Offering. The investment banking firm lost its headquarters in the September 11 terror attack on New York City's World Trade Center. Lehman moved into various quarters including a hotel but continued to work with the assistance of cell phones. Just prior to the attack, Given Imaging was on its "road show", presenting itself to potential investors, but only after September 11, the decision was taken to continue.

Since not a single IPO's had come to Wall Street since August, the IPO was hailed "as an accomplishment that the deal managed to get done, since IPO's lately have been withdrawn on a daily basis in the face of withering market conditions".

"We all pulled together, it symbolizes that we won't be stopped and we'll keep going. But we were lucky to have a company as strong as Given," said Gary Weinstein, managing director of Lehman.

Given Imaging raised \$60 million by selling 5 million shares, despite not having any sales,

often a requirement for companies going public. In the first day of trading on October 4 Given Imaging closed at \$12.47, below its opening price of \$12.60 but well above its \$12 offering price. It hit a high of \$13.44 and a low of \$12 on volume of 3.9 million shares.

Given was founded in 1998 by Dr. Gavriel Meron, who previously worked at Applitec Ltd., an Israeli designer and manufacturer of video cameras and systems for the medical endoscopy market. Given Imaging's technology enables patients who swallow the wireless video-camera-in-a-capsule, to give doctors a close-up view of their small intestine, in color, as the capsule winds its way through the body, without causing discomfort.

The company plans to post its first revenue numbers by the end of the year, after winning approval for the technology both in the U.S. and Europe, he said.

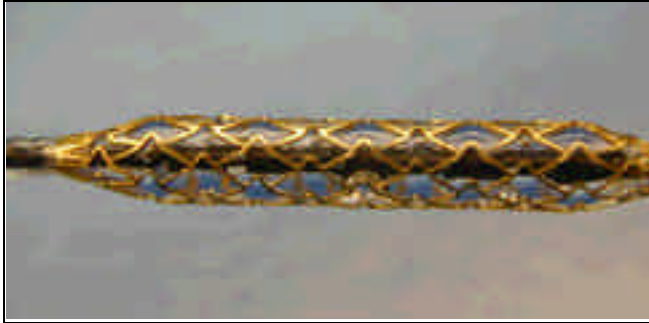
The FDA cleared the use of the "pill", but only in conjunction with standard intestinal examinations, in which tubes fitted with cameras are inserted down the throat and into the intestine.

Each Given Imaging pill is priced at about \$450. The computer workstation adds \$20,000 to the total hardware cost.

Given Imaging recorded a loss of \$7.5 million last year with revenues expected in the fourth quarter of 2001.

### ***Medicated Stents May Eliminate Restenosis***

Nearly a year ago, the American Vice-President Richard Cheney, was admitted to the hospital with unstable angina. As part of the care, he received a stent, but in March of this year he was found to have restenosis at the site of his stent. Restenosis occurs within 3-6 months in 40-50% of patients who have undergone



NIR Stent Made in Israel

Boston Scientific

angioplasty. This incidence has been reduced to 20-30% with the use of stents. For most individuals, including Vice-President Cheney, restenosis remains a major problem. A balloon is passed across an atherosclerotic plaque in a coronary artery. The balloon is then inflated - thus compressing the plaque, and widening the opening of the artery. Compression of the plaque is a far from a gentle process, and nearly always creates trauma to the blood vessel wall. Restenosis is the formation of new blockages at the site of the angioplasty or stent placement. It occurs within 3-6 months in 40-50% of the patients. There are two major mechanisms responsible for restenosis. One of these is thrombosis, or clotting at the site of the treatment. The risk of its occurrence is highest immediately after angioplasty and the condition is treatable with anti-clotting drugs. The other issue is the growth of tissue at the site of the treatment. The use of "inhibitors" reduces this risk.

The possibility of restenosis during six months after the receipt of a stent is still as high as 50-70%.

A new approach holding out great promise is the use of drug-coated stents. The most commonly mentioned are sirolimus-coated stents, rapamycin-coated stents, and paclitaxel-coated stents.

At the Congress of the European Society of Cardiology in Stockholm, in the second week of September, investigators reported early results from the RAVEL trial, a trial examining the efficacy of a drug-coated stent made by Johnson & Johnson.

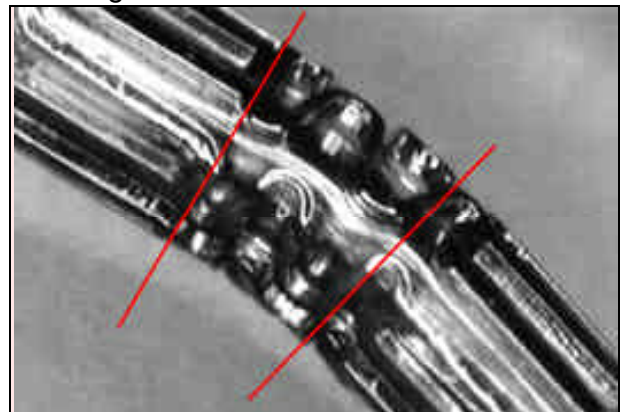
In the follow-up period of 210 days there was no restenosis in patients receiving the drug-coated stent in the RAVEL trial.

Despite the remarkable early results with the sirolimus-coated stent, release of this product for general clinical use is not expected until 2002 in Europe, and in 2003 in the United States. Whether these results are "too good to be true", will only be determined over a period of several years.

In the aftermath of the recently reported clinical trials Johnson & Johnson has launched a new set of clinical trials which include 35 medical centers in Europe and Israel. The two hospitals participating in Israel, are the Hadassah Medical Center in Jerusalem and Haifa's Rambam Medical Center.

"The clinical trials that we are embarking on, are somewhat different then those reported on in Stockholm. First, the stents will be somewhat smaller in diameter and the lesions being treated will be longer. Essentially, we will be performing trials on patients who would tend to have a higher incidence of restenosis then the previous group," explains Dr. Louis Gruberg, a participating cardiologist at the Invasive Cardiology Center at the Rambam Medical Center, in Haifa. The results of the trials will be viewed initially after eight months and the study will include a five year follow-up.

The Israel High-Tech & Investment Report in 1992 obtained its first insights and information in angioplasty from Prof. Hylton Miller, cardiologist and director of the catheterization



Bx Velocity Coronary Artery Stent

Johnson&amp;Johnson

unit at Tel-Aviv's Sourasky Medical Center. The vision was then formed, that the rapidly developing field of stents, as an adjunct to conventional balloon angioplasty, was well on its way to becoming one of the fastest growing fields among medical devices. Over the years nearly every type of interventional angioplasty procedure has been carried out at the Sourasky Medical Center. Approximately 1000 procedures are carried out yearl at the Center. Conventional stents can cost as much as \$1,000 each while the new coated stents may triple in cost.

Stent industry estimates put the annual world market for stents at \$1.2 billion. However, this figure may increase dramatically if the new stents gain an important segment of the total stent market.

Israeli medical researchers were at the forefront of medical stent research and development. IHTIR visited an Israeli company named InStent Ltd., a subsidiary of InStent Inc., a listed American company (NASDAQ:ININ). In less than one year the New York Stock Exchange listed company Medtronic purchased InStent and InStent investors, over a short period time, experienced a capital gain of \$1.75 on each \$1 worth of InStent shares.

Prof. Rafael Beyar, the Israeli inventor of the stent, now serves as the Dean of the Technion Medical School, continues to oversee a range of medical R & D projects.

The NIR Stent developed and produced by the Israeli Medinol Ltd. is marketed by the American Boston Scientific company which commands about 30% of the American stent market.

According to a Morgan Stanley Dean Witter report on coronary stents, in 2000 770,000 angioplasty procedures were carried out in the United States. Of these more than 80% or 624,000 included stents.

Clinical work currently being carried out in Israel and in European medical centers, will determine whether medicated stents will assume the lead in a new generation of restenosis free cardiac treatment.

### ***Small Security Companies Attract the Spotlight***

Persay Ltd., a Comverse Technology (Nasdaq:CMVT) spin-off, is a provider of speaker verification solutions for remote services. Persay's products aim at the growing need, for secure and cost effective customer identity authentication. These include call centers, telecom, E-Commerce and security applications. Persay's technology authenticates speakers by using the speaker's own voice and speech characteristics.

Configate founded in 1999 and based in Rehovot, Israel specializes in speaker verification biometrics solutions for remote access over Internet and Telephony.

The firm's software engineers have experience in speech technology, high-scalability and high-availability systems, data security and remote access systems.

### ***Fitch Issues Rating Report on Israel***

Fitch, the international rating agency, assigned a Negative Outlook to the sovereign ratings of the State of Israel, following on the Rating Watch Negative action taken in May. The Long-term foreign currency rating is affirmed at A minus and the Long-term local currency rating at A plus The Short-term foreign currency rating of 'F1' has also been affirmed.

Israel's economic fundamentals remain relatively strong, and continue to underpin its A minus credit rating. The economy benefits from several dynamic and high value-added sectors, and a robust macroeconomic policy framework, notably a credible direct inflation targeting regime and a flexible exchange rate.

Public debt remains high, and is projected to rise slightly, to 94% of GDP this year, but public external debt is modest, at 26% of GDP. Moreover, half of the public external debt stock carries an 'AAA' US guarantee, and a further one-third is held by the extended Jewish diaspora, which has consistently maintained strong demand for government debt through

previous periods of political and economic stress. Fitch believes that when the US economy eventually bounces back, the flexibility and structural characteristics of the Israeli economy will be well-placed to stage a quick recovery of its own.

Israel is going through a period of economic and political uncertainty. It is accentuated by the tense international and domestic security situation and the deepening of the global economic downturn. Economic growth has virtually ground to a halt this year, with adverse consequences for public finances, while room for fiscal maneuver is constrained by the unavoidable increase spending on defense and security.

Possible fiscal deterioration will stem largely from poor revenue performance, as the authorities endeavor to accommodate increased spending on defense and security, by restraining other spending. Moreover, Fitch does not expect a permanent break in Israel's long track record of steady fiscal consolidation and debt reduction. Nevertheless, there is some concern that a further sharp worsening of the political and security situation will adversely affect the economy's growth potential. For example, by reducing the immigration of highly skilled workers and foreign direct investment thus eroding Israel's strong credit fundamentals. Fitch continues to believe that "war risk" remains very small, in the current uncertain global and domestic political environment, the risk of an ever-deepening cycle of violence and conflict with regional neighbors, cannot be wholly discounted. While a peaceful resolution of the conflict with the Palestinians and the end of the year-long Intifada appears distant, stabilization of the political and security situation, allied with further fiscal consolidation, would counter a material deterioration in Israel's sovereign credit worthiness.

### ***Software Exports up 8% to \$1.4 billion in First Half of Year***

The Israeli software industry continues to grow, suffering less damage than other industrial

sectors, both in Israel and around the world, reported Amiram Shor, Chairman of the Israel Association of Software Houses, a division of the Manufacturers Association.

He suggested that investors in Israel and abroad should take advantage of the unique opportunities that had arisen for successful investments in Israeli start-ups dealing in software.

He added that, despite the slowdown in the sector's growth in the first half of the year, software exports were 8% higher than in the corresponding period last year, and totaled \$1.4 billion. This reflects a retrenchment, down from an annual growth rate of 20-30% in the past three years.

Mr. Shor said, that there had been no change in software sales in the local market in the first half of the year. Sales were \$500 million, the same as in the first half of 2000. This compares with an annual growth rate of 10% in sales in the past few years.

Although 2001 was the worst year for the software industry in the past decade, it was still an "island of stability", despite the slowdown. He added that Israeli software companies had laid off a total of 1,500 workers due to the global high-tech crisis; happily, however, 1,000 workers were re-hired.

According to Israel Association of Software Houses statistics, 14,000 workers are employed by 400 software companies in Israel. The leading software companies in terms of sales in the second quarter of 2001 were: Amdocs (NYSE:DOX), with sales of \$404 million, a 36% increase; Check Point (Nasdaq:CHKP), with sales of \$146 million, a 57% increase; and Mercury Interactive Corporation (Nasdaq: MERQ), with sales of \$96 million, a 38% increase.

### ***Clever Island Secures \$5 million in Third Round of Financing***

Online educational service Clever Island announced the completion of its third round of financing totaling \$5 million.

Clever Island is an educational subscription web site, a comprehensive and fun activity center designed to help children learn and explore in an interactive environment. Clever Island focuses on educational skills essential to a child's development, such as language, numbers, space, logic, and critical thinking. Clever Island delivers graphics and animation through the domestic computer modem, in a safe, advertisement-free environment.

Leading experts in education and child development created the Clever Island environment. All activities are designed to be engaging, powerful, and fun.

Coral Ventures, Montefiore Partners, and Poalim Capital Markets led the round with additional funding from previous investors. The financing, at a time when investor backing has dropped considerably for the Internet market, will support the company's strategic growth plans. Growth plans include the expansion of Clever Island's domestic distribution channels, as well as continued international marketing efforts to tailor the website for localized service in Asia, Europe and Latin America.

More than two years ago, Clever Island's creators made the strategic decision to adapt a subscription-based revenue model - a move they believe has led the industry in its adoption of new business models and one that has sustained their own business during market volatility and the drop in advertising supported models.

Its international partnership network includes Bezeq, Solvit, Gigamedia and Portugal Telecom Multimedia. These global partnerships expand Clever Island's reach to include Europe, the Middle East, and the Asia Pacific Zone. The company says it acquires more than 1,600 new subscribers per week.

"The company's unique ability to focus on a specific market segment, the interactive children's online education, has set the tone for the future of the Internet industry -- to deliver a profitable business model," commented Daryl Otte, a general partner of Montefiore Partners.

### ***Privia Raises \$5.5 million***

Privia has raised \$5.5m. Benchmark Capital along with Venture Strategy Partners (VSP). Privia, founded in November 1999, develops and markets collaborative enterprise applications.

Benchmark Capital manages more than \$2 billion in committed venture capital, and focuses on early-stage investing in markets where the partners have direct, relevant experience. Benchmark Capital Israel, a \$220 million fund, is devoted to investing in early-stage companies that are leveraging Israeli high-tech opportunities to improve their potential to succeed in US markets. Venture Strategy Partners, a San Francisco-based venture capital firm, invests in early-stage companies.

### ***Lucent Venture Partners Leads \$10 m. Mobilitec Financing Round***

Israeli start-up, Mobilitec, announced that it had completed its first financing round, raising over \$10 million. It is believed that after this round, the financing was at a company value of \$30 million. Lucent Venture Partners, the venture capital arm of Lucent Technologies (Nasdaq: LU), led the round with a \$4 million investment.

Sun Microsystems (Nasdaq: SUNW) and AIG Orion also participated in the round, investing \$3 million each. In August 2000, Mobilitec raised \$2.1 million at the seed stage. AIG Orion led that round, together with SingTel Ventures, the investment company of Singapore Telecom.

Mobilitec is developing a platform for providing applications for Java-enabled mobile devices such as cellular telephones and hand-held organizers. The platform uses a special global standard, developed by Sun Microsystems for mobile devices, J2ME, that allows the streaming of dynamic content to the devices on demand. Mobilitec was founded in 2000 by Yoad Gidron, and Haim Taichholtz. It has 27 employees at its development center in Haifa and marketing branch in New York. The company's chairman is Harel Kodesh, a former executive VP at



Microsoft, where he was in charge of developing and marketing Microsoft's operating system for mobile devices, Windows CE.

### ***Mysticom Obtains \$28m. Round***

In contrast to the many companies announcing financing rounds at lower evaluations, Mysticom Ltd. raised its valuation in its fourth round of funding when it raised \$28 million. In one of Israel's largest recent financing rounds, Netanya-based Mysticom drew on a prestigious cast of backers led by Lehman Brothers Inc., ABN Amro Capital and Royal Philips Electronics NV. Venture capital sources close to the company put its post-money value at \$110 million. This compares with a \$90 million valuation in September 1999 after the company's third round.

Most local telecom startups have been forced to reduce their valuations sharply following the sector's general decline. "The market for high-bandwidth ethernet components and systems remains untouched by the difficult economic conditions affecting much of the industry," Mysticom founder and CEO David Almagor stated. The company initiated sales in 1998, only a year after its founding.

Other investors included Giza Venture Capital and Koor Corporate Venture Capital, both of Tel Aviv. Existing investors including Cisco Systems Inc, Eucalyptus Venture Funds, J.P. Morgan Partners, Newbury Ventures and Texas Instruments.

### ***Software Developer Sphera Raises \$15m.***

Sphera Inc., of Boston and Israel, landed \$15 million in a second-round financing. The company credited a year of commercial sales and several relationships with key resellers, as clinching the deal, which valued the company at slightly lower than its \$45 million, its first round appraisal. Sphera CEO, Tamar Naor said a strong team of international backers, and the company's entry into the infrastructure automation market, allowed the company to continue to draw international support in a tough fund-raising climate. She called the round a "tremendous validation of our

technology, product and business model." Naor said the company did not use an outside financial adviser and only targeted venture firms that operate both in the U.S. and abroad.

New investor TLcom Capital Partners, a London-based Internet infrastructure specialist affiliated with J.P. Morgan Chase & Co., led the round with London based Jerusalem Venture Partners, which was Sphera's first institutional backer with a \$2.5 million seed round in July 1998. Other investors include first round leader Gemini Israel Funds and Reuters Venture Capital as well as CSK Venture Capital, which also contributed to the September 2000 round.

Sphera's product was conceived to allow Web hosting systems administrators to automate certain functions but quickly evolved into a platform product to handle most operations for Web site operators. That shift provided a key selling point with hosting service providers, which resell the software with promises of cost savings.

Sphera competes with companies including Alabanza Inc. of White Plains, N.Y.; Ensim Corp. of Sunnyvale, Calif. and Plesk Inc. of Chantilly, Va. Laurel Bowden, of Jerusalem Venture Partners, said that since Sphera was founded at the peak of Internet promise in 1998, it has focused on licensed software for automating Web hosting. Although its market has changed, the company has kept the same revenue model and essential product focus, but concentrates on expanding sales more tightly through reseller partners.

"This funding will allow us to break even early next year, and this will be the final private round of investment," Naor said.

### ***Start-up HyperRoll Raises \$5.5m.***

Israeli start-up HyperRoll has completed a \$5 million financing round. Both Giza and EMC invested \$2 million, while previous investors in the company added another \$1.5 million. EMC, the world's leading provider of data storage solutions, will also be a strategic partner in distributing HyperRoll's products. HyperRoll was founded in

January 1999 and was incorporated in the US in 2000. CEO Yossi Caspi, CTO Reuven Bakalash, VP sales and marketing Gabby Rubin, director of R&D Guy Shaked, and Amir Eskin founded the company as a joint venture of software company SoftCubes and AplicaTek.

HyperRoll developed an engine for high-speed data calculations, which it claims can reduce calculation times to a fraction of the time currently required. The company previously raised \$2.6 million from Denali Ventures LLC, eXseed Technology Investments, Microdent (Eitan Wertheimer's investment company), and private investors. The company has 25 employees in its development center in Omer, Israel with its main offices in Santa Clara, Calif.

### ***Florence Medical Obtains Two FDA Approvals***

Israeli medical equipment company Florence Medical has obtained US Federal Food and Drug Administration (FDA) approvals for the marketing of its medical product. The company was previously granted similar approval for Europe.

The product is intended to facilitate blood vessel catheterization and the installation of stents, which support blood vessel walls. The product provides physicians with information that assists them in making decisions during the catheterization procedure.

Florence Medical vice president for operations Dr. Chen Barak said that the company's first product, which identifies blood vessel blockages, had received FDA approval for marketing in May of this year. The latest approval was for a more focused application of the same product, involving the identification of several blockages in the same blood vessel.

Florence Medical's product, operating on an algorithm developed by the company, identifies such blockages by measuring arterial blood pressure. Barak said that marketing of the product will begin soon.

Gideon Tolkowsky, co-founder of Veritas Venture Partners, which has invested in Florence Medical, predicted that following the marketing approval, Florence Medical's sales were expected to reach

\$1-2 million within ten months.

Florence Medical was set up in 1997, on the basis of technology originally developed by the aircraft industry, for measuring airflow around parts of the plane. Investors in Florence Medical include venture capital company Veritas (the leading investor, which also invested at the seed stage), and venture capital funds Discount Capital Markets & Investments and Bioville. Florence Medical has so far raised \$5.5 million. The previous financing round was in 2000. The company's R&D center, which has 11 employees, is located in Kfar Sava, while its marketing and sales center is in Boston.

### ***Adyaron to Supply New York Police***

Israeli start-up Adyaron Intelligent Systems has won a New York Police Department (NYPD) tender for installing digital video recording systems in six central locations in New York City. The systems will be connected to 2,500 cameras operated by NYPD around the city.

Adyaron Intelligent Systems founder and CEO, Yoram Sagir, advised that the project was worth \$8 million. Sagir assesses that the agreement with NYPD is very important, because it will generate similar deals in other US cities. Adyaron is in the process of raising \$5 million. Sagir says that, following the terrorist attacks in the US and the rise in demand for Adyaron's products, investors are willing to increase the company's value in the present financing round.

Adyaron was set up in March 1999 and has 40 employees. Private investors have invested \$5 million in the company up until now. The R&D center and the management are in Tel Aviv. The company has marketing and support offices in New York, Dallas and London.

### ***Limber Raises \$6m***

Jerusalem Global Ventures has led a \$6 million financing round for Israeli-based Limber, founded in 1996. Participating in the investment are Gemini Israel Funds and Advent International. Limber's seed financing round was led by Gemini in

December 1999. It develops high-tech orthopedic devices that it says will significantly improve results in orthopedic surgery. The orthopedic implant market is currently valued at over \$6 billion a year and is expected to grow annually by 8-10% as the population of Western countries ages.

Limber CEO Ron Sacher said, "This current round of financing will enable the company to complete clinical trials, gain regulatory approvals, and begin marketing its first product for hip surgery. The company plans to leverage its technology and enter the areas of knee, ankle, and shoulder surgery."

Prof. Achi Ludomirsky, responsible for medical technologies at Gemini Partners, added, "Limber's solution offers a novel approach to joint replacement, which should allow the patient to resume a normal level of physical and recreational activity."

Jerusalem Global Ventures is a \$200 million venture capital fund, focused on telecommunications, Internet-enabling technologies, and medical devices.

Gemini Israel Funds has over \$350 million under management in three funds. Gemini focuses on seed and early stage companies in the fields of telecommunications, data communications, fabless semiconductors, enterprise software, internet infrastructure, and medical technologies.

### ***Genzyme to Invest in Israeli Companies***

US biotechnology giant Genzyme is planning to invest in Israeli biotechnology start-ups. Genzyme, the fifth biggest biotechnology company in the world, is traded on Nasdaq at a market value of \$10 billion. The company specializes in the development of patented drugs for rare hereditary diseases and the development of a new generation of anti-cancer drugs.

Genzyme vice president for the Middle East, Ze'ev Zelig, said that Genzyme's management had recently decided to invest some tens of millions of dollars in Israel. Following the decision, the company will appoint an executive in charge of business development and opportunity identification in Israel.

Zelig added that Genzyme was planning to buy

Israeli companies and develop drugs jointly with them." Our advantage lies in our ability to meet the financing requirements of any investment," he said.

### ***Check Point Meets Estimates***

Check Point Software Technologies Ltd. (Nasdaq:CHKP) reported third-quarter earnings in line with Wall Street expectations. Sales in the aftermath of the terrorist attacks on Sept. 11 were lower.

"Management is displaying excellent cost control, reducing operating expenses by 14%, while adding employees," stated Chief Financial Officer Eyal Desheh.

The Israeli market leader in firewall technologies reported net income for the quarter of \$74.3 million, or 29 cents, up from \$61.6 million, or 23 cents in the same period last year.

Revenue was \$118 million, slightly more than last year's \$116 million.

A Thomson Financial/First Call survey of 30 analysts produced a mean earnings estimate of 29 cents a share for the company's third quarter.

According to the company, the terrorist attacks on Sept. 11 caused an interruption in business in the U.S., that resulted in an estimated revenue loss of \$15 million to \$20 million for the quarter.

"Sales activity came to a halt" immediately following the attack, said President Jerry Ungerman, but business activity has returned to "much healthier levels."

Net income for the nine months ended Sept. 30, 2001, was \$244.8 million, or 95 cents a share, an increase of 75% and 79%, respectively, over the first nine months of 2000. Revenue for the nine-month period was \$405.1 million, up 42% from last year.

Chief Executive Gil Shwed said security software and virtual private networks, a key area for Check Point, will continue to see high growth rates, albeit restrained temporarily due to economic weakness.

**AudioCodes Posts Q-3 Loss**

AudioCodes Ltd. (Nasdaq:AUDC), a provider of Voice over Packet technologies, announced financial results for the third quarter ended September 30, 2001. Revenues for the third quarter ended September 30, 2001 were \$5.0 million, a sharp decrease of 75.0 percent compared to revenues of \$20.0 million for the same period last year. However, cash balances remained nearly steady and totaled \$133.7 million compared to \$135.2 million for the second quarter ended June 30, 2001. The company announced that it expects to spend \$5-7 million in cash during the fourth quarter.

AudioCodes, which makes IP telephony software, reported a pro forma loss of \$4.5 million, or 11 cents per share, compared with income of \$7.5 million, or 17 cents per diluted share, in the quarter last year. Wall Street analysts, had expected a loss of 12 cents a share, according to Thomson Financial/First Call, roughly in line with the lower results that AudioCodes forecast in late September.

Audiocodes is one of many of high-tech companies whose earnings have been impacted by the slump in telecoms spending this year. It is developing new products to prepare for the expected telecom sector turnaround.

The fourth quarter will be equally poor, according to Chief Financial Officer Mike Lilo's forecast of a loss per share of \$0.13 to \$0.15.

In addition to listing on Nasdaq, AudioCodes started to trade on the Tel Aviv Stock Exchange as of from Sunday, October 21, joining more than a dozen other Israeli public companies that went public in New York to dual-list in Tel Aviv

**Precise Software Solutions Reports an 88% Increase in Third Quarter Revenues**

Precise Software Solutions (Nasdaq: PRSE), a leader in optimizing business through application performance management, reported that revenues for the third quarter of 2001 grew 88 percent to a record \$14.3 million, compared with \$7.6 million for the third quarter of 2000. Third quarter revenues increased 13 percent

sequentially from the \$12.7 million posted for the second quarter of 2001. The company reported a pro forma operating income of \$68,000, or \$0.00 per share, for the third quarter of 2001, compared with a pro-forma operating loss of \$1.1 million, or (\$0.05) per share, in the same period last year. Including all non-cash items and interest income, the company reported a net income of \$452,000 for the third quarter 2001, or \$0.02 per share.

"These results confirm that Precise's solutions address the market's immediate need for application performance management. In our experience, our customers are not deferring purchasing our products, in spite of the uncertain market conditions. As a result, we expect that the demand for our production-safe solutions will continue to grow, and our penetration of this market is still low," Chief Executive Officer Shimon Alon said.

Leveraging its industry-leading performance management technology, Precise made a strategic move into the fast-growing IBM data management and Java application server markets with the launch of two products,.

It continued to generate a strong repeat sales business as well as expand its installed base of customers during the third quarter. Among the new customers this quarter, who span a diverse group of corporations and industries worldwide, were Reuters, Compaq, Deutsche Bank, The Benefits Group, Corel Corporation, Equifax, Telefonica, and Banco de Mexico.

"For the fourth quarter, we expect to achieve \$16.2 million to \$16.7 million in revenue, with a pro forma operating income ranging from \$200,000 to \$300,000, or approximately \$0.01 per diluted share outstanding. This forecast assumes 13% sequential growth. Our top line expectation for the full year 2001 is \$54.7 million to \$55.2 million, which results in 100% year-over-year growth over the year 2000. For the full year, we anticipate a pro forma operating loss in the range of (\$800,000) to (\$900,000) or approximately (\$0.03) per basic share outstanding," concluded Alon.