

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES  
November 2010 Vol. XXV Issue No.11

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## Defense Industries Soar!

Hardly unnoticed, was the recent announcement, that Russia has entered into an agreement with Israel to buy \$70m worth of UAVs. Israel's arms export to Russia goes back many years when eagle-eyed observers noticed Israeli tank cannons during a parade in Moscow. It was part of a secret arms deal engineered by the late businessman Shaul Eisenberg. China also became a client but the United States forbade the exports because American know was included.

The history of Israel's military industries goes back to the late 1960s when General Charles de Gaulle embargoed arms exports to Israel in the aftermath of the Six Day War. The Israeli victory angered Charles de Gaulle.

The embargo was responsible for the birth of Israel's high-tech industries.

Today India is the foremost buyer of Israel's defense goods. The largest item was India's purchase of Phalcon early warning planes from Israel Aircraft Industries. The range of goods is wide. The Unmanned Aerial Vehicles also have been a particular favorite of many nations. Aeronautical parts are also in demand.

### Israel's missiles

Missiles are an important component of Israel's arms exports. Ballistic Missiles: Israel fields an arsenal of nuclear-capable Jericho missiles, which are based on French technology and road- and rail-mobile. The Jericho-1 was first deployed in the early 1970s and the 1,500 kilometer-range

Jericho-2 followed in 1990. Israel's space-launch capability indicates it could develop a missile with intercontinental reach.

Cruise Missiles: Israel has purchased U.S.-origin Harpoon cruise missiles with a range of 120 kilometers. Reports suggest that Israel has



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modified the Harpoon system to deliver nuclear payloads. It also is believed to have indigenously developed a submarine-launched cruise missile system with a range of up to 900 kilometers.

**Integrated pilots' helmet**

A special favorite are helmets. DASH was the company's first integrated helmet mounted display and sight system, already operating with over 500 aircraft such as F-15, F-18, F-5 and MiG-21.

DASH is measuring the pilot's line of sight (LOS), slaving missiles and sensors to the target; DASH also brings displays to the pilot's eye-level and informs the pilot of target location, while integrating all modes of operation with Hands On Throttle And Stick (HOTAS) controls.

Israel's arms exports are likely to grow, as it is an excellent outlet for the country's electronic expertise.

**Mergers and Acquisitons**

In a recent editorial we wrote in depth about the relative small size of Israeli companies when they are acquired by foreign concerns. This is even more emphasized by the most drecent acquisitions.



**AOL buys Israeli start-up 5min Media**

The deal, estimated at about \$65 million, is AOL's fifth acquisition in Israel.

AOL chairman and CEO Tim Armstrong said, "Our acquisition of 5min Media is the latest in a number of steps we have taken this year to better position AOL to capture the growing video opportunity on the Web. AOL is building a video ecosystem for the next decade. 5min Media is the perfect complement to our powerful video capabilities -- it provides a missing piece in the AOL value chain that completes our end-to-end video offering from content creation through syndication and distribution to the consumer experience and monetization."

Ran Harnevo, who serves as chairman; Tal Simantov, chief marketing officer; and Hanan Laschover, chief technology officer, founded 5min in 2007. 5min is a platform for instructional videos in all kinds of fields that enables people to share their knowledge by uploading videos lasting up to five minutes.

5min has raised \$13 million to date, reportedly from venture capital funds Spark Capital and Globespan Capital, along with private investors. The private investors include Nehama Karpol, Ofer Lazovski, and advertising agency Adler Chomsky's Grey Interactive Israel. The deal is AOL's fifth acquisition in Israel, having bought ICQ-developer Mirabilis, Relegence, Yedda, and Quigo.

**BOI Chief Stanley Fischer named one of world's top six bankers**

Financial magazine Global Finance gives Fischer 'A' on scale for success in inflation control, economic growth goals, currency stability and interest rate management.

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Published monthly since January 1985

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### Sun completes purchase of Taro

Sun Pharmaceutical, an Indian company, said that it has completed the acquisition of Israeli company Taro Pharma, after a protracted legal battle. The stock of Sun vaulted to a record high of Rs 1,984.70 before retracting to close at Rs 1,921.40 on BSE.

Sun Pharma paid about \$39 million for the founding families' 12.7% stake, taking its shareholding in Taro to 48.7% at a total investment of \$144 million, a spokeswoman for Sun said. The purchase of Taro will help Sun expand its generic offerings in the United States, Canada and Israel, the company said. Taro has factories in Canada and Israel that manufacture topical cream and ointments, liquid, capsules and tablets.

"We intend to build on Taro's market presence in US, Israel and Canada and its expertise in dermatology and pediatrics, along with specialty and generic pharmaceuticals, and over-the-counter products," Dilip Shanghvi, chairman of Sun Pharma, who would double up as chairman of Taro, said.

Earlier this month, Israeli Supreme Court ruled in favor of Sun allowing it to exercise an option to buy shares owned by Taro's founding shareholders - the Levitt and Moros families - at \$7.75 each.

"Post tendering of Taro promoter stake, Sun now controls 48.7% stake in Taro, ex-warrants, and voting rights of 65.8%. We estimate Sun to have paid around \$37 mn for this stake," Edelweiss said in a note.

### Qualcomm buys iSkoot Technologies

Wireless communications chip developer Qualcomm Inc. (Nasdaq: QCOM) makes few acquisitions, and has never before made an acquisition in Israel. Today, Qualcomm subsidiary Qualcomm Innovation Center Inc. announced the acquisition of an Israeli developer of technology for the transmission of web services on mobile telephones,

iSkoot Technologies Inc. Qualcomm did not disclose the value of the deal, but it is reportedly \$50-100 million.

iSkoot president and COO Jacob Guedalia and CTO David Guedalia founded the company in 2005. Most of the company's business is overseas, and it is headquartered in Silicon Valley, although its R&D center, which employs half the company's workforce, is in Beit Shemesh, Israel. The company originally focused on the development of VoIP solutions for mobile telephones, but over time it expanded to develop other web-based solutions.

iSkoot has raised \$32 million from prestigious investors, including Vision Opportunity Master Fund, Charles River Ventures, Khosla Ventures established by Sun Microsystems founder Vinod Khosla, and many private investors.

Qualcomm has a market cap of \$72 billion. It is the world's largest supplier of mobile telephone processors and it owns the intellectual property for the CDMA protocol.

Qualcomm has invested in two Israeli companies, both in the past year. The larger investment was \$7 million in Dov Moran's Modu Ltd., and the second in start-up Panoramic Power Ltd., which develops electricity grid management solutions. Both investments were made through the local representative of Qualcomm's corporate venture capital fund.

Ironically, Qualcomm's acquisitions in Israel were made in a field other than its core business. iSkoot's solutions are run on server farms or cloud computing, i.e. remote computers, through which it enables advanced applications, such as VoIP or social networks like FaceBook, MySpace, and Twitter to operate on mobile telephones, including previous generation phones. iSkoot began collaborating with Qualcomm as part of a joint venture to help Hutchison Telecommunications International Ltd. (NYSE: HTX; HKSE: 2332) develop a mobile telephone a year ago.

According to the Israel Venture Association, iSkoot has 70 employees. Qualcomm said that they would join Qualcomm Innovation Center. iSkoot's CEO is Mark Jacobstein. The company's customers include AT&T Inc. (NYSE: T) and T-Mobile, and it is profitable. Qualcomm has had a development center in Haifa since the mid-1990s.

Yahoo! buys display ad company Dapper for \$55m.

Internet giant Yahoo! will buy display ad optimization technology developer start-up Dapper.

Dapper was founded in 2006 by Eran Shir and Jon Aizen.

Dapper has developed a technology platform that enables advertisers and agencies to create interactive display ads which reach the relevant audience.

Yahoo is already one of several companies who partner with Dapper, and Yahoo! said that owning the technology will help the company deliver innovative solutions to an even broader range of advertisers and integrate dynamic ad serving into key Yahoo properties. Yahoo! said it is committed to its Smart Ads program.

Yahoo! VP North America ad marketplaces Frank Weishaupt said, "Smart Ads will continue to be an important component of display advertising and the acquisition of Dapper will help Yahoo! to more efficiently deliver dynamic and personalized ads for customers across more of our network."

Dapper said that with the acquisition, "The era of untargeted, irrelevant ads seems closer to its end than ever before."

Dapper has raised about \$10 million until now from venture capital firms Accel Partners and eXeed, as well as from Lotus founder Mitch Kapor.

### **Golan Heights wind farm project underway**

A huge wind farm will be constructed in the northern Golan Heights. Prime Minister Benjamin Netanyahu signed a decree this week declaring the plan by public company Multimatrix (TLV: MLTX) to establish the wind farm a national project.

The farm will be established on the area between Massadeh and Majdal Shams. It will comprise 70 giant turbines, at a total investment of approximately \$400 million. US energy giant AES Corp. is a partner in the venture. AES raised the necessary funds to promote the project, and will receive half the profits. The turbines to be set up built on the northern Golan Heights will be capable of an output of 155 megawatts. According to the controlling shareholder and CEO of Multimatrix, Uri Omid, annual sales of power to Israel Electric Corporation (IEC) will be approximately \$70 million.

Construction of the farm will begin within six months. Meanwhile, Multimatrix and AES will try to obtain approval from the army to set up more huge turbines that will be capable of expanding the output the farm to about 200 megawatts. Construction of the farm will be relatively short: every three days one turbine will be installed, so that it should begin operating no later than the second half of 2012. The company's controlling shareholders are conducting intensive negotiations with General Electric and with a South Korean company on the procurement of the turbines.

"This is the first very large and practical renewable energy project of its kind in Israel, and in the entire Middle East. Both the finance minister and the minister of the environment supported the move, and for good reason: they were impressed that one of the solutions to the expected energy shortage in Israel in the coming years is within reach, and not in the depths of the Mediterranean, without the need for special installations to transport gas, without capital market speculation, and without pollution of any kind. Fair pricing, said Omid.

Multimatrix now hopes for what they call “fair pricing” in the tariff for selling power produced by wind energy to IEC. They point to the astronomical difference between the price offered per kilowatt-hour for electricity provided by solar energy and power produced by wind turbines. While the price paid for electricity from solar energy ranges from NIS 1.70 to NIS 2, the price offered for the same amount of power to be produced by wind turbines is approximately NIS 0.40. “It’s hard to understand this gap, because in the end the electricity is the same electricity, and both these systems are environmentally friendly. The matter is now being rethought, because only with fair pricing will it be possible to promote things that are truly new and efficient here,” a source in the renewable energy field said.

### **Israel Information Technology Report Q3 2010**

New report provides detailed analysis of the Information Technology

BMI projects that the Israeli IT market will have a value of 77\$4.9bn in 2010. The Israeli IT market should gain enough momentum from key sectors to expand at a compound annual growth rate (CAGR) of 6% over BMI’s 2010-2014 forecast period, thanks to stable demand from defense and government sectors as well as opportunities in verticals like financial services and small and medium-sized enterprises.

Spending is expected to resume single-digit growth in 2010 after a contraction in 2009. In early 2010, there were reports of a pick-up in the flow of projects. Vendors reported that demand had revived in the key financial services vertical, where new projects included an \$11mn IT outsourcing tender by the First International Bank of Israel. Healthcare, the public sector and utilities were also generating projects.

The Israeli IT market has a number of positive fundamentals, which should keep it in positive territory during BMI’s five-year forecast period. Household computer penetration of around 75% offers potential for further growth. High Internet

penetration and growing broadband penetration are drivers for the retail segment, while the financial services sector accounts for about 15% of Israeli IT spending.

### **Industry Developments**

In 2009, Israel’s high-tech sector suffered as demand for high-tech exports dropped by at least 10-15%, with as many as 10,000 sector jobs feared to be at risk. This represented a major concern for the Israeli government given that high-tech accounted for around 10% of Israel’s economy, with annual sales estimated at around \$25b. Major IT firms were retrenching in Israel, including SAP, Cisco and HP. IT is viewed as an important policy tool for the Israeli government’s 2008-2010 socio-economic policy framework. In 2009, the National Economic Council recently submitted a policy agenda to the government, which specified two main policy tracks of reducing poverty and achieving balanced growth. The first track was expected to emerge as the main priority.

As part of its modernization agenda, the government is pressing ahead with various other strands of its government project. Among other initiatives, there has also been spending on computers in healthcare and the nationwide paperless court initiative. The e-government program is leading to increased demand for computers, with the Israeli government reaching supply agreements with vendors like Dell and HP. Competitive Landscape

The Israeli IT services market is competitive, with leading multinational competitors IBM and HP - following its merger with EDS - both estimated to have Israeli IT services market shares of around 10%. HP Israel’s software division hosts HP’s biggest research and development (R&D) center worldwide, and the company also has significant production facilities in Israel.

Leading IT services vendors, including Israeli companies Ness Technologies and Matrix as well as US company IBM, experienced mixed fortunes

in the Israeli market in 2009. Ness Israel reported a 17% decline in full-year 2009 revenues compared with 2008, although around one-third of this was due to foreign currency effects. Meanwhile, market leader Matrix reported wins in a number of key sectors including healthcare, financial services, defense and government.

In 2010, Microsoft Israel, which as an annual turnover of around US\$1bn, hopes that sales of its Windows 7 operating system, launched in October 2009, will boost its sales. Microsoft anticipated that support from leading PC makers would underpin success for the new system, despite some caution from businesses. Israel is also an important R&D centre for Microsoft, and in 2010 the company's Israel R&D center launched a new unified access gateway product.

#### Computer Sales

The Israeli computer hardware market, including desktops, notebooks, servers and accessories, is projected at \$2.2bn in 2010, up from \$2.1bn in 2009. The market is expected to grow at a CAGR of 5% over the forecast period to reach US\$2.6bn in 2014. Spending is expected to resume single-digit growth in 2010, after a contraction in 2009 due to the economic slowdown and unemployment hitting consumer demand for electronics goods. Household consumption moved into negative territory in 2009, and although there was a slight recovery in H209, trading conditions remained tough.

#### Software

Israeli software spending is projected at \$1.0bn in 2010, up from \$973mn in 2009. The packaged software segment is expected to grow at a CAGR of around 7% over the forecast period. Businesses are expected to remain cautious, deferring investments or looking for 'good enough' solutions to immediate problems. However, there should still be several growth areas going forward.

Spending on software is shifting towards the SME segment, which forms the mainstay of the Israeli business sector. Spending on enterprise solutions has grown since 2007, with reviving or emerging areas of opportunity including security, customer

relationship management (CRM) solutions and business intelligence. In terms of verticals, the financial sector has been a mainstay of demand, with other key opportunities including defense and healthcare.

#### IT Services

The IT services segment is estimated at US\$1.6bn in 2010, and this is expected to grow at a CAGR of 7% over the forecast period to reach US\$2.1bn in 2014. In early 2010, there were reports of a pick-up in the flow of projects, but growth is expected to reach a higher trajectory in the second half of our five-year forecast period.

Government and defense are two key sectors likely to be a continued source of opportunities, because the factors driving spending in each case are not particularly sensitive to economic vicissitudes. Another key area of opportunity is healthcare IT. Despite failing to capitalize in the past, Israel is starting to emerge as a desirable location for packaged applications and localization services.

#### E-Readiness

Israel's relatively high PC penetration and the growing availability of broadband access mean that internet penetration is likely to continue its upward trajectory. The government has announced that it intends to make a big effort to narrow the digital gaps that manifest themselves across various demographic lines.

Israel's strong broadband growth has long relied on a handful of developments across the market. These include the competition between Bezeq and the cable companies, with five major internet service providers (ISPs) vying for market share from both the corporate and residential markets, which enjoy high PC penetration rates, advanced telecoms infrastructure and minimal regulatory intervention. Another development likely to stimulate growth is the introduction of local loop unbundling (LLU), which will give alternative operators

access to Bezeq's network and will stimulate much greater competition. LLU was due to be implemented by end-2009.

### **Israel's Stanley Fischer among top six**

Leading financial magazine Global Finance named Bank of Israel Governor Stanley Fischer among the top six World's Best Central Bankers for the year 2010.

Stanley Fischer

The "Central Banker Report Card" graded heads of central banks from 30 countries around the world on an "A" to "F" scale for success.

Among the criteria taken into account were inflation control, economic growth goals, currency stability and interest rate management, as well as subjective criteria, such as "determination to stand up to political interference," publisher of the Global Finance magazine was quoted as saying in the article.

Other figures mentioned in the list were Jean-Claude Trichet from the European Union, Glenn Stevens from Australia, Zeti Akhtar Aziz from Malaysia, Lee Seongtae from South Korea, Fai-Nan Perng from Taiwan, and Durmus Yilmaz from Turkey.

Fischer was praised after Israel weathered the global financial crisis far better than many other of the Western countries.

Fischer said Israel underwent nothing worse than an economic slowdown. He said the country got through the global crisis with relative ease partly because it was already in good shape when the crisis began, with a sound fiscal policy and a balanced budget. In addition, Israel's public debt was on the decline compared with GDP, and it had a relatively low level of household debt.

Earlier this month, Fischer said at a World Jewish Congress board of governors meeting in Jerusalem that a peace deal with the Palestin-

ians could hike up Israel's gross domestic product by between 5% and 6%.

### **BrightSource headed for a public offering**

The American economy may be in recession, but it could be that big crash has set the world up for a new paradigm: investing in and building responsibly managed companies that have the earth in mind – not their CEO's and VP's big bonuses. Maybe it's time to take your cash out from under the mattress: preparing for a US public offering is the Israeli-founded solar energy company BrightSource. The company is to build the largest ever solar-powered steam turbine generator in the world, in California. It hasn't been without its struggles: environmentalists showed how the original build site for the solar panels interfered with coyote land; recently the company also made plans to relocate a native tortoise.

Now it looks like it's full steam ahead for BrightSource. The Israeli business newspaper Globes reports that BrightSource has just raised an additional \$30 million, bringing its investment total to \$300 million.

BrightSource just raised this month \$10 million from the Russian government venture capital fund, an international venture capital fund and two unnamed private strategic investors. While founded only 4 years ago, BrightSource Energy is the parent company of BrightSource Industries (Israel) Ltd. (formerly Luz II – years in the business), and was set up to promote activities in the US.

And now the public will be able to invest in the company: the Wall Street Journal reported that BrightSource had hired the services of investment banks Morgan Stanley and Goldman Sachs. Although it's not clear when the public offering will be made. The offering may be in 2011, depending if they can raise another \$200 million or so before then, the CEO said.

BrightSource is developing more than 4GW of solar power projects in Southwestern states –

enough to power 1.4 million homes. BrightSource now has more than 2.6 gigawatts of power under contract, including the two largest solar power agreements ever – 1,300 megawatts with Southern California Edison and 1,310 megawatts with Pacific Gas & Electric Company. The company's Solar Energy Development Center in Israel's Negev Desert is demonstrating BrightSource's Luz Power Tower (LPT) 550 technology and producing the world's highest temperature and pressure solar thermal steam.

Previous investors of BrightSource include Alstom S.A., Black River, BP Alternative, California State Teachers Retirement System (CalSTRS), VantagePoint Venture Partners, Morgan Stanley, Draper Fisher Jurvetson, Chevron VC Fund, Google and StatoilHydro.

### **Medical device company LifeWave signs Brazil deal**

LifeWave can also grant the firm distribution rights to other South American countries.

LifeWave Hi-Tech Medical Devices Ltd. (TASE: LIFE) has signed a memorandum of understanding (MOU) with a Brazilian medical devices distributor, for the distribution of the company's BST (bioelectrical signal therapy) device for the treatment of chronic sores.

Medical device distributor PDO Medical acquired the distribution rights for five years, after which the agreement can be extended for 1-year periods.

PDO will pay LifeWave \$100,000 with the signing of the MOU.

PDO committed to buying at least \$700,000 for 2011 and 2012. The minimum purchases for the following years will be set in a formal agreement, but will not be less than \$400,000 per year. can countries.

### **\$4.2m. in BIRD investments**

BIRD – Israel\_US Binational Industrial R&D Foundation to invest \$4.2 million in six projects involv-

ing medical simulations, tuberculosis vaccine and reduction of air pollution– During its meeting last week, the Board of Governors of the Israel\_US. Binational Industrial Research and Development (BIRD) Foundation, approved \$4.2 million of funding for six new projects between Israeli and American companies. In addition to the grants from BIRD, the projects will access private sector funding, boosting the total value of all projects to \$18 million.

The BIRD Foundation promotes collaboration between Israeli and American companies in various technological fields for the purpose of joint product development. Specifically, the Foundation assists by locating strategic partners from each country, making the necessary introductions, and providing conditional grants up to \$1 million for approved projects.

The six projects approved by the Board of Governors add to the more than 800 projects in which the BIRD Foundation has invested over its 33 year history. To date, BIRD's total investment in these projects has exceeded \$280 million, helping to generate direct and indirect sales of more than \$8 billion.

Among the approved projects are the following: Bet Shemesh Engines (Bet Shemesh, Israel) and Lean Flame (Washington D.C.) will develop and commercialize a next generation, ultra\_low emissions product for the commercial aircraft industry, which will reduce air pollution significantly.

IBM Israel (Haifa, Israel) and Tensorcom (San Diego, CA) will develop an ultra\_low power 60GHz wireless capability for short distance applications.

NanoPass Technologies Ltd. (Nes Ziona, Israel) and Infectious Diseases Research Institute, (Seattle, Washington) will codevelop a novel microneedle technology for intradermal delivery of tuberculosis vaccines.

Simbionix Ltd. (Lod, Israel) and Health Profes-

sions Conferencing Corporation (Tampa, Florida) will develop a simulation module for laparoscopic hysterectomy. Clinicians will be able learn, practice and receive feedback on performing the critical steps of the procedure, in a realistic environment, without risk to actual patients.

- VCortex Ltd., (Kiryat Gat, Israel) and Presstek Inc. (Greenwich, Connecticut) will combine their capabilities to design an automatic color control for digital printing, leading to more capable and more productive digital press.

### **\$341 million raised in Q3 2010**

Ninety-six Israeli high-tech companies raised \$341 million from venture capital funds and other venture investors – both local and foreign – in the third quarter of 2010. The amount raised was similar to \$343 million raised by 104 companies in the previous quarter, and 13 percent above \$303 million raised by 108 companies in the third quarter of 2009. In the first three quarters of 2010, Israeli high-tech companies raised a total of \$918 million, 8 percent above the \$847 million raised in Q1-Q3 2009.

In Q3 of 2010, the average financing round was \$3.55 million, compared to \$3.3 million in Q2 2010 and \$2.8 million in the third quarter of 2009.

“The data suggest a slow recovery in the local high-tech sector’s ability to raise capital. The third quarter was similar to the previous quarter in terms of capital raised by high-tech companies, and essentially better than what we have seen over the past two years,” says Koby Simana, CEO of IVC Research Center. “However, capital raising for Israeli VC funds has been frozen for quite a while, and therefore we expect further difficulties in future venture capital raising by high-tech companies.”

Fifty-seven companies attracted more than \$1 million each. Of these, two companies raised more than \$20 million each, eight companies raised \$10 million to \$20 million each and 13 companies raised \$5 million to \$10 million each.

Israeli VC Fund Investment Activity

In the third quarter of 2010, Israeli VC funds

invested \$109 million in Israeli companies, 20 percent more than the \$91 million invested in Q2 2010, and 22 percent above the \$89 million invested in the third quarter of 2009. In the first three quarters of 2010, Israeli VC funds invested \$278 million in Israeli companies, a decrease of 10 percent from the \$308 million invested in the corresponding period of 2009.

The Israeli VC share of the total amount invested in Israeli high-tech was 32 percent in Q3, with the remainder of capital coming from foreign investors as well as non-VC Israeli investors. In the first three quarters of the 2010, the Israeli VC fund share was 30 percent, compared to 36 percent in the corresponding period of 2009.

First investments by Israeli VC funds accounted for 28 percent of total investments in the third quarter, compared to 36 percent and 20 percent in Q2 2010 and Q3 2009, respectively. In the first three quarters of 2010, first investments accounted for 30 percent, equal to the 30 percent in Q1-Q3 2009.

The average first investment by Israeli VC funds in Q3 2010 was \$1.94 million, while the average Follow-on investment was \$1.04 million.

Israeli VC funds invested \$20 million in foreign companies during Q3 2010 (in addition to their investments in Israeli high-tech companies), compared to \$12 million in Q2 2010 and \$18 million in Q3 2009. Three out of 11 foreign transactions were first investments.

### **Capital Raised by Sector**

The Communications sector led capital raising in Q3 2010 with \$97 million or 28 percent of capital raised, followed by the Software sector with \$57 million or 17 percent and the Life Sciences with \$54 million or 16 percent.

In the first three quarters of 2010, Life Science companies attracted \$249 million or 27 percent of total capital raised, which compares with \$210 million or 25 percent in the first three quarters of

2009. The Communications sector followed with \$189 million (21 percent), and Internet was next with \$151 million (16 percent).

#### Capital Raised by Stage

Nine Seed companies attracted \$3 million, 1 percent of the total amount raised in Q3, compared to \$15 million raised by 17 seed companies in the previous quarter, and \$14 million raised by 16 companies in Q3 2009. Early Stage (R&D) companies captured 32 percent of total capital raised, while Mid-Stage companies (up to \$10 million in revenues) attracted 48 percent of total capital raised (Chart 2).

During the first three quarters of the year, Seed companies attracted \$29 million, 3 percent of the total funds raised, compared to \$52 million or 6 percent in Q1-Q3 2009. Early Stage (R&D) companies accounted for 33 percent, Mid-Stage companies (up to \$10 million in revenues) 48 percent, and Late Stage companies 16 percent.

#### McGraw-Hill Education acquires Tegrity

McGraw-Hill Education, a division of The McGraw-Hill Companies, Inc. (NYSE: MHP), announced the acquisition of Tegrity, Inc., a privately held company. The terms of the acquisition were not disclosed.

Tegrity's service acts, in part, as a fully searchable digital video recorder for the classroom, enabling colleges and universities to automatically record every class for review by students anytime and anywhere. But this innovative lecture capture technology takes student engagement well beyond the passive act of listening to, or viewing recorded course content. Rather, students using Tegrity can interact with the content, along with fellow classmates and instructors, in ways that make the learning process more efficient and more personal. With Tegrity's innovative "search anything" technology, students can instantly recall key class moments for replay online, or on mobile devices.

Tegrity's highly scalable, automated lecture capture service has been sold to more than 200 educational institutions and used by thousands of instructors to record classes, learning tutorials, review sessions and more. The acquisition puts McGraw-Hill at the forefront of delivering course content digitally in order to enhance learning efficiency and promote collaborative study.

"Students have repeatedly told us that the ability to go back and review material presented in class anytime, anywhere is their most powerful tool for studying and learning, and Tegrity is already one of the most popular features in McGraw-Hill Connect®, our all-digital teaching and learning platform," said Peter C. Davis, president, McGraw-Hill Education. "Our acquisition of Tegrity expands our commitment to the growing demand for digital content and tools for today's students."

Tegrity lecture capture has been a core feature of McGraw-Hill Connect since the platform's debut in fall 2009. In a recent survey of Connect users, more than 75 percent of students found that class capture made their study time more effective, demonstrating that class capture technology is not only popular among students, but it also improves learning outcomes. Instructors were also strong supporters of the technology.

"In addition to serving as a great study tool for my students, Tegrity lets me spend more class time on difficult topics that students can struggle with if they're only reading the text," said Dr. Genie Black, professor of management at Arkansas Tech University. "While there's no substitute for attending class, students who were absent can easily access classes whenever and wherever they wanted, and my foreign students were able to review lectures to pick up on information they missed in the classroom."

In order to bring these compelling benefits to all students, Tegrity's unique cloud-based service model (content can be stored in the Tegrity Cloud or on campus) offers institutions a completely automated workflow; and does not require that they purchase, install, manage or maintain any

special hardware, software or classroom-based appliances. Rather, all that's needed is a PC or Mac and a supported web browser.

### **Intel to receive NIS 678m government grant**

Intel Corp. (Nasdaq: INTC) has been told by Israel's Ministries of Industry, Trade and Labor, and Finance that they have agreed to a grant of NIS 678 million for the expansion of its fab at Kiryat Gat.

Intel had asked for a grant of \$400 million, which is 15% of the cost of expanding the Kiryat Gat plant, but will only receive about \$200 million. The grant will be spread over eight years, and in exchange, Intel will commit to invest NIS 10 billion in Israel and to hire hundreds of new employees at its Kiryat Gat plant, and dozens of new employees at its Jerusalem R&D center.

Intel have also been offered an additional NIS 63 million grant if it expands some of its R&D centers in Israel's peripheral regions or makes R&D investments at Israeli research institutes.

The grant is subject to the approval of the Ministry of Industry, Trade and Labor's Investment Center and the Knesset Finance Committee.

A statement from the Ministry of Industry, Trade and Labor said, "In discussions representatives of Intel committed, on behalf of the company, to make every effort to see that Intel's next investment in upgrading technology will be implemented in Israel."

### **Elbit Systems Ltd. (Nasdaq: ESLT; TASE: ESLT) wins upgrade contract**

The deal is worth approximately \$56 million. Elbit said that the tank upgrade project will include the installation of advanced battle management systems, as well as cutting edge observation and surveillance systems. The project will be completed within two years.

Elbit Systems president and CEO Joseph Ackerman said, "Our selection for this upgrade project, following previous projects we have carried out for

this customer, attests to the high level of satisfaction with our systems and performance."

Ackerman added that both Elbit Systems subsidiaries Elbit Systems Land & C4I - Tadiran and Elbit Systems Electro-optics (Elop) will take part in the project.

### **IMF optimistic on Israel's 2010 growth**

The IMF forecast is higher than the Bank of Israel's 4% prediction.

6 October 10 17:7, Ron Dagoni, Washington  
The International Monetary Fund (IMF) forecasts 4.2% GDP growth in Israel in 2010, up from 0.8% growth in 2009. The optimistic forecast is contained in the IMF's bi-annual World Economic Outlook report which was published today on the eve of the IMF conference in Washington DC.

The IMF forecast is higher than the Bank of Israel's 4% prediction, which was issued on September 29, having been revised upwards from its 3.7% forecast in April.

In 2011 the IMF expects a slight slowdown in Israeli GDP growth to 3.8%, exactly the same prediction as the Bank of Israel.

Israel's 2010 IMF growth forecast is considerably higher than most other developed economies. The IMF predicts 3.3% growth for Germany, 1.6% for France, 1% for Italy, 1.7% for the UK, 2.9% for Switzerland, 1.8% for Holland, 2.6% for the US and 3.1% for Canada.

The IMF predicts that Israel's Consumer Price Index (CPI) will rise 2.3% in 2010.

### **PMC-Sierra buys Wintegra**

Internet infrastructure semiconductor solution provider PMC-Sierra reported that it has signed a definitive agreement to acquire Wintegra Inc. a developer of network processors optimized for mobile backhaul equipment.

PMC-Sierra will pay Wintegra \$240 million, less an estimated net cash amount of \$27 million on

Wintegra's balance sheet at time of closing, for a net purchase price of \$213 million. PMC-Sierra intends to use its existing balance sheet cash to finance the acquisition. PMC-Sierra will pay up to an additional \$60 million based on growth and performance milestones in 2011.

The acquisition of Wintegra expands PMC-Sierra's presence in Israel, where its FTTH business is based. In 2006, PMC-Sierra acquired Herzliya-based Passave, a developer of system-on-chip semiconductor solutions for the Fiber To The Home (FTTH) access market, for \$300 million.

Wintegra has 165 employees with the majority of its R&D development team located in Ra'anana, and in Austin, Texas. Wintegra founders Kobi Ben-Zvi and Robert O'Dell will join PMC-Sierra.

Wintegra's WinPath network processors and software are used in 3G and 4G base stations, fiber and microwave cell-site routers, as well as radio network controllers deployed globally in mobile networks. These single-chip solutions enable carriers to increase throughput on their mobile backhaul networks while successfully scaling and migrating to packet-based architectures.

Mobile networks worldwide face explosive growth in video and data traffic fueled by the rapid adoption of 3G and 4G smartphones, tablets, and netbooks, so carriers are upgrading their mobile backhaul equipment as they move from TDM to packet-based architecture. Packet-based mobile backhaul enables carriers to increase bandwidth capacity to accommodate projected ten times growth in mobile data traffic over the next three to four years.

PMC-Sierra president and CEO Greg Lang said, "Carriers are moving rapidly to IP-based mobile backhaul, and Wintegra's product offering is uniquely positioned to enable this packet transition and breakthrough the bandwidth bottlenecks

faced in mobile networks."

The transaction is expected to be immediately accretive to PMC-Sierra's earnings.

Chip co Broadcom buys femtocell co Percello Semiconductor company Broadcom (Nasdaq: BRCM) is buying Ra'anana-based Percello Ltd., a privately-held company that develops system-on-a-chip solutions for femtocells.

Broadcom will pay about \$86 million in cash (net of Percello's cash) for all the shares in Percello. In addition, up to another \$12 million in cash will be reserved for future payment to the former holders of Percello capital stock and other rights based on meeting specific performance milestones.

A portion of the cash consideration payable to the stockholders will be placed into escrow to cover indemnity obligations.

Broadcom has three development centers in Israel - in Ramat Gan, Yakum, and Airport City.



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