

US: Israel Economy will Thrive as Proposed Road Map Plan Progresses

US Secretary of State, Colin Powell, called upon Israel and the Palestinians to take immediate steps to implement the US-backed road map peace plan. Powell visited the region in mid-May.

The plan foresees three stages leading to a full two-state solution: an end to Palestinian terrorism; a freeze on Israeli settlements; and negotiations leading to a Palestinian state by the end of 2005.

"If the road map progresses as planned, next year would see success in Israeli high tech and an improved Israeli economy", US Ambassador to Israel, Dan Kurtzer, said during an Israel Venture Association (IVA) conference in April.

New Palestinian Government Vows 'No' to Terrorism

Newly-elected Palestinian Authority (PA) Prime Minister Abu Mazen has announced the Palestinians will renounce terrorism. The Prime Minister, who took office in April, claims the Authority is already taking steps to fight terrorist groups.

However, several terrorist attacks against Israelis have been carried out by Palestinian militant groups since the declaration. Hamas terrorist organization claims the PA cannot, nor intends to, disarm it.

PA Minister Zayad Abu Zayad said that the Palestinians need time in order to convey to their people that conditions are improving. "We need time to organize all of our institutions, to rehabilitate them. Then they will be ready to carry out the missions we will demand of them. We must broadcast to the street that the situation is changing... that there is a diplomatic vision," he said.

Labor Leader Resigns

After less than six-months as Labor Party chairman, Amram Mitzna stepped down early May. Mitzna, a former army general and mayor of the city of Haifa, will stay on as a member of Knesset (Israeli parliament).

AT HOME WITH HOMELAND SECURITY

September 11th has shown the Western World what Israel has painfully experienced since its inception as a state over 50 years ago: Terrorism threatens not only the lives of individuals but the very existence of democracy and economic stability.

Necessity is the mother of invention: In fact, Israel owes its innovative hi-tech industry to its need to find sophisticated solutions to a growing variety of security threats. The first Israeli technologies in the field of Homeland Security naturally surfaced at the Army's R&D labs decades ago. However, commercial applications soon followed suit, as skilled engineers entered the civilian market.

The growing recognition of the need for Homeland Security solutions following 9/11 met fertile ground in the Israeli technology scene. Israeli entrepreneurs use their real life experience to pinpoint market needs and test new ideas; they are world-renowned for their expertise in the area of Security; there is an abundance of skilled workforce, which is being replenished yearly with army veterans; there is support for Homeland Security enterprises both from the government and private sectors, as security companies, such as Elbit Systems, Rafael and IAI, have made it their business to support security-related start-ups at various stages of development.

The market is large and growing: The US Government and enterprises will allocate about \$100B this year for Homeland Security investments, and more in the future. The valuation of security-related companies on the Nasdaq almost doubled since September 10, 2001, while the S&P500 lost about 20%.

We, at Eurofund, expect to leverage our experience in security-related technology in order to make prime investments in this area. However, we believe investments in any field should be conducted with great care, especially in today's economic conditions. We have therefore decided on what we deem a safe way to enter the world of Homeland Security: via "Dual-Use" products and technologies, such as in the areas of computer storage security and telecommunication security. We are excited about this opportunity and hope to bring you good news in the near future about our progress in this field.

Aharon Beth-Halachmi, *Managing Partner*

VENTURE CAPITAL

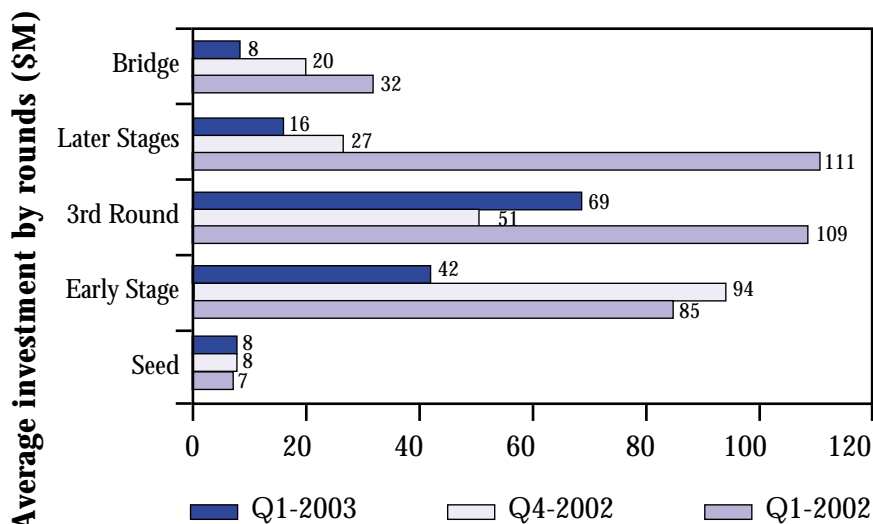
VC-Backed Investments Down, Life Sciences Up

Q1/03 marked another quarter of decrease in venture-backed high-tech investments in Israel. According to the MoneyTree Survey conducted by Kesselman & Kesselman PwC, high-tech companies raised \$143M in Q1/03, a 29% decrease as compared to the previous quarter (\$200M) and 58% less than the corresponding period in 2002 (\$344M).

According to the survey, there was a 30% drop in the number of

companies raising capital this quarter as compared to the previous quarter – the lowest number of deals since Q1/98 (49 deals). The average investment in a company was \$2.4M this quarter – unchanged compared to Q4/02.

The life sciences sector recorded an unprecedented achievement: 33% of the deals for the quarter were carried out in this sector, which attracted \$27M, 19% of the total dollar volume of investments.



- LBO fund **FIMI** (First Israel Mezzanine Investors) has secured \$100M for its FIMI Opportunity fund. Contributors include Migdal Insurance, Israel Phoenix Assurance Company, Bank Hapoalim, Israel Discount Bank, United Mizrahi Bank, and Ampal.

- Life sciences fund **Vitalife** closed its first fund at \$50M. Investors include HarbourVest, Discount Capital Markets and Investments, SCP Private Equity Partners, Boston Scientific and Evergreen.

- According to Forbes magazine, **JVP** (Jerusalem Venture Partners) is one of the 50 most active venture

capital funds in the world. Also on the list are Benchmark, Accel Partners, HarbourVest, JPMorgan, Warburg Pincus, Softbank, and JAFCO. JVP manages \$660M.

- **Shamrock Holdings** is considering setting up a \$100-\$250M investment fund in Israel.

VC INVESTMENTS

- **Actona Technologies**, a provider of storage centralization software, closed its Series B round at \$11M from Sequoia Capital, Evergreen Partners and Fantine Group.

- **Adapt Media**, a developer of ad broadcasting solutions, has closed \$8.65M from Dolphin Equity Partners, Arca Group, FA Technology Ventures and Grove Strategic Ventures.

- **Can-Fite BioPharma**, a developer of small molecule drugs for treating cancer and inflammatory diseases, has completed a Series B financing of \$11M, from Vitalife, Giza, Ascend, and Yozma Biocom.

- **Comverge**, a provider of energy monitoring and communications software to utilities and energy service companies, has raised \$13M in a Series A round. Investors include Nth Power, E.ON, EnerTech, Shell Internet Ventures, and Easton Hunt Capital.

Comverge is a subsidiary of publicly held Data Systems & Software (Nasdaq: DSSI), which also participated in the round and remains the largest shareholder in the company.

- **Crescendo Networks**, a developer of solutions for improving web server performance, raised \$5.2M in a Series A round from Apax, Magnum, StageOne, and Convergent Capital.

- **FilesX**, a provider of data recovery software, closed a \$7.5M Series C round from Benchmark, Index Ventures and Genesis.

- **Invoke Solutions** (formerly NetOnCourse), a provider of online marketing research software, has secured \$6M in a Series B round from Bain Capital and BRM Capital.

- **Legra Systems**, a provider of indoor wireless LAN switches, lightweight radio ports, and management software for the enterprise market, has raised \$6.5M from Genesis and Kodiak Venture Partners.

- **Magink Display**, a developer of full-color, digital-ink billboards for outdoor advertising, has raised \$5M in Series B financing from Japan Asia Investment Co., Marubeni, TFG Venture Capital, Green Venture Capital, and Clal Electronics.

- **Skybox Security**, which develops Network security solutions, raised \$6M from Lightspeed Venture Partners, Benchmark Capital, Carmel Ventures and Mofet.

- **TransChip**, a developer of single chips for mobile phone cameras and other multimedia-enabled devices, has closed a \$5.5M Series C round from Mission Ventures and Cadence, as well as previous investors Ray Stata, co-founder and CEO of Analog Devices, and Andrew Viterbi, co-founder of Qualcomm.

M&As

- Israeli chip maker **Zoran** (Nasdaq: ZRAN) is to acquire Oak Technology (Nasdaq: OAKT) of California, provider of embedded solutions for digital imaging, for \$358M in cash and shares.

- **Mey Eden** Mineral Water is to sell Groupe Danone 20% of the company at a \$400M company value, 185% above market price.

INFRASTRUCTURE

- **El-Al**, Israel's government-owned national airline, is to be fully privatized. The government intends to float El Al on the Tel Aviv Stock Exchange (TASE) this month. This may mean that El-Al will fly on the Sabbath, which it is prevented from now, but that the airline will not retain the reduced rent and other benefits it has so far enjoyed as a government corporation.

INDUSTRY

- Israeli drug giant **Teva Pharmaceuticals** (TASE, Nasdaq:TEVA) reported another record quarter, Q1/03. Revenues increased 39% from Q1/02 to \$757.4M.

- **Mercury Interactive Corporation** (Nasdaq: MERQ) will issue \$500M of zero coupon senior convertible notes, due 2008, to qualified institutional buyers.

- **Comverse** (Nasdaq: CMVT) is making a \$350 million private placement of zero-yield securities, due 2023.

BANKING

- Moise and Joseph Safra are selling their stake (52%) in **FIBI Holdings**, the parent company of the **First International Bank** of Israel, to a group comprising of Bino Holdings (55%) and the Liberman family of Australia (45%).

The deal, worth around \$90M, will be made in cash. The price of First International Bank's acquisition reflects a premium of 18% above market value of the shares.

Market analysts consider the price remarkably low. Israel Discount Bank maintains it has a right of first refusal to buy the stock in FIBI Holdings. Israel Discount Bank has 26.4% in FIBI.

GENERAL

- **Israeli Economy Improves.** According to the Central Bureau of Statistics, the state of the economy improved at the beginning of the year, with rising exports of goods and higher high-tech output, due to the depreciation in the value of the

Shekel. The report says exports of goods, excluding diamonds, rose by an annualized 8%, and industrial production rose by an annualized 2%, in February-March 2003. High-tech output rose by an annualized 8%.

- **US Loan Guarantees Depend on Economic Reform.** Finance Minister Benjamin Netanyahu's bill for the implementation of economic recovery passed its first Knesset (Israeli Parliament) reading at the end of April.

Netanyahu's reform includes an 8% pay cut in the public sector; a 10% cut in ministries' discretionary budgets; streamlining at ministries; transferring employees; merging local authorities; and restricting private legislation by MKs.

As a result of failed negotiations with the Government, the Histadrut (General Federation of Labor) launched a general strike, which included government offices, local authorities, schools, public transportation, banks, TASE, the Postal Authority, ports, railroads, and more. The strike has since been called off.

US Ambassador to Israel, Daniel Kurtzer, has said that the US administration's response to Israel's request for \$9B in loan guarantees is linked to the approval of the economic plan.

- **Foreigners Return to the TASE.** Data from the Israel Organization of Mutual Funds shows that while Israelis are not yet buying stocks, foreign investors are.

According to figures published by the Central Bank of Israel, foreign investors infused \$163M net to Israel, after withdrawing \$157M in January and February (collectively).

In March, Foreigners invested \$137M in the Tel Aviv Stock Exchange while only \$23M in February.

● **Schema**, a global provider of optimization and planning solutions for wireless operators, continued its growth through Q1/03. Several product validation trials and projects are currently taking place throughout the Americas, Europe and Asia-Pacific.

During the 3GSM conference in Cannes, France, Schema announced the release of its GPRS/EDGE Data Planner product, which allows operators to plan new data services over GSM networks, while maintaining high quality voice service.

Schema was recently chosen by Venture Reporter as one of 25 leading startup companies expected to go public on Nasdaq in the next two years.

www.schema.com

● **ART** (Advanced Recognition Technologies) has recently announced its cooperation with Xelibri, the new fashion accessory division created by Siemens. ART's smARTspeak NG has been chosen to power the flagship model of the new Xelibri fashion phone collection, Xelibri 3. The new device is purely voice activated by a User Interface developed jointly by ART and Xelibri and it is the first GSM mobile phone to support speaker independent recognition functionality.

Established in 1990, ART develops and markets solutions for the control and command of mobile devices by human voice and natural handwriting. Among the company's customers are Panasonic, LGE, Xelibri, Mitsubishi, NEC, Logitech, Compal, RAKS, Siemens, VDO, Hitachi and others.

www.artcomp.com

● **Eldat Communications**, a developer of electronic communications systems for retailers,

has signed a contract with French supermarket chain Casino for the immediate supply of millions of wireless price tags.

Eldat's Electronic Shelf Label System will be installed at 94 Casino locations across France. The contract is estimated at \$12M this year, and at \$40M over the next few years.

Casino is one of the largest marketing chains in Europe, with 448 locations in France, and over 1,000 stores in the US, Poland, South America, Taiwan and Thailand. Casino plans to install the system in more stores in the coming years.

www.eldat.com

● **Hotbar.com** has diversified its offering by adding a new eMail toolbar. This new addition has proven popular amongst eMail users and helped increase the company's community of users.

Hotbar's patent pending browser technology enhances and personalizes the user's surfing experience, directing surfers to prepaid content, technology and service sites.

In Q1/03, the company had the best results to date both in terms of revenue and profitability. Founded in 1999, headquartered in New York, NY, Hotbar has 65 employees worldwide and is profitable.

www.hotbar.com

● A leading designer and manufacturer of in-building and wireless LAN coverage solutions for corporate enterprises and wireless service providers, **Foxcom Wireless** continues to build a strong backlog and is expecting a very strong H1/03. Foxcom Wireless' fiber optic-based distributed antenna systems enable seamless, reliable wireless coverage in such locations as corporate campuses, hospitals, and universities.

www.foxcomwireless.com

● **RADWIN** has recently completed a financing round of \$8M. The company's solution enables Cellular Operators, ISPs and veteran telecom players to rapidly deploy broadband wireless access solutions that support both traditional circuit and data services. RADWIN commenced to deploy its product at the end of 2002 and already have some commercial pilots in Central-Eastern Europe Africa and Asia.

www.radwin.com

● Q1/03 marked a 10th sequential quarter of profitability for **Verisity Ltd.** (Nasdaq: VRST), a leading supplier of essential technology and methodology for functional verification. Revenue for the quarter was \$11.7M, a 2% increase from revenue of \$11.5M for Q1/02. The company's net income for Q1/02 was \$1.9M, compared to \$2.2M in Q2/02. Eurofund was the first fund to invest in Verisity.

www.verisity.com

● **ColorChip** has made significant progress in its two main product lines in Q1/03. The first products based on ColorChip's glass ion exchange PLC (Planar Light Circuits) technology have been delivered to customers in Israel and in the Far East. Pre-Production series of PLC products have been completed and the company is positioned to manufacture the products at a low volume. Larger production capacity can be reached within the next 3 months. In the transponder product line the company has completed installation of its first product in a carrier site and is in advanced phases of discussions with potential customers for the module.

www.color-chip.com