

Palestinian Terrorist Groups Declare Ceasefire

Palestinian terrorist organizations Hamas, Islamic Jihad and Fatah announced at the end of June they will suspend terror attacks against Israel for three months.

Israel, meanwhile, began withdrawing troops and tanks from Gaza Strip and plans to free Palestinian prisoners, but vows it will not let out "criminals with blood on their hands".

According to Israeli security sources, small-scale terrorist attacks should be expected in the near future. The number of terrorist attack alerts has plunged significantly since the ceasefire was announced.

However, there is still a significant number of daily alerts, most of which are attributed to the Fatah group, which is associated with the Palestinian Authority.

The IDF said it would continue to act against attacks that are already in the pipeline, and would make arrests in cities where it is still present.

Talks Planned for Trade Increase with Palestinians

The Israeli government has initiated a series of meetings with Palestinian ministers, to spearhead mutual trade, which has dropped 50% in the past year.

Until the outbreak of the intifada, Israel sold about \$2.5B worth of goods to the territories and imported about \$800M worth.

Netanyahu: Separation Fence – Under any Treaty

Minister of Finance Benjamin Netanyahu said the Green Line separation fence would be part of any political settlement with the Palestinians.

Netanyahu said in a *Globes* interview that three factors necessitated the fence under any circumstances: "To prevent the growing Palestinian population from seeping into Israel; preserving Israel's labor market; and above all, preventing the Palestinian state from procuring arms that would threaten Israel".

Netanyahu said NIS 1.8B had already been budgeted toward the construction of the separation fence.

THE NEXT WAVE OF ADVANCED TECHNOLOGIES

Some of the advanced technologies currently being developed will give birth to revolutionary products. I refer mainly to advanced research currently underway in areas such as nanotechnology, biotechnology, the combination of biological and engineering devices and systems, brain-research and artificial intelligence.

Venture capital funds should be interested in such state-of-the-art capabilities and need to analyze how they can be developed and transformed into products that create new markets. If we do so, and are willing to risk our capital and contribute our knowledge and experience to the process, we may enjoy the fruits of success.

A venture capital fund considering making such a commitment should bear in mind certain key facts that have fundamental and far-reaching implications:

- The kind of early stage R&D under discussion (up to the point where a working prototype of the product is completed) is generally conducted at universities and similar research institutes;
- It is, for the most part, conducted by extremely talented PhDs with multi-disciplinary experience;
- This research requires very expensive infrastructure.

In general, such infrastructure has not been made available in Israel. It is a well known fact that a majority of the high-tech startups in the last ten years were founded (and funded) by young scientists and engineers with little experience and limited infrastructure. The most successful ones were started in basements, cellars and garages by BSc/Engineers with only a few years of relevant army experience.

To participate in the next wave of technology developments and the market opportunities they will create, a venture capital fund should be willing to:

- Search the universities and research institutes for the best teams in these new areas and identify the teams that can produce promising results;
- Cooperate with these select teams by investing money, finding strategic industrial partners, coordinating reliable relationships and coaching the whole process.

This is going to be a big challenge for the venture capital industry.

Aharon Beth-Halachmi, *Managing Partner*

VENTURE CAPITAL

- **Vintage**, a new secondary fund, has completed a \$30M first closing. The fund is targeting a \$50-\$70M final closing. The fund's main investors are Aharon Dovrat and Shlomo Dovrat, and it is managed by Alan Feld.
- **Advent International** has allocated \$30M for seed investments in Israeli technology companies. Gemini Israel Funds will collaborate with Advent in investing this money. Advent, which has \$6B under management, helped establish the Gemini I fund in 1993.
- Former Discount Investment Corporation managing director Dov Tadmor has established **IEL Equity**, a private holding and investment company focused on acquiring majority control in companies. Tadmor will be partnered by the Parkwood Corporation investment group.
- **Appilog**, a developer of applications optimization solutions, has closed a \$6.5M financing round by Cedar, Poalim Ventures and Delta Ventures.
- **Atrica** has raised \$17M from Intel Capital, Gemini, St. Paul Venture Capital, France Telecom's Innovacom Venture Capital, Ascend, Accel and Benchmark. Atrica, a provider of optical Ethernet equipment for the metro market, has raised \$134M to date.
- **BigBand Networks**, a developer of broadband multimedia platform solutions for broadcast television and on-demand services, has completed a \$15M series D round from Meritech, AOL, Charles River, Pilot House, Redwood and Evergreen.
- Israeli software start-up **Digital Fuel** raised \$8M from Benchmark Capital Israel, Sigma Partners, Israel

Seed Partners and Apropos IT Ventures. The company's software enables businesses to manage the cost and performance of outsourced data and commercial services.

- **Dotomi**, developer of a B2C messaging system for interactive TV and the internet, has raised \$5M from USVP. The company was established in 2000 by ICQ co-founder Yair Goldfinger and Esther Dyson, among others.

SHEKEL AT AN 18-MONTH HIGH

Amid expectations of a significant strengthening of the Shekel against the US dollar, JP Morgan purchased \$300-400M worth of put options on the dollar.

The options, bought in June, expire in August at an exercise price of NIS 4.25.

- **KaVaDo**, a developer of web application protection solution, raised \$10M in a third round of funding from Pequot Ventures, Banc of America Equity Partners, Neurone Ventures, and 3i.
- **Kodeos Communications**, a provider of 10 Gbps optical subsystems, raised \$6M in Series A follow-on financing to cap the round at \$18M. Existing investors Highland Capital Partners and JVP co-led the round.
- **MindGuard Medical Devices**, a developer of catheter and implant technologies to treat cardiovascular and cerebrovascular diseases, has raised \$15M from Medtronic, Tamir Fishman, Eucalyptus, Fantine, Polar, Pitango, Gemini, Yozma, and Ofer Brothers Group.
- **Native Networks** completed a third round of financing, raising \$11.5M. JVP and Infinity led the round. Native Networks offers metro Ethernet services over fiber infrastructure.

- **NLayers**, founded by Sanctum cofounder Gil Raanan, has raised \$3M from Walden and Gemini. NLayers develops software for automatic identification and mapping of the applications running on an enterprise's computers systems, and the links between them.

- **Quarry Technologies** is closing a \$19M funding round from existing investors 3i, JVP, Corvis, Walden, Dow Chemical, Verizon, BUCTF, Tredegar Investments, Sofinnova Ventures, Alta Partners, and ARCH Venture Partners.

- Digital printing technology developer **Scitex Vision** has raised \$6M from parent company Scitex (Nasdaq: SCIX), Clal Industries and Investments, and Discount Investment Corporation.

GENERAL

- The government's **emergency economic plan**, which won final Knesset approval in late May, took effect on July 1st. It includes public service salary cutbacks, income tax reform, a National Insurance payments ceiling, lower child allowances, and withdrawal of tax incentives for some "priority areas".
- Israel's **foreign currency reserves** amounted to \$24.1B at the end of June, up \$720M over the previous month. The increase stems from the Government's June bond offering on international financial markets. The reserves reflect high financial stability.
- **International traffic** to and from Israel continues its recovery in July, according to data released by the Israel Airports Authority. The number of passengers who used Ben-Gurion International Airport went up 11.8%. A similar increase was recorded in June.
- According to finance minister Benjamin Netanyahu, **government-**

owned banks will be ready for privatization within one year, while Israel's Oil Refineries and Bezeq, Israel's sole fixed communications services provider, may be ready by year's end.

- Medical equipment maker **Medinol** has won its first suit against Boston Scientific. A German court ruled that Boston Scientific's Express stent is an infringement of a Medinol patent.

Boston Scientific had formerly been the exclusive distributor of Medinol stents, but in early 2001, when talks to acquire the Israeli company failed, the healthcare giant began marketing a stent it had developed and manufactured in-house.

The court ruled that Medinol is entitled to demand that Boston Scientific stop selling the Express in Germany, the largest European stent market; recall the entire inventory already distributed; and pay compensation.

INTERNATIONAL FRONT

- The governments of Israel and **Singapore** agreed to increase funding in their joint R&D fund and to start expedited negotiations for mutual recognition of product standards in the two countries. Singapore said it is considering expanding its investments in Israel.

- Since the beginning of the year, **foreign investors** have injected a record-breaking \$3.1B into NIS-denominated assets, according to updated calculations by Israel's Central Bank. During the "bubble years" of 1999 and 2000, direct investments reached \$4B a year.

- Israel has signed an upgraded agricultural trade agreement with the **European Union** in June. The agreement sets new trade quotas for Israeli agricultural and agricultural-based industrial products.

M&As

- **Marvell Technology** (Nasdaq: MRVL), a developer of broadband communications technology and data storage solutions, has finalized its takeover of **Radlan Computer Communications**.

The deal now values Radlan, which engages in software routing, at over \$150M, based on the 100% climb by Marvell stock since the contract was signed.

- Storage software provider **Veritas** (Nasdaq: VRTS) has completed the acquisition of Precise Software Solutions (Nasdaq: PRSE), a provider of application performance management solutions.

The aggregate value of the merger consideration is \$609M. Veritas is in negotiations to acquire Israel-based Mercury Interactive (Nasdaq: MERQ), which is currently traded at a \$3B market cap.

- **Civcom** and **Xlight Photonics**, startups in the field of optical communications, have merged. Founded in July 2000, transponder developer Xlight was backed by JVP and Pitango.

Optical switch developer Civcom has raised \$21M from Mercator Broadband Partners, Concord Ventures, Aurum-SBC Ventures, Omninet Capital, and Formula Ventures.

NASDAQ

- The **Meitav New York 40 Online Index**, which gives a weighted average of the 40 largest Nasdaq-listed Israeli shares, achieved a cumulative 46.6% return in H1/03, while Nasdaq advanced only 21.5%. According to Meitav analysts, this figure marks the end of three lean years, during which Israeli shares plunged along with Nasdaq.

- Drugmaker **Taro Pharmaceutical Industries** (Nasdaq: TARO) has completed its offering of \$60M in longterm, non-convertible debt.

- **MRV Communications** (Nasdaq: MRVC) has completed a private placement of five-year convertible notes to an institutional buyer, receiving gross proceeds of \$23M.

- **M-Systems Flash Disk Pioneers** (Nasdaq: FLSH) may spin off its DiskOnKey (DOK) operations into a Nasdaq-listed company. DOK, a removable disk for transferring information between computers, is responsible for the company's growth in sales.

- Electronic payment technology company **Lipman Electronics Engineering** plans to IPO on Nasdaq during Q3/03. Lipman is controlled by First Israel Mezzanine Investors (FIMI) and Mivtach Shamir Holdings.



The UNESCO Council in Paris has declared Tel Aviv's White City a "World Heritage Site". The White City is a unique historical urban feature, built between the early 1930s and 1948.

● **MobileAccess Networks**, formerly Foxcom Wireless, introduced its new MobileAccess Product Family in Q2/03. The solution serves as the foundation for converged wireless networks for enterprise customers and mobile operators. This innovative architecture equips a completely unwired workplace (either building or campus) with support for all wireless applications currently available: WLAN, voice, paging, public safety, etc.

According to Richard Webb, Market Analyst for Infonetics Research, "MobileAccess Networks has honed in on a clear market need for supporting multiple wireless technologies in the enterprise environment.

www.mobileaccess.com

● **Cyoptics**, Inc., a supplier of optoelectronic components to the telecommunications market, has released its new product line (2.5Gb/s uncooled 1.55um DFB laser), aimed at the metropolitan networks market and other applications requiring span lengths up to 100km. The solution allows savings on costly cooling costs and solves interoperability problems.

CyOptics recently expanded its manufacturing capabilities by upgrading its fab, located in Yokneam Illit, Israel, and by acquiring the automated manufacturing assets of Allentown, PA-based CENiX Inc.

Founded in 1999, CyOptics has developed breakthrough InP active device technology and precision automated assembly and test capabilities of opto-modules.

www.cyoantics.com

● **Eldat Communication Ltd.**, a developer of Electronic Shelf Labels (ESLs) for the retail market, has signed an OEM agreement with

IBM. The agreement enables IBM to sell Eldat's ESL to retailers in Europe and North America. A number of retailers have already been approached and first orders are expected soon.

This quarter, Eldat has established itself as the leading ESL vendor in the retail market. In the European front, the completion of the 2-million-ESLs project for French Casino Group is in sight and the market is responding by increased interest in Eldat's products.

www.eldat.com

● This quarter, **OnePath Networks** released a new generation SDTV (Satellite Digital Television) product, extending the bandwidth to 850mhz, as well as a new product which includes a fiber return path.

OnePath Networks is a provider of fiber optic solutions for the professional satellite, broadcast, and MDU (Multi-Dwelling Unit) markets. The company designs, manufactures, and markets a broad range of fiber optic transmissions systems for point to point and point to multipoint applications.

www.onepathnet.com

● During Q2/03 **Schema** formed a partnership with AixCom, a developer of dynamic wireless network simulators. The companies will provide voice and data service products that enable operators to grow data services optimally and roll them out on GSM/GPRS/EDGE networks, while maximizing user experience and improving voice quality throughout the network.

Schema has recently expanded its management team with the appointment of three new members: Daphna Bahat as Associate VP of Marketing; Tom Hammond, VP of Sales for the Americas; and Clifford Shao, VP of Sales, Asia Pacific. The company has decided to open the

Asia Pacific regional office due to a large number of successful project trials in the area. Schema is a global provider of optimization and planning solutions for wireless carriers.

www.schema.com

● **ART Advanced Recognition Technologies'** natural Human User Interface solution for the mobile world will be incorporated into Pogo Mobile Solutions' new generation wireless data devices.

Pogo selected ART's handwriting recognition technology, simpliWrite, to provide nVoy with stylus-based character input, which gives users an alternative to the e100's keyboard, and to allow the nVoy Wireless Application Suite to support a wide range of device form factors.

ART develops and markets solutions for the control and command of mobile devices by human voice and natural handwriting.

www.artcomp.com

● **Passave** exhibited in an EFMA (Ethernet in the First Mile Alliance) booth at Supercomm2003 in Atlanta, stimulating ample interest and generating numerous new customer leads in the US.

Passave recently announced the availability of PAS6001, Ethernet PON edge device, for FTTH (Fiber to the home) and FTTB applications. The announcement invoked multiple enquiries from the media and industry, and substantially improved company visibility.

Passave builds silicon solutions (ASICs) for Ethernet broadband fiber access networks.

www.passave.com

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