

Opposition Members Draft Alternative Peace Accord

A putative ceremony will be held in Geneva in November, to mark the Geneva Accord. The agreement was drafted in Jordan by Israeli opposition members and Palestinian representatives. The understandings reached will not be signed, to make it clear that the joint initiative is not intended to “undermine” the government or State of Israel, but is a model that proves it is possible for the two sides to craft a permanent status agreement.

The main points of the draft are as follows: the Palestinians will concede the right of return, but a limited number will be allowed to settle in Israel; the Palestinians will recognize Israel as the state of the Jewish people; Israel will withdraw to the 1967 borders; Jerusalem will be divided; the Temple Mount will be Palestinian, but an international force will ensure freedom of access for visitors of all faiths; the Palestinians will pledge to prevent terror and their state will be demilitarized.

The Swiss Foreign Ministry financed and mediated the negotiations. Both sides intend to embark on an aggressive campaign to market the agreement to their respective publics.

PM Ariel Sharon accused the members of the opposition who worked on the Geneva initiative of providing the Palestinian Authority with an excuse to escape its formal understandings with the government. Sharon named the U.S.-sponsored road map as the only chance for peace in the region.

Prisoners Exchange Deal with Hezbollah Under Way

Israel and Lebanese terrorist group Hezbollah are negotiating a prisoner exchange deal. Israel is expected to release hundreds of Palestinian prisoners in exchange for the bodies of three IDF soldiers and an Israeli civilian, Elhanan Tannenbaum – all kidnapped by the organization three years ago.

After the Israeli Supreme Court lifted a three-year gag Order, the police revealed it has evidence that Tannenbaum was involved in drug deals, which was why he traveled to Abu-Dhabi, with which Israel has no diplomatic relations. Israel believes the Iranian intelligence played a crucial role in his capture.

OPTIMISM IS GAINING GROUND

The Israeli economy has experienced quite a few difficulties in the past three years, but it seems to be picking up over the past few months. Quite a few economic indicators back up this estimation, as do Israeli and international authorities on the subject.

The central indicators suggest that the Israeli economy's weakening has been halted, and that 2003 is already expected to yield moderate growth figures. In the coming year, so run the forecasts, the Israeli economy will return to a growth pattern in per capita terms.

This forecast is based on several developments: long-term interest, for example, which had reached remarkable heights in the past years, is slowly approaching the 4% mark. This brings Israel closer to stronger economies, which enjoy steadily low interest rates. In addition, inflation has plunged to near-deflation rates, a remnant of the long and deep recession which has plagued the economy in recent years.

Unofficial indices are also indicative of a prevalent optimism in Israel. The stock markets, for example, have already adopted the growth pattern so dear to them. Currency exchange rates have returned to the stability which characterized them a few years ago, and the central indices in the Tel Aviv Stock Exchange have grown almost 100% since the slump at the beginning of the year. The economy is sensing growth, and reacting accordingly.

And, of course, the central and significant activity of the Israeli market – high tech – is gaining speed. Public companies are starting to file shelf offerings worth hundreds of millions of dollars. Alongside them, mature start-ups are beginning to line up for public offerings in 2004, at good valuations.

Investors behind the venture capital industry in Israel are also reacting to the changes: Evergreen has recently raised \$140M, while other local VC firms are receiving commitments for 2004 vintage funds. And the VC industry is increasing the pace of its investments. Slowly but surely, optimism is gaining ground.


Moshe Price, *Managing Partner*

VENTURE CAPITAL

Israeli High-Tech Companies Raise \$283M in Q3

The positive trend in the Israeli venture market continued in Q3/03, according to the quarterly survey conducted by the IVC Research Center and the Israel Venture Association (IVA). According to the survey, 103 Israeli high-tech companies raised \$283M from venture capital investors – both local and foreign.

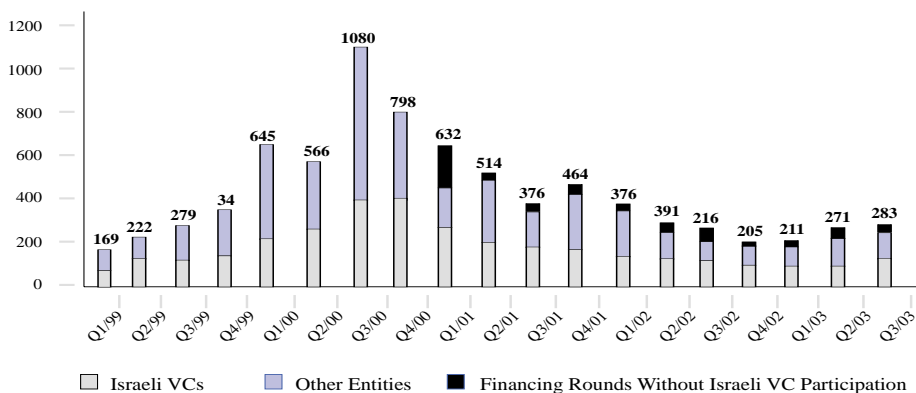
The amount was up a moderate 4% from the \$271M raised in Q2 and 34% from Q1/03. During the first three quarters of 2003, a total of

\$765 million was raised, which still reflects a decrease of 18% from the corresponding 2002 period.

“I think we’re beginning to see this year a slight recovery in the volume of investments taking place,” said Israel Venture Association (IVA) chairman and Pitango VC co-founder and managing director Chemi Peres.

“More and more deals and investments are being oversubscribed. The change is dramatic”, he added.

Capital Raised by Israeli High-Tech Companies in \$M



● **Trendlines Group**, an American-Israeli marketing and financial consultancy, is setting up a \$25M investment fund to be called Trendlines Israel Fund.

● **Adimos**, a developer of wireless multimedia connectivity solutions for home consumer products, has raised \$12M from JVP, Benchmark Capital, Gemini Israel Funds and Genesis Campus.

● **Sequoia Capital's** Israel branch will be investing \$6M in MagInk Media, whose technology enables static images to be presented on giant billboards at very high quality.

● **Comverge**, a developer of software solutions for energy providers, has closed its financing round with the addition of \$5.6M, bringing the total amount to \$18.6M. New investors include Nth Power, EnerTech Capital Partners and Ridgewood Capital, as well as company executives.

● **Certagon**, which is developing a solution to maximize uptime and performance in a Service Oriented Architecture deployment, has raised a \$5M Series A round. Jerusalem Global Ventures (JGV) was the lead investor.

● **Mobixell Networks**, which provides multimedia processing and delivery solutions for mobile systems, raised \$5M from Apax Partners, Siemens Mobile Acceleration, Comverse and Optibase.

● **Unicorn Solutions**, a developer of information management systems, closed a second financing round totaling \$6M. The round was led by Bank of America Equity Partners (BAEP), Jerusalem Global Ventures, Apropos and Intel Capital.

● Israeli start-up **MIRAS** (Mirror Imaging Solutions), a developer of dental imaging devices, has raised \$1M from private investors.

STOCK MARKET

● Chairman and CEO of **Mercury Interactive** (Nasdaq:MERQ), Amnon Landan, was named 2003 “Entrepreneur of the Year” by *Forbes*. During his term as CEO, Mercury’s revenues grew from \$77M to more than \$400M a year. The company focuses on business technology optimization.

● Total foreign investment in the Tel Aviv Stock Exchange (TASE) rose 31%, by \$1.5B, from the end of the war in Iraq to over \$7.4B at the beginning of September. This constitutes a return to the levels of three years ago. The Tel-Tech 15 index of the TASE went up 87% during the past 12 months, to reach an all-time high in October.

● **Terayon Communications** (Nasdaq:TERN) filed in October a shelf registration statement with the SEC to periodically sell up to \$125M in debt securities, common and preferred stock and warrants. The company makes equipment for Internet access over cable systems.

● **Lumenis** (Nasdaq: LUME), a maker of laser devices for surgical

applications, is launching a turnaround plan that includes laying off 300 employees, 23% of the company's workforce. At the same time, the company is in negotiations with its main creditor, Bank Hapoalim, on restructuring its \$210M debt pile.

TECHNOLOGY

- Israeli startup **Lucid** is developing the first chip of its kind to facilitate the parallel processing of graphic accelerators on the motherboard of regular PCs.
- **WizCom Technologies**, the creator of the Quicktionary pen-shaped scanner-translator, is expanding into Japan. The company recently launched Quicktionary II Genius, featuring the renowned Genius English-Japanese Dictionary.
- Global Payment, one of the largest transaction processing service providers worldwide, has signed a deal with **Retalix** to use its software to bill gasoline buyers in Canada. Retalix develops software for chain retailers.
- **Given Imaging** (Nasdaq:GIVN) will launch its ingestible, dissolvable capsule in November in Europe. The pill enables a prep-less, noninvasive procedure to diagnose the presence of obstructing strictures and adhesions in the gastrointestinal tract. The company expects FDA approval in 2004.
- **InSightec** has won the European 2004 IST Grand Prize for its ExAblate 2000, a noninvasive thermal ablation system. Established in 1999, InSightec has become a market leader in the field of noninvasive surgery to remove tumors through the use of high intensity focused ultrasound.
- U.S.-based National Institute for Standards and Technology (NIST) has decided to adopt the ODB++

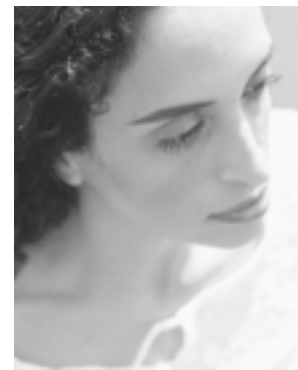
data format developed by **Valor**, as the world standard. The format is used to transfer data entities who design, manufacture and assemble printed circuit boards (PCBs). The company is publicly listed on the Frankfurt Stock Exchange.

- **Elbit Systems** has signed a contract – estimated at tens of millions of dollars - to supply night vision equipment on FedEx planes.
- **Lenslet** of Herzliya has unveiled a revolutionary product that is already attracting worldwide interest. The company's first commercial optical processor, called EnLight, boosts the performance of digital signal processing and sets new performance levels of tera (one trillion) operations per second. The EnLight facilitates next generation applications including video compression, defense applications and advanced communication infrastructure.

- Israeli start-up **Sanctum**, a developer of web application protection software, has signed an agreement to have its products distributed by Sun Microsystems. Sun has been offering Sanctum-developed technology as part of its iForce information security initiative.
- The FDA has granted two additional approvals on **Syneron's** hair removal and skin rejuvenation devices.
- **M-Systems** Flash Disk Pioneers (Nasdaq: FLSH) announced a new collaboration with Japan's Toshiba, under which the two companies will engage in joint R&D and cross licensing, and Toshiba will make a strategic investment in M-Systems.
- **Jungo Software Technologies'** software platform will be integrated with the wireless router of Cisco Systems. Jungo develops an operating system and software for residential gateways for broadband

Internet. It has similar agreements with Toshiba, US Robotics, Samsung, Intel and Texas Instruments.

- The Iraq War created business opportunities for **Rafael** and **Israel Military Industries** in the U.S. Executives of both companies met U.S. officers at the Association of the U.S. Army Annual Conference in Washington in October.



Israeli singer Achinoam Nini was appointed UN Food and Agriculture Organization Ambassador in October, and will work with international celebrities to fight world hunger

GENERAL

- Demand for workers in all hi-tech sectors went up 2% in Q3/03, compared with Q2, according to Manpower Israel.
- Israel experienced a slight economic improvement in September, according to the **D&B** Israel Procurement Managers Index.
- The Israeli public's financial asset portfolio increased in August by NIS 2.7B (about \$550M) and amounted to NIS 1,312.3B. Foreign resident investment in Israel remained unchanged in August, at NIS 101B.
- **The Jewish Agency** has prepared a plan for the investment of tens of millions of dollars during the coming years, to strengthen business ventures and residential projects in the Galilee and Negev regions.
- Large quantities of natural gas have been found off the coast of Ashkelon. Commercial viability is being tested.

● **Hotbar**, The number of surfers using Hotbar's Browser and eMail toolbars increased considerably this quarter. Hotbar's flagship platform, which directs surfers to prepaid content, technology and service sites, continues to power the company's growth: Hotbar recorded its best results to date in Q3/03, both in terms of revenue and profitability. Founded in 1999, Hotbar is headquartered in NYC.

www.hotbar.com

● **Cyoptics**, Inc., a supplier of optical engines for broadband solutions, recently announced the launch of an Avalanche Photodiode (APD) receiver for optical systems operating at 10Gb/s.

Founded in early 1999, CyOptics has developed breakthrough InP-based photonic devices and nano-tech-capable robotic manufacture - to deliver high performance components that enable high density optical networking systems, while reducing size, power consumption and cost.

Cyoptics's new product provides the market with an alternative source of supply for a high sensitivity receiver at a lower cost than currently available. The company is gaining significant traction with tier one customers worldwide, having recently received its first set of purchase orders from China.

www.cyoptics.com

● **ART**. In September, ART announced the introduction of its latest embedded speaker-independent speech interface solution for wireless mobile devices, smARTspeak XGT™. The technology introduces a new voice feedback ability that gives audio confirmation of requested names, numbers and other commands.

A bilingual version of ART's smARTspeak NG™ speech

recognition solution has been integrated into Motorola's fixed car phones. Pelephone (mobile service provider in Israel) will market the first CDMA device in this series of car phones, called Spirit. It has already purchased 100,000 devices, in a deal estimated at \$10M. GSM devices carrying this new technology will be available worldwide in several months.

www.artcomp.com

● **RADWIN's** WinLink, point-to-point wireless system, completed extensive beta tests and is now commercially available. It was tested successfully in several applications, including cellular backhauling and corporate inter-building connectivity. It has already been installed in several sites worldwide.

WinLink is a carrier class, Point to Point broadband wireless transmission system, that packs emerging Ethernet services and legacy TDM services over 5.x GHz license-exempt frequency band.

www.radwin.com

● **Schema** continues to strengthen its international presence through Q3/03. Activities included opening a Hong Kong regional office, hiring additional salespeople for the South American and European markets, and leading new projects in a number of regions including South America, Asia and Eastern Europe.

In Q3/03 Schema received the Deloitte & Touche's Technology Fast 50 award and was named one of the fastest growing technology companies in New Jersey.

Schema recently announced a collaboration with Nomad Access, to provide a joint voice and data services planning tool that will enable cellular network operators to optimally configure and operate their voice/data combined networks.

www.schema.com

● **MobileAccess Networks**, a leading developer of converged wireless enterprise networks, continues to demonstrate rapid growth with sales of cellular voice, 2-way radio, and Wireless LAN infrastructure products to large enterprise customers.

Recently completed wireless network deployments include the American Red Cross Headquarters in Washington DC and the Lehman Brothers building in New York City, where MobileAccess solutions were used to provide multi-service wireless coverage.

MobileAccess is currently in the process of installing one of the world's largest indoor wireless networks for all six major U.S. wireless operators, which will enable ubiquitous mobile coverage throughout the congressional offices, corridors and tunnels of the U.S. House of Representatives.

www.mobileaccess.com

● **Passave**, a fabless system-on-chip vendor, developing core technology for broadband fiber access systems, demonstrated interoperability of its EPON MAC solution with Infineon EPON (Ethernet Passive Optical Network) optical transceiver.

In Japan, where FTTH is rapidly growing, NTT issued an RFP for procurement of EPON optical line terminal system. As a technology leader in this space, Passave is working towards design-wins with a number of system vendor contenders.

Passave also participated in the NFOEC in Orlando Florida, and successfully demonstrated a Video streaming application over EPON FTTH system.

www.passave.com

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