

Ruling Likud Party Rejects Gaza Disengagement Plan

Prime Minister Ariel Sharon's plan to withdraw unilaterally from the Gaza Strip was rejected by Likud party members on May 1st. Following the defeat, Sharon said that while he regretted the outcome of the vote, he would respect it and will pursue a scaled-back version of the plan.

According to polls, while the majority of the ruling party members opposed the "Disengagement Plan", most Israelis are in favor of implementing it.

According to *Ha'aretz*, White House officials dismissed the results as a mere "party poll" and diplomatic sources in Washington said it would continue to back the plan, if less enthusiastically, and has no intention of submitting an initiative of its own.

According to the plan, Israel was to evacuate the Gaza Strip, including all the Israeli settlements currently existing there, and remove all civilian or military presence in the areas evacuated. In addition, Israel would have evacuated northern Samaria and all permanent military installations in the area.

Maccabi Tel Aviv Wins European Basketball Championship

Israel's Maccabi Tel Aviv crushed Italy's Skipper Bologna 118-74 on May 2nd to become European basketball champion for the fourth time in its history. Maccabi's score was the highest ever in a European club final.

Maccabi previously won the premier European basketball competition in its various forms in 1977, 1981 and 2001. Maccabi dominated the encounter, which took place in Tel-Aviv, from the very start.

MARCH FORWARD

March 2004 now seems like a turning point for the Israeli Venture Capital industry. After three sluggish years due to the economic slowdown which brought the VC industry worldwide to a virtual halt, the Israeli investment community is back to the center stage.

In mid March, a delegation of more than twenty venture capital principals from some of the world's foremost VC funds arrived in Israel. It included representatives from Matrix, Venrock, US Venture Partners, Accel, Graylock, Lightspeed, Bessemer Venture Partners, General Catalyst Partners, Sofinova, Swiss RE, Tallwood Partners, Doll Capital Management and Globespan (formerly JAFCO). Eurofund was among the hosts of this delegation, which came in order to examine possible cooperation with venture funds in Israel, look at the quality of deal flow and assess new investment opportunities.

Not a week went by, and the European Tech Tour delegation arrived in Israel as well. The delegation comprised of tens of European venture capital professionals, which came to the Holy Land to become acquainted with the Israeli start up industry, and examine the companies' ability to concentrate on export markets soon after their inception. In addition, the VCs were interested to learn how an advanced and sophisticated venture capital industry was born in a short period of ten years.

The delegates also examined 25 Israeli start-ups, which were hand-picked out of 300 companies, in preparation for the visit. Among those companies were a number of Eurofund's portfolio companies which generated special interest: Cyoptics, MobileAccess, Schema and Passave, two of which are expected to complete substantial rounds of investments in the upcoming months.

Towards the end of these visits, which led to extensive negotiations towards investments in a number of Israeli companies, it was revealed that the local funds have also made some progress. Two of them – Pitango and Giza – announced they have completed first closings in the hundreds of millions.

The end of March and the beginning of April marked the annual gathering of the Israeli Venture Capital Association (IVA), which was the most optimistic since 2001. More and more exits now seem close at hand – whether IPOs or M&As – and the feeling among investors is that Vintage 2000 funds are finally starting to show returns. The fact that LPs are returning to Israel and VC firms are making closings seem to point at a local venture capital renaissance.


Moshe Price, Managing Partner

VENTURE CAPITAL

Israeli Tech Companies Raise \$323M in Q1/04

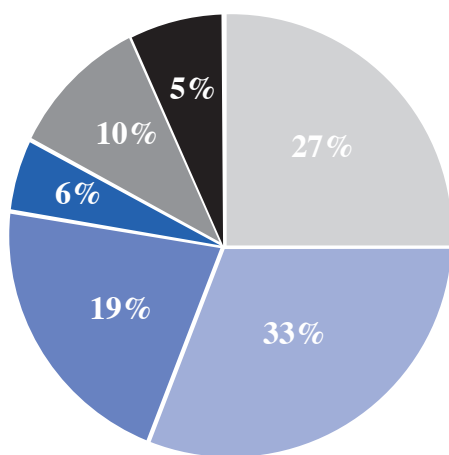
According to the IVC Research Center survey, 111 Israeli high-tech companies raised \$323M from venture investors in Q1/04.

The quarterly survey, conducted with the cooperation of the Israel Venture Association (IVA), reviews capital raised by private Israeli technology firms from Israeli and foreign investors, and is based on reports from 117 venture investors. The amount was up 31% from the \$246M raised by 96 companies in Q4/03 and 53% higher than the \$211M raised by 86 companies in Q1/03.

The average company financing round increased by 13% from Q4/03 and 18% from Q1/03 to \$2.9M.

According to IVC chairman Zeev Holtzman, "Capital raised in Q1 was the highest in eight quarters. The increase is a very positive sign, indicating the strength of Israel's high-tech industry".

The Communications sector led in fund raising in dollar amount, with 27 companies attracting \$108M, followed by Software, with \$89M, Life Sciences - \$60M and Internet sector - \$19M.



Investment by Sector

- Software
- Communications
- Life Sciences
- Internet
- Semiconductors
- Other

Source: IVC Research Center

- **Vintage Ventures**, a secondary purchaser of technology investments, has completed raising \$65M for its first fund. The fund, part of the Dovrat Group and managed by Alan Feld, focuses on acquiring limited partnership interests in VC funds and direct interests in technology companies.

- Communications solutions provider **VCON** Telecommunications (Nouveau Marche:VCON) has raised \$10M in a private placement of 14.9M shares for investment funds. Index

Ventures and Pitango increased their direct and indirect holdings in VCON to 24% and 22%, respectively.

- Computer-aided design (CAD) start-up **Proficiency** received \$12M in its third major round of financing, from Ampersand Ventures (lead), Carmel, Charles River, Concord, Eucalyptus, Genesis, Koor Corporate Venture Capital, and Pitango.

- Startup **Business Events**, which develops software for large companies to locate major corporate

events in real time, has raised \$2.75M in its first round, mainly from Gemini and Advent.

- Pitango Venture Capital and Vertex Israel invested \$6M in **dbMotion**, a developer of information systems for healthcare enterprises. The company was spun-off by Ness Technologies, which will remain a shareholder.

- Start-up company **Qlusters** has completed its second round with \$16M, from Charles River (lead), Benchmark and Israel Seed. Qlusters, which develops software for managing clusters of Linux servers, was founded in 2001 and has so far raised \$22M.

- SLM applications provider **Oblicore** raised \$9M from JVP and Favonius (lead), Concord and Platinum Neurone Ventures. Its clients include France Telecom, LandesBank and E.on.

- Bandwidth management company **CableMatrix** raised \$3.3M. Investors included Walden Israel, Veritas, and EnerTech.

GENERAL

- Microsoft CEO **Steve Ballmer** visited Israel in early May, stating the software giant "favorably viewed the innovations and developments in Israel's technology market".

- California Governor **Arnold Schwarzenegger**, who arrived in Israel in late April, announced five cooperative ventures with Israeli companies chosen by the California administration. He said the ventures would create over 800 jobs.

- Eight economic delegations totaling 140 businesspeople are expected to visit Israel in May-June. Delegations will come from the Czech Republic, Argentina, Mexico, China, Austria, Sweden, and Italy.

- Israel's money supply expanded

in March 2004 for the ninth month running, according to the Bank of Israel. Showing a 2.4% rise compared to February.

- Further substantial tax cuts are likely in 2004 and 2005, following rises in state tax revenues and growth.
- Coface, the biggest foreign-trade risk insurance agency in the world, has taken Israel off its negative outlook list.
- The Finance Ministry plans to announce an upward revision of its growth forecast for the current year, from 2.8% to 3.1-3.2% of gross domestic product.
- Twice as many tourists visited Israel in the first week of April than in the corresponding period of last year, according to figures released by the Israel Airports Authority.
- The Finance Ministry is likely to move up the next round of bonds issued under the auspices of the U.S. loan guarantee program, due to the rapid rise in bond yields in the American market.
- Demand for high-tech workers soared 46.4% in the first quarter of 2004 compared with the last three months of 2003, according to MIT, a member of the Manpower human resources group.
- Israel's high-tech exports are expected to grow by 8-13% 2004 to some \$9.6-10B, according to the Israel Export Institute.

STOCK MARKETS

- **Visonic Technologies**, a provider of advanced alarm systems for homes and institutions, tapped the London Stock Exchange in April for £9.5M at a company valuation of £35M.
- **Israel Chemicals** announced tentative plans to raise \$150M-\$200M through a U.S. stock

offering, scheduled for H2/04.

- Netanya-based **SmartLink**, which develops software-based modems, intends to raise about £10M on the London Stock Exchange at a company valuation of £50M in early May.

DEALS

- **Orbotech** (NASDAQ/NM SYMBOL: ORBK) announced the receipt of a \$19M order from Chunghwa Picture Tubes Ltd. (CPT) (TAIEX: 2475) for multiple automated optical inspection (AOI) systems.
- Herzliya-based **Comsys** Communications & Signal Processing has entered into an OEM agreement with Quanta Computer, a Taiwanese maker of PC notebooks and cellphones. Quanta will be integrating the Israeli company's EDGE baseband technology in its new line of cellphones.
- **On Track Innovations**, which develops microprocessor-based smart card systems, signed an agreement with U.S. company Hypercom. The technologies of the two firms will help expand merchant and consumer use of contactless payment programs, such as MasterCard PayPass.
- Israeli companies have implemented \$200M worth of projects related to preparations for the Olympic Games this summer in Athens, the Israel Export & International Cooperation Institute announced.

- **Alvarion** has received a \$18M follow-on order to supply its broadband eMGW solutions to an unnamed Latin American phone company. According to *Ha'aretz*, the buyer is Telmex, the biggest carrier in Mexico. Over the last year, Telmex has supplied Alvarion with \$40M worth of work. The

Israeli firm's eMGW is a point-to-multipoint fixed wireless access system that supports carrier-class telephony, corporate access and fast Internet access services.

- **Elbit Systems** and **Gilat Satellite Networks** revealed a collaboration in satellite communications for defense and homeland security. The two companies have jointly developed the GlobalLight portable VSAT (very small aperture terminal) for broadband data, voice and video that could serve disaster and emergency command and support teams, as well as remote infantry and border patrols.

M&As

- **Agis Industries** is close to finalizing a merger with American **IVAX Corporation**. According to reports in the market, if the deal does go through, it will include a share swap between the two pharmaceutical firms.

IVAX is a multinational company engaged in the research, development, manufacturing and marketing of branded and generic drugs and veterinary products in the U.S. and internationally. It is traded on the AMEX at a market cap of around \$4.8B.

R&D

- A team of Israeli researchers at Intel has achieved a breakthrough in chip development that promises to change the world of computing and telecommunications within 5-10 years.

The team succeeded in developing electro-optical chipsets based on silicon wafers capable of converting electronic signals to optic signals within the chip.

● **Hotbar** continues to experience consistent growth in revenues by taking advantage of positive trends in the Internet advertising space, thanks to the diversification of its revenue base and its ability to market its products and services directly to users, thus being independent of third-party distributors.

Hotbar's Q1/04 earnings met expectations, and the company anticipates continued growth in revenues. New strategic collaborations with key Internet players have enhanced revenues and profitability.

Recently launched products and services have proven successful. Hotbar is now putting an emphasis on the marketing of these products, while continuing to invest in their development to further enhance their capabilities.

Hotbar enables its users to personalize their Web browsers and emails, thus enhancing user experience and functionality.

www.hotbar.com

● **ART** Advanced Recognition Technologies, Inc., maker of embedded speech and handwriting recognition solutions for mobile devices, announced that the new Voq™ Professional Phone by Sierra Wireless will utilize ART's smARTspeak® NG engine to provide Voq users with digit dialing, voice tag dialing and commands.

ART's Speech Recognition Software was also selected by Broadcom for its EDGE/GPRS/GSM Platforms. In addition, the company announced it has signed a cooperation agreement with Renesas Technology Corp, which enables Renesas' Technology's SH-Mobile Consortium to offer ART's speech & handwriting Recognition solutions to its customers.

ART also announce a new agreement with Clarity Technologies, according to which Clarity Technologies' CVC® and ART's smARTspeak solutions will be integrated and sold together.

www.artcomp.com

● **CyOptics**, a developer and manufacturer of Indium Phosphide (InP) optical engines for high-speed internet solutions, was a featured company during the "Israeli Tech Tour 2004" held March 28-30 in Caesarea, Israel. CEO John Pilitsis gave a presentation to the distinguished group of European investors, showcasing Israel's only production grade InP fab along with the company's core capabilities in precision automated packaging and product design.

CyOptics continues to expand its Tier 1 customer base globally and has grown its Q1/04 revenues by 22% as compared to Q4/03. CyOptics also saw the company's largest single order booking during this quarter.

www.cyoptics.com

● **MobileAccess Networks**, a leading developer of converged wireless enterprise networks, announced this quarter the promotion of Catherine Zatloukal to CEO and the appointment of Yair Oren to CTO. Former CEO, Asaf Mohr, will continue to provide guidance to the company on the board of directors.

In addition, MobileAccess won a contract to provide wireless coverage infrastructure at the four major venues of the Reliant Park complex in Houston, Texas, including Reliant Stadium, the site of Super Bowl XXXVIII.

www.mobileaccess.com

● **Passave** continues its infiltration of the Japanese market. In addition

to its existing design wins with both suppliers of EPON Central Office equipment for NTT, Passave achieved design wins with two (out of three) of the communication giant's suppliers of EPON subscriber modems. While the FTTH market in Japan topped 1M subscribers in February, NTT announced its plan to double that number by the end of the fiscal year.

Softbank BB Corporation, NTT's largest competitor in the broadband access market in Japan, issued a tender for 50,000 EPON ports. Here, too, Passave has apparently secured design wins with the selected suppliers. Additional Passave customers are trialing EPON platforms in Asia Pacific and Europe.

Passave is currently ramping up its chip production and expanding its R&D and support team to fulfill the increasing customer demand.

www.passave.com

● During Q1, **Onepath** released new products, both in the line of Sat-Com Interfacility Links and in the SDTV Video Distribution equipment. Onepath has introduced the 951C Interfacility Links, providing full support for C-Band; uplink frequencies from 5.80 to 6.650 GHz and downlink frequencies from 3.40 to 4.20 GHz.

Onepath's new Course Wavelength Division Multiplexing (CWDM) units transmit multiple channels over a single fiber. Onepath's new Outdoor Unit provides for installation of its IFLs in any environmental condition. The company's new Multipolarity SDTVplus System can deliver up to 8 polarities to the home viewer.

www.onepath.com

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