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Record \$438M Raised by Israeli Tech Cos in Q3/04

According to the IVC Research Center quarterly survey * This is the highest level in three years

A record \$438M were raised by 113 Israeli high-tech companies in Q3/04, according to the Quarterly Survey conducted by the IVC Research Center, with the cooperation of the Israel Venture Association (IVA). This is the highest figure in three years. The Survey is based on reports from 114 venture investors, of which 61 are Israeli management companies and 53 are mostly foreign investment entities.

The amount was up 30% from the \$338M raised by 91 companies in Q2/04 and 55% higher than the \$283M raised by 103 companies in Q3/03. The amount raised in the first three quarters of 2004 reflects an increase of 43% from the same period in 2003.

According to Efrat Zakai, Director of Research at IVC, the current figures "reflect the continuous recovery of the Israeli high-tech sector, as well as an increase in levels of capital invested by both Israeli and foreign investors."

Zeev Holtzman, Chairman of IVC Research Center and Giza Venture Capital, said that "the overwhelming interest shown by foreign investors from the US, Europe and Asia in Israeli VCs is indeed a unique phenomenon. In fact, more than 95% of the funds raised by Israeli VCs come from foreign sources. Foreign capital is expected to continue flowing in over the next few years."

Tax Exemptions for Foreign Investors in Israeli VCs

The Israeli tax authorities have issued rules for granting exemptions on Israeli taxes to foreign investors in VC funds. The core element stipulates that a tax exemption will be granted to a fund that invests at least 50% of its investment money in "eligible investments" in Israel.

In addition, 30% of the investments must be in Israel-based companies with proprietary IP, or in companies that own Israeli subsidiaries that have proprietary know-how. Any investment in an Israeli-related company must be made directly through the fund's permanent office in Israel.

Window of Opportunity for Foreign IPOs Repens

After Canada, Israel is the foreign country with the most listings on New York's NASDAQ stock market. NASDAQ has been hosting Israeli companies since 1980, when Scitex Corporation first went public. Today there are approximately 70 Israeli companies listed on NASDAQ, including some of the country's biggest success stories: Check Point Software Technologies (CHKP), Comverse Technology (CMVT), Mercury Interactive Corp. (MERQ), and, of course, Teva Pharmaceutical Industries (TEVA). Israel is now the most important international market on the exchange, according to Charlotte Crosswell, the Head of NASDAQ International.

In January 2004, Lipman Electronic Engineering Ltd. (LPMA), a global leader in advanced solutions for the electronic payment industry, listed on NASDAQ and sold 6 million shares at \$20.80 per share. Subsequently, in June 2004, PowerDsine (PDSN) went public issuing 5.1 million shares at \$11.50 per share.

The pace is picking up. In the second half of 2004, Ness Technologies, a provider of IT services, operating in 14 countries and with 4,500 employees, completed its initial public offering on NASDAQ, selling 11.7 million shares at \$12 each. Its market cap now exceeds \$400 million. It was joined by Signature Bank (SBNY), an affiliate of Israel's largest commercial bank, and in late October by Shopping.com (SHOP), which sold 6.87 million shares at \$18 per share, in an IPO.

The window of opportunity for IPOs by Israeli companies is not limited to NASDAQ. In April 2004 Visionic (VSC) issued 10.8 million shares at £0.88 per share in its IPO on the London Stock Exchange and in October Orca Interactive Ltd. (ORCA) issued 14.4 million shares at £0.99 per share shares on London's AIM exchange.

The trend is expected to continue. There are several Israeli companies expected to go public during the first half of 2005, including, Saifun Semiconductors, a fabless supplier of non-volatile memory solutions.

Sincerely,



Aharon Beth-Halachmi
Managing Partner

israel VC news

PRIVATE PLACEMENTS

- **Allot Communications**, a developer of data traffic management technology, raised \$8M (Round D) from Partech International, Gemini, Genesis, Walden Israel, JAFCO, BancBoston and Tamar.
- **AngioScore**, a developer of novel angioplasty tools, raised \$15M (Series B) from Psilos Group (lead), California Technology Ventures, Innomed Ventures, UV Partners and Linkagene.
- **Cyoptics**, which designs, develops and manufactures optical engines for broadband metro and access communications solutions, raised \$10M (Series C) (see p. 3).
- **Diligent Technologies**, an enterprise data protection software provider for mainframe and open system environments, raised \$22M from Gemini, Accel & Matrix Partners.
- Direct messaging & advertising platform developer **Dotomi** raised \$10.5M (Series B) from Investor Growth Capital, USVP & Velocity Equity Partners.
- **Entopia**, a developer of information discovery systems, raised \$11M (Series C) from Invus Group & Global Catalyst Partners.
- IP SAN startup **Intransa** raised \$25M (Series D) from Menlo Ventures (lead), Advanced Technology Ventures, Sofinnova & US Venture Partners.
- **Jordan Valley Applied Radiation**, a developer of metrology solutions for the semiconductor industry, raised \$6.7M (Series B) from Elron Electronic Industries.
- **Magink Display Technologies**, which develops and markets a breakthrough reflective digital ink technology for the billboard industry, raised \$27M (Series C) from VantagePoint (lead), Formula

Ventures & JAIC.

- **Modem-Art**, a fabless system-on-a-chip solutions developer for wideband & broadband communications systems, raised \$8.4M (Series D) from Apax (lead), Tamir Fishman, Genesis, Banc Boston, Ampal, Argoquest & Gidi Barak.
- **Novagali Pharma**, which develops drug delivery systems for cancer treatments and for ophthalmic treatments, raised \$17.4M (Series B) from B&E de Rothschild, Auriga Ventures, TechInvest, CDC Innovation, Multinova, FCJE, Credit Agricole & Siparex.
- **Pharmos Corporation** (Nasdaq: PARS) raised \$16.75M in PIPE financing.
- **Pointer**, which specializes in automated vehicle and personal location, raised \$8M (Series C) from Gandir Investments.
- **Provigent**, a developer of integrated silicon solutions for the broadband wireless transmission industry, raised \$8M (Series C) from Sequoia Capital, Pitango, Magnum, Ascend, Delta Fund, Dr. Andrew Viterbi, ABN AMRO, Medica, Oxford Bioscience and Mi3.
- **Remon Medical**, which develops and commercializes smart, miniature implants that enable physicians to assess and treat a variety of medical conditions in a non-invasive manner, raised \$16M (Round B) from Lilly Ventures & KBL Healthcare Ventures (lead), Ofer Hi-Tech Group, Polaris, Concord & BioMedical Investments.
- Data storage firm **SANRAD** closed \$8M (Series B) from Sequoia Capital (lead) & Rad Group.
- Fabless semiconductor company **Silient Technologies** raised \$21M (Series B) from Thomas

Weisel VP (lead), Vertex, Alta Berkeley, Greylock, Benchmark & Orckit.

- **Shunra Software**, a developer of solutions to help companies mitigate the risk of deploying distributed IT services, raised \$11.5M (Series A) from Insight & Carmel Ventures.
- **Transtech Control**, which develops and markets advanced control systems to airports, raised \$19M (Series B) from Giza (lead), Accel, & Formula Vision.
- **Viola Networks**, which provides next-generation solutions for enterprise network performance assurance and automated diagnosis, raised \$11M (Series D) from Evergreen, Concord, M/C Ventures, OphirTech and KenTech.
- **XOsoft**, provider of continuous application availability solutions, raised a \$9M internal round.
- Drug developer **XTL** Biopharmaceuticals (LSE: XTL) raised \$17.8M in PIPE financing.

VC FUNDS

- **Pitango Venture Capital** has secured \$300M in commitments to its fourth fund, bringing the total funds under management to over \$1B. Pitango IV has made one deal, co-leading a \$6M Series A financing for dbMotion.
- **Poalim Ventures**, the venture capital arm of Poalim Capital Markets and of Bank Hapoalim, has announced plans to raise a new fund of up to \$150M.
- **Gemini Israel** has raised \$170M for its fourth fund, which it intends to close at a total \$200M.
- **Benchmark Capital Israel** is reportedly raising a new fund of up to \$200M. The investment group currently manages a \$260M fund raised in 2001, with investors including CDB Web Tech, Cisco,

Horsley Bridge, Infineon, Mercury Interactive & Rational Software (now a subsidiary of IBM).

- Venture funds **Tallwood Venture Capital** and **TeleSoft Partners** will increase their activity in Israel.

- **Morgan Stanley** has recently invested \$35M in two Israeli VC funds - \$20M in Gemini & \$15M in Pitango IV.

- The Taiwanese government is in the process of setting up a \$100M VC fund with an Israeli VC.

- **Markstone Capital Partners** held a 2nd closing at \$500M, on the way to a total fundraising of up to \$700M. The fund is backed by CalPERS, the State NY Pension Funds, Clal Insurance, Bank Hapoalim, Bank Leumi, Phoenix Insurance, Harel Insurance and Delek Investments.

- Publicly-listed **Mofet Technology** Fund Management is raising \$35M. Major shareholders in the venture group include Green Venture Capital and Mizrahi Bank.

PUBLIC MARKETS

- **Nipson Digital Printing Systems** completed its IPO in London, raising \$18.4M. The offering capitalizes the company at \$57M.

- **Elbit Medical Imaging** (Nasdaq: EMITF) has increased its stockholding in videoconferencing equipment maker VCON (Paris: VCTS) from 9.5% to 15.5%.

- **Ness Technologies**, a provider of information technology services, raised \$140M, at a company value of \$372M after money, in September.

- **AudioCodes** (Nasdaq, TASE: AUDC), a developer of voice network products, has filed a shelf registration statement with the SEC to raise up to \$150M.

- **Shopping.com** (Nasdaq:

SHOP), which made its IPO on Nasdaq in late October, shot up on the first day of trading, and continues its rise as of this writing. The Israel-based Internet shopping company issued at a price of \$18 per share, raising \$123.7M at a value of some \$501M.

M&As

- **Federmann Enterprises** has exercised its right of first refusal in Elbit Systems (Nasdaq: ESLT) from Elron Electronic Industries (Nasdaq: ELRN) by acquiring 19.6% of Elbit for approximately \$200M.

- **Cisco** acquired **P-Cube**, a developer of IP service control platforms, for \$200M in cash and shares. The company raised \$70M from Accel, Venrock, Granite, Evergreen, Ascend & others.

- **Sanctum**, a provider of Web application security testing and firewall software, was acquired by **Watchfire** for \$45M.

- Wireless broadband communications provider **Alvarion** (Nasdaq: ALVR) is acquiring **interWave** (Nasdaq: IWAV), a developer of equipment for cellular networks based on GSM and CDMA technologies, for \$40.5M in cash.

- **Yahoo** acquired **FareChase**, a website allowing surfers to find the best travel deals online, for about \$20M.

MISC

- Israel and India have initiated negotiations to establish a joint R&D fund.

- Israel was ranked third in 2003 for the number of US patents filed per capita, following Japan and Taiwan.

Spotlight on

"We Quadrupled Revenues in One Year"

CyOptics, a leading supplier of high-speed optical engines for broadband communication solutions, raised \$10M in new financing in Q2. The round included existing investors Eurofund, JVP, Soros, The Sprout Group, Ventech, Vitesse, Innovacom and a new external investor.

In addition, CyOptics was recently awarded an investment of up to a \$1M by the Israel-U.S. Bi-national Industrial Research and Development (BIRD) Foundation for the development of a unique optical engine.

CyOptics designs, manufactures and sells optical engines to industry leading manufacturers of transceivers, transponders and line cards used in optical networking equipment. CyOptics has achieved significant breakthroughs in laser technology that enable superb device performance and has developed proprietary automated assembly and test equipment for uniform production at lowest cost. Its customers include JDSU, Bookham, Agilent and other industry key players.

"In the past two years we have changed the whole company around," says CEO & President John Pilitsis. "We acquired CENiX, a leader in the automated assembly and test of optoelectronic subsystems, along with its fully automated proprietary optical component packaging manufacturing capabilities. We have introduced five different products, two of which are our flagship products, which position Cyoptics as the only company worldwide with this combined offer.

"We are managing the business with the three T's in mind, focusing on Technology, Team and Traction with customers. All three areas have been re-engineered, causing our revenues to quadruple in a single year."

www.cyoptics.com

● **MobileAccess Networks**, a leading developer of equipment for in-building wireless networks, was awarded the contract to provide in-building wireless solutions at the US headquarters for Lehman Brothers. The installation enables coverage for workers who use their cell phones frequently and for users of BlackBerry devices, and features the recently-launched MA-850 module to support Wi-Fi services.

Additionally, MobileAccess announced the appointment of Steven P. Dussek as Chairman of the Board of Directors. An executive at some of the industry's leading wireless service providers, including MCI AirSignal, McCaw Cellular and Nextel, Mr. Dussek will combine his business acumen and understanding of wireless market trends to help MobileAccess achieve even further success in the market.

www.mobileaccess.com

● **ART** has become a member of Forum Nokia PRO, a program that provides advanced technical, business development and marketing support to selected mobile software companies. As a member of Forum Nokia PRO, ART has the opportunity to further strengthen its relationship with Nokia, gain early access to Nokia technology and take advantage of specialized service and support provided by Nokia to help ART stand out in the marketplace.

ART also launched the smARTspeak® XGT embedded speech interface solution on the Series 60 Platform. Developed by Nokia, Series 60 is the world's leading smartphone platform.

www.artcomp.com

● During this quarter, **Schema** announced the release of GSM Forté, the company's most powerful GSM RF network optimization solution to date. Schema GSM

Forté is a highly advanced, user-friendly RF optimization solution, which enables mobile carriers to improve network performance and increase user satisfaction by significantly improving voice and data quality, capacity, and coverage.

These improvements enable operators to increase network revenue by utilizing existing infrastructure and avoiding costly investments, while reducing the overhead needed to manage voice and data services on GSM networks. According to one of Schema's leading customers, "GSM Forté gives us a significant advantage over alternative GSM optimization solutions in part because of its highly accurate modeling and overall performance, but most of all because of its tremendous ease of use and intuitive engineering workflows".

www.schema.com

● **Mitsubishi Electric Corporation**, a world leader in communication systems, and **Passavé**, a leading provider of Fiber-to-the-Home (FTTH) semiconductor solutions, have partnered to drive greater penetration of low-cost, fiber-based Gigabit Ethernet services to consumers in Japan. Through the partnership, Mitsubishi will supply a complete access network solution that combines Passavé's optical line terminal (OLT) and optical networking unit (ONU).

Passavé's second generation Ethernet passive optical network (EPON) chipset is the only field-proven EPON solution, tested by a large number of customers and carriers and proven to be fully compliant with the newly ratified IEEE 802.3ah standard. Passavé's silicon is also the first to be tested and proven to support the requirements for field deployment by Japan's major carriers. Requirements include sophisticated encryption and dynamic bandwidth allocation.

Japan is the world leader in deployment of fiber-based Internet access and, through the support of Mitsubishi Electric's EPON solution, Japan's leading carriers are aggressively expanding their already large FTTH build-outs.

The Mitsubishi-Passavé partnership coincides with a surge in demand for FTTH in Japan, which listed more than 1,140,000 FTTH connections in March, 2004, marking an increase of greater than 99,500 subscribers from the previous month. In Q2, monthly increases in FTTH subscribers averaged above 80,000. Industry watchers expect even higher rates of adoption as the cost of FTTH equipment continues to plunge.

www.passave.com

● **Tevet Process Control Technologies**, an innovator of integrated metrology solutions for film thickness measurement of semiconductor devices, announced in September that after a collaborative evaluation of its IsTMS measurement product by both Novellus Systems (Nasdaq: NVLS) and a Novellus customer, Tevet has received an "approved supplier" designation from Novellus.

Following evaluation and testing by Novellus, the IsTMS has become a tool of record in a production fab facility. Tevet's system architecture, unique measurement capabilities, and performance, combined with Novellus' smart and friendly interfaces, allowed for a seamless integration and qualification in a production environment. As a result, Tevet has received follow-on orders for production applications integrated on Novellus 300mm systems.

www.tevet-pct.com

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