

Israel VC Investment Totals \$1.46B in 2004

According to the latest survey by the IVC Research Center, 428 Israeli technology companies received \$1.46B in VC investments in 2004 from local and foreign investors, 45% more than the \$1.01B raised in 2003.

The rate of investment dipped somewhat in Q4/04: \$366M was raised by 113 companies compared with \$438M by the same number of companies in Q3/04. Nevertheless, Q4/04 saw the second highest amount of capital raised since Q1/02.

Life sciences companies continue to attract a larger proportion of the capital raised: from 8% in 2000 to 22% in 2004. For 2004 as a whole, communications remained the dominant sector, though to a lesser extent than in the past. 117 communications companies attracted \$430M, 29% of the total amount raised, compared with \$332 million (33%) in 2003 and \$418 million (37%) in 2002. Software companies raised 22% of the total in 2004.

Another trend in 2004 was more investment in seed stage companies: 54 seed companies attracted \$108M - 8% of the total capital raised. The amount was almost twice that of 2003: \$58M (6%).

The survey, conducted with the cooperation of the Israel Venture Association, is based on reports from 115 venture investors of which 62 are Israeli management companies and 53 are foreign investment entities.

Prof. Stanley Fischer to Head Bank of Israel

World-renowned economist Prof. Stanley Fischer has accepted Finance Minister Benjamin Netanyahu's offer to become the Governor of the Bank of Israel. Fischer will leave his office as Vice Chairman of Citigroup, and become an Israeli citizen.

Prior to joining Citigroup, Fischer was the First Deputy Managing Director of the International Monetary Fund. Before joining the IMF, Fischer was the Killian Professor and Head of the Department of Economics at MIT. From January 1988 to August 1990 he was VP Development Economics and Chief Economist at the World Bank.

According to Morgan Stanley analyst Serhan Cevik, Fischer will drive a change in the Bank of Israel's approach to monetary policy. "The Bank of Israel is finally in a position to capitalize on price stability... Price stability presents a unique investment opportunity for yield-hungry investors. Mr. Fischer's major contribution will be, in our view, the consolidation of macroeconomic stabilization and designing a flexible monetary policy framework that would further improve transparency and accommodate welfare-enhancing growth."

Passage to China

Israel has always been one of the most promising technology hubs outside the US. Its proximity to Europe has made Israel a significant bridge for many American companies seeking to sell in Europe.

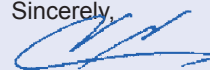
Today, when Asia Pacific companies have become central players in the technology world, Israel's tradition of entrepreneurship and its ability to develop and successfully market technology products without having a real home market, put it in an enviable position. Today - more than ever - American investors and major market players flock to Israel to learn how sales are made in foreign markets.

A study recently completed by Lehman Brothers indicates that tens of Israeli technology companies are making multi-million dollar deals in China, India, Korea, Japan and other Asian-Pacific countries. As the level of Israeli export to Asia Pacific reaches 20% of Israel's overall hi-tech export and continues to grow, many more Israeli companies will enter the Chinese market.

Many Israeli investors are also showing great interest in Asia-Pacific. They are recreating a network of relationship with partners, clients and investors from that part of the world in order to reap the fruits of these high-growth markets in the near future. Furthermore, some Israeli start-ups have opened up manufacturing operations in China, in order to shorten entry cycles into this complex market.

China represents a high-growth potential for technology companies worldwide, and Israeli companies are paving the way to this promising market. Whoever wondered where the ultimate growth channels for Israeli high-tech are to be found, should take another look eastward.

Sincerely,



Aharon Beth-Halachmi
Managing Partner

PRIVATE PLACEMENTS

- **BitBand** raised \$4.75M (Series C) from Ascend (lead), Portview, Apax, Challenge-Etgar, Aviv & Sequoia. Bitband develops solutions for communications providers, including video on demand services and software.

- **Celerica**, which developed a technology enabling mobile operators to quickly add wireless sites at low cost, completed an \$8M round (Series C) from Pitango, Star, Platinum Neurone Ventures, Charles River, Shrem Fudim Kelner (TASE:SFKT), and Sunrise.

- Optical switching technology developer **Chiaro Networks** raised \$14M (Series E) from ECI, Pitango, Delta Ventures, Star, Israel Seed, Koor & Israel IT Ventures.

- **Comverge**, which enables scalable information infrastructures custom-designed for energy suppliers, raised \$13.6 (Series C) from Rockport, Easton Hunt, EnerTech, Norsk Hydro Technology & Ridgewood.

- **Cyota**, which provides anti-fraud and security solutions for financial institutions, raised \$7.25M (Series E) from Bessemer (lead), Giza, Israel Seed, Poalim Ventures, RRE Ventures & Quan Ventures.

- **Digital Fuel**, a provider of service relationship management software, raised \$20M (Series D) from Apax, Benchmark, Sigma Partners, Israel Seed & Apropos IT.

- **Emptoris**, a provider of sourcing and spend analysis solutions for enterprises, raised \$12M (Series D) from ABS Capital Partners (leader), Menlo Ventures & HarbourVest.

- WLAN technology developer **Extricom** raised \$5.6M (Series B) from Vertex (lead) & Magnum Communications.

- eSupport Start-up **Gteko** raised \$12M (Series B), led by Pitango &

Intel Digital Home Fund. AOL, one of Gteko's customers, received an option to purchase 5% of the company.

- **Horizon Semiconductors**, which develops integrated silicon solutions for consumer electronics and home entertainment markets, raised \$16M (Series A) from JVP (lead), Giza, CSK & Hitachi Venture Capital.

- **Impliant**, a developer of cushion-bearing materials to create long-lasting orthopedic implants, raised \$18M (Series B) from Elron (lead), InnoMed, Gemini, Advent, Radius & Hospital for Special Surgery.

- **IXI Mobile**, which provides end-to-end software solutions that enable a new category of wireless devices, raised \$25M (Series D) from Texas Instruments, Western Technology Investment, Gemini, CDIB, Intel Communications Fund, Tlcom, Draper Fisher Jurvetson & CMCS.

- **Magnolia Broadband**, which develops broadband fixed wireless access products, raised \$11M (Series C) from SCP Private Equity, ECentury, & DFJ Gotham Ventures.

- **NanoMotion**, which designs, manufactures, and markets ceramic servo motors, raised \$10 (Series C) from Johnson Electric.

- Resource optimization platform developer **nLayers**, closed a \$6M (Series B) led by Walden Israel & Gemini.

- **Personeta**, developer of intelligent network service controllers (NSCs), secured \$9M (Series C) from Lightspeed (lead) & Duchossois.

- **Predix**, which finds drug candidates that bind with GPCRs - the most prevalent drug target family, raised \$15M (Series C) from Yozma, Orbimed Advisors, HBM & SR1.

- **Procognia**, a biotechnology company that specializes in

glycoanalysis and protein function arrays, raised \$23.5M (Series B) from Apax, Evergreen, Koor, Vitalife & Star.

- Network Security company **Skybox Security**, raised \$10M from existing investors Mofet, Lightspeed (lead), Benchmark & Carmel.

- **Transparency Software**, which develops software that allows a search and retrieval of organizations' business operations data, raised a \$6M seed round from Lightspeed & Pitango.

- **VisionCare**, which develops advanced implantable ophthalmic devices, raised \$20M (Series C) from Boston Scientific (lead), Pitango, Infinity, Onset Ventures & 3 Arch.

- **Unipier**, which develops products that enable service providers to drive revenues while managing their subscriber base, raised \$15M (Series C) from Carmel (lead), Greylock, Pitango & Fidelity Ventures.

- **XenSource**, which develops an infrastructure virtualization technology, raised \$6M (Series A) from Kleiner Perkins & Sevin Rosen.

VENTURE CAPITAL

- US-based VC **Greylock** is about to set up an Israeli operation, similar to those of Benchmark Capital and Sequoia Capital, which maintain Israeli funds. Moshe Mor will manage Greylock's Israeli fund.

M&As

- **Largest defense merger in Israel is underway: Elbit Systems (Nasdaq: ESLT)**, ("Elbit Systems") announced in late December it has reached agreement with **Koor Industries (NYSE:**

KOR) to purchase all of Koor's approximately 32% holdings in **Tadiran Communications** (TASE: TDCM). This purchase will be made in parallel to Koor's purchase of approximately 9.8% of Elbit Systems' shares from Federmann Enterprises.

Elbit Systems will purchase from Koor the 32% of the Tadiran shares for approximately \$146M. Koor will purchase from Federmann Enterprises 9.8% of the shares in Elbit Systems for approximately \$99M. Shareholders agreements will apply to the holdings of Koor and Elbit Systems in Tadiran and the holdings of Federmann and Koor in Elbit Systems.

Upon completion of the deal, Elbit Systems will be Israel's largest private defense contractor, with an order backlog of \$3B, \$1.5B in revenues, proven R&D capabilities and a leading position in tactical communications.

- **Eastman Kodak** has acquired **Orex** Computed Radiography, a provider of digital radiography systems, for \$63M in cash.
- **Tecnomatix Technologies** (Nasdaq:TCNO) will be bought by Plano, Texas-based UGS, a provider of product lifecycle management (PLM) software and services, for \$228M.
- Over-the-counter pharmaceutical and nutritional products manufacturer **Perrigo** (Nasdaq: PRGO) will acquire **Agis** Industries (Nasdaq:AGIS.OB; TASE:AGIS) for \$900M in cash and Perrigo stock.
- **Witness Systems** (NASDAQ: WITS), a provider of performance optimization software and services, is to acquire enterprise workforce management solutions provider **Blue Pumpkin** Software for \$75M in cash and stock.
- Speech and imaging solutions provider **ScanSoft** (Nasdaq:SSFT) will acquire **ART** - Advanced

Recognition Technologies for \$26.5M. ART has developed voice and handwriting identification software for wireless telephones and handheld computers. Its shareholders include Bessemer, JP Morgan, Eurofund, Investech, Nomura and Leumi & Co. Investment.

ScanSoft has also acquired **Phonetic Systems**, provider of speech recognition solutions for telecommunications carriers and enterprise customers, for \$80M.

- Electronic design solutions company **Cadence Design Systems**, (NYSE:CDN; Nasdaq: CDN) has bought Israeli verification process automation company **Verisity** (Nasdaq: VRST) for approximately \$300M in cash.
- **Software AG** plans to acquire Israeli legacy integration technology company **Sabratec**, known for its ApplinX legacy integration technology, for \$12M.
- **SanDisk** Corporation (Nasdaq: SNDK) has acquired **MDRM**, a privately-held Israeli company focused on end-to-end solutions for distributing secure content through flash memory cards, for \$15M.

MISC

- The number of Israeli industrial companies to issue shares on the Tel Aviv Stock Exchange (TASE) is expected to rise 15-20% in 2005 - to 200. The capital raised is expected to rise 25% to NIS 3B, according to the Israeli CFO Forum.
- The Central Bureau of Statistics reported that GDP rose 4.2% in 2004, slightly higher than previous forecasts, and more than triple the growth in 2003. Business product rose 6%, compared with 1.7% last year.

Spotlight on



BeInSync Raises \$3M

Start-up **BeInSync** raised \$3 million as a first part of its Series A financing round, which it plans to increase to \$5 million. Eurofund and Aviv Venture Capital led the round.

BeInSync develops software that synchronizes information for end users. The software uses secure peer to peer technology that makes information available for end-users, small businesses, and businesspeople on the road, by automatically synchronizing the user's files and e-mails among several computers.

BeInSync estimates the number of private users and small business market at tens of millions in the US alone and at over 100 million worldwide. Tens of thousands of users have already downloaded **BeInSync's** first product since it was made available five months ago.

BeInSync was founded by Tal Barnoach (CEO) and Sharon Carmel (President & CTO). Barnoach co-founded and managed several technology companies over the past decade. He was chairman of Orca Interactive (AIM:ORCA), which was sold to Emblaze (LSE:BLZ) in April 2000, and held its IPO in September 2004. He was also chairman of iCognito (now PureSight) and Dotomi. Carmel was a co-founder of Emblaze, and served as its CTO and VP R&D until 2001.

According to Barnoach, "**BeInSync**, which provides secure peer-to-peer automatic synchronization of data between devices, is the next generation of remote access and SSL VPN".

BeInSync, which offered its product on a trial basis for the last few months, will launch its desktop/laptop paid version in March 2005. Future **BeInSync** products will enable users to synchronize PDAs and other mobile devices with their computers. **BeInSync** plans to use the proceeds from the financing round to market its first product worldwide. Several OEM deals are in the making.

● **CyOptics**, a developer and manufacturer of Indium Phosphide (InP) devices and optical engines for broadband solutions, recently launched its uncooled 2.5Gb/s DFB (distributed feedback) lasers operating over Coarse Wavelength Division Multiplexing (CWDM) channels.

This addresses the spectrum of CWDM channels between 1470nm and 1610nm providing customers with the ability to transmit multiple wavelengths of information over a single fiber optic cable. In addition, this product line supports the FTTH (fiber to the home) popular wavelength of 1490nm used in digital downstream data transmission. CyOptics will be introducing these devices to production in Q1/05 in support of its continued market growth.

In January Cyoptics announced the appointment of Ed Coringrato as President, CEO and board member. Coringrato, formerly VP of Business Development for CyOptics, has been instrumental in driving the company's growth since joining CyOptics in February of 2003. www.cyoantics.com

● **MobileAccess Networks**, a leading developer of equipment for in-building wireless networks, announced in Q4/04 the release of the company's new flagship product, the MA-2000 Series. A highly scalable, multi-service platform for today's enterprises and wireless operators, the MA-2000 incorporates flexible packaging, sophisticated signal handling, and advanced wireless management capabilities. The MA-2000 is ideal for organizations deploying their own wireless systems, and for wireless carriers seeking robust in-building solutions on behalf of their enterprise customers.

In addition, MobileAccess completed in-building wireless installations at the US House of Representatives in Washington, DC and at the Disneyland theme park in Orlando, Florida. The House of Representatives implementation enables coverage within multiple government buildings for users of cellular phones and BlackBerry devices, while visitors to Disneyland can use their cellular phones in the park.

www.mobileaccess.com

● **Tevet Process Control Technologies**, an innovator of integrated metrology solutions for film thickness measurement of semiconductor devices, completed the installation of its Integrated Metrology units at one of the leading 300mm wafer fabs in North America. These units were integrated onto Novellus Speed and Vector Chemical Vapor Deposition (CVD) tools.

Tevet also succeeded in penetrating the Japanese market and its IsTMS technology was selected by a Japanese 300mm wafer fab for a customized film thickness measurement system tailored for this customer's unique Advanced Process Control strategy. This win represents a potential for dozens of systems to be shipped within the next three years.

During Q4/04 Tevet started multiple evaluation programs for its Integrated Metrology Modules with leading semiconductor manufacturers in Taiwan and Korea. Tevet's system architecture, unique measurement capabilities, and performance, generate strong interest among leading semiconductor fabs for both CVD and CMP applications. Tevet's technology and product have been featured in Solid State Technology magazine and at the AEC/APC conference in Asia.

In preparing for expanded activity and for growth Tevet will relocate to a new facility in Yokne'am during Q1/05.

www.tevet-pct.com

● **Foxcom**, a division of OnePath Networks, which has expanded its Sat-light product line to include C-Band IFLs, has sold its first C-Band units to V-Satcom, a New Zealand firm. A major installation of SDTVplus equipment was made in NDS. SDTVplus is used to distribute signals from worldwide satellites throughout the NDS facility to hundreds of different points in the building. www.foxcom.com

● **ColorChip**, a designer and manufacturer of low-cost, high-performance components for the fiber optic market, recently marked a major achievement: integrating for the first time a full 2.5 Gbps Fiber-To-The-Home (FTTH) transceiver into one single chip placed on a system evaluation board of one of its partners. This prototype transceiver comprises a transmission function (laser), a receiver function (photodiode), peripheral electronics, a waveguide that improves optical performance, and a WDM waveguide that decouples two wavelengths.

The FTTH market is growing quickly, especially in Japan, Korea, China and the US, and so is the demand for such transceivers. With ColorChip's unique design and production process, ColorChip will manufacture such products at lower costs and offer better performance compared to its competitors.

www.color-chip.com

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