

eurofund quarterly

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Making Foreign Investment in Israel More Attractive

The Knesset has approved new tax breaks designed to encourage international investment in Israel and increase the inflow of funds from foreign companies under the control of Israeli residents. For 2009, a temporary provision reduces the tax rate on dividend distribution by a foreign company controlled by an Israeli company from 25% to 5%, if the dividends are used in Israel to pay salaries or to rent or buy property.

In addition, interest on bonds traded on the Tel Aviv Stock Exchange that is paid to overseas residents will be tax exempt to encourage foreign investment in Israeli corporate bonds. Foreign investors will also enjoy an unconditional tax exemption on the sale of securities in Israel. This exemption, however, does not apply to capital gains on the sale of securities of companies engaged in real estate in Israel, or on gains on a foreign resident's fixed enterprise in Israel.

1% of Patents in the World are Israeli

The World Intellectual Property Organization (WIPO) 2008 report on global patent activity placed Israel 15th out of 138 nations in the number of patent applications filed in 2005 and 2006 under the Patent Cooperation Treaty (PCT). Israel ranked 5th in utility patents, 3rd in the quality of scientific papers and 6th in overall innovations. During the 30 years between 1977 and 2007, the US Patent Office granted 15,868 patents to Israeli companies/entrepreneurs, placing Israel 14th in the world for this period, despite its 96th place ranking in population size.

Start-ups Still Launching, Despite Global Economic Uncertainty

Paradoxically, the challenges of providing a safe financial future in these uncertain times may be partially responsible for the launch of 40 startups in Israel in the last 30 days of 2008, almost 15% of all companies launched in 2008. Calcalist, a local newspaper, suggests that the large number of new launches might be related to the 1600 employees that were laid off from technology companies in November.

Israel Takes Its Place Under the Sun

While the US government has been struggling to maintain calm within its domestic financial community, the Israeli government has been trying to insulate its own financial institutions, businesses and consumers from the ripple effect of the global economic crisis. Now, top Israeli economists, bankers and finance department officials are concerned that the military action in Gaza further upset the already fragile economic situation. Economic indicators are showing signs of weakening: The Tel Aviv Stock Exchange (TASE), which was already struggling to maintain stability, took a hit when rockets were sporadically shot into northern areas of Israel over recent weeks.

Before the operation in Gaza, the Bank of Israel had forecasted 1.5% growth in 2009, the lowest rate of growth since 2003. That now seems ambitious. Domestic demand is expected to slow further in the coming months, leading to a further dampening of inflation. The Bank of Israel is expected to continue cutting interest rates in order to spur growth.

Israel may be facing a future with 1% growth, a 1% interest rate and 0% inflation. Foreign and local investors may view Israel's economy as unstable and uncertain, resulting in prolonged weakness of the shekel and an exchange rate that will remain above NIS 4/\$.

Some pockets of the Israeli economy may have a more optimistic outlook. The local VC community has recently enjoyed some of the strongest fundraising quarters in the history of the industry. While the economic situation demands that everyone be more conservative and risk averse, there are numerous companies that show great promise and VC funds are continuing to support them and help them flourish. Investors are now more thorough in their reviews and have raised their standards for investment, with the intention of making investments more efficient and funded companies more successful.

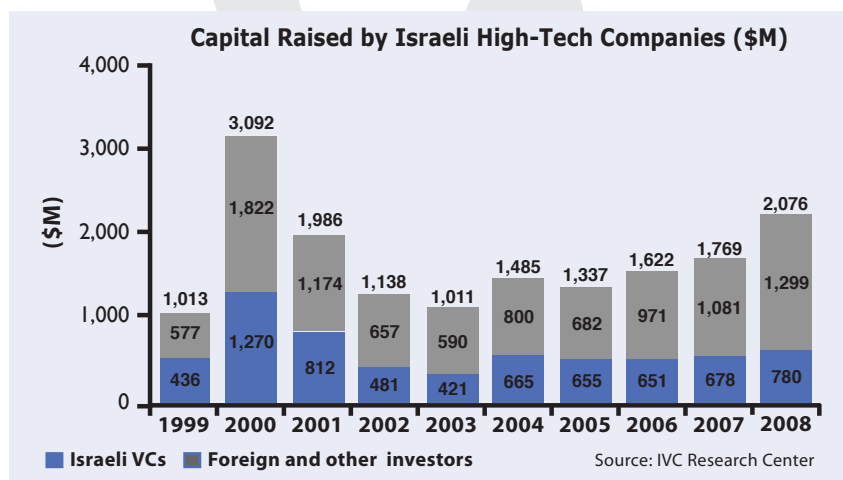
The VC community is seeking out long term investments with great potential and seizing the opportunity to support promising businesses and guide them successfully through the tough times ahead.

Yours sincerely,



Aharon Beth-Halachmi

israel investment & economic news



Venture Capital Investment in Israeli High Tech Reaches an Eight-Year High

Israeli high tech companies raised a total of \$2.08 billion from local and foreign investors in 2008, an 18% increase from the previous year. The third quarter of the year was the most successful in eight years, with \$600 million raised, an increase of 54% over the previous year. In Q4, however, the global recession took a toll. Israeli high-tech companies raised \$394 million in VC financing, a 22% decrease from the previous year. Zeev Holtzman, Chairman of IVC Research Center, which published the results, remains optimistic about Israeli high technology despite the hard times ahead. "2009 will be a tough year for all companies," he said, "yet Israeli high tech will continue to be a highly abundant source of technology innovation."

Omrix Acquired by Johnson & Johnson for \$438 Million

Omrix, a biopharmaceutical company that develops and markets bio-surgical and immunotherapy products such as Quixil surgical sealant, was established in 1995

and has been a Johnson & Johnson marketing partner since 2003. Alex Gorsky, Company Group Chairman for Johnson & Johnson said, "Our partnership with Omrix has already expanded our capacity to provide innovative, next generation products that raise the standard of surgical care."

Omrix will report through ETHICON, a Johnson & Johnson company and leading provider of suture, mesh, hemostats, and other products for surgical procedures.

Microsoft to Include N-trig DuoSense™ Technology in Windows 7 Platform

N-trig's DuoSense™ technology, which combines pen and zero-pressure touch in a single device, will be included in the Microsoft Windows 7 platform's suite of multi-touch solutions. Both Dell and Intel already use N-trig's DuoSense technology. "N-trig's DuoSense technology is key to enabling multi-touch experiences," said Gary Schare, Director of Hardware Ecosystem Product Management at Microsoft Corp.

DuoSense enables users to easily zoom in and out, scroll up and down, and rotate images without

the use of a mouse and keyboard. The technology can be implemented in a broad range of products from small notebooks to large format LCDs and can support a variety of applications. N-trig was founded in 1999 and is headquartered in Kfar Saba, Israel.

St. Jude Medical, Inc (NYSE:STJ) Acquires MediGuide for \$283 Million

MediGuide, developers of the guided Medical Positioning System (gMPS), a navigation system that provides real-time tracking of sub-millimeter sized sensors, was recently acquired by St. Jude Medical. The gMPS system increases physicians' navigational accuracy during catheterization and other minimally invasive procedures, while reducing potential exposure to radiation for both the patient and members of the medical team.

gMPS sensors can be mounted on needles, guide wires, catheters, or other medical devices used for minimally-invasive intra-body navigation. The sensors' 3-D position and orientation are calculated in real time and projected graphically on a fluoroscope, CT, MRI, ultrasound, or a 3-D reconstructed image of the anatomy.

Daniel J. Starks, chairman, president and chief executive officer of St. Jude Medical said, "In addition to continuing our strong commitment to developing our atrial fibrillation platform, we believe MediGuide's proprietary technology may also extend across a variety of other product categories, including cardiac rhythm management, interventional cardiology, neurology and structural heart disease."

The Economic Downturn and Its Impact

Global Business Execs Pessimistic about Economic Outlook

In a survey of senior executives from over 7,000 privately held businesses (PHBs) across 36 countries that contribute 81% of global GDP, Grant Thornton International found that optimism has decreased by 56% globally over the past year. The firm's optimism/pessimism barometer, which was at +40% this time last year, has fallen to -16%, the lowest since the barometer was initiated in 2003. Surveyed executives agree that falling consumer demand poses the greatest threat to privately held businesses.

"PHBs in the United States and mainland China, which together contribute over 32% of global GDP, scored their optimism at -34% in the United States but +30% in mainland China. Japan and India (collectively contributing over 11% of global GDP) scored their optimism at -85% and +83% respectively. These polarized results suggest there are still pockets of hope in the global marketplace," explained Alex MacBeath, global leader of privately held business services, "...While PHBs are preparing for a prolonged and painful downturn, those in the emerging economies realize that at their own micro level it could offer real opportunities."

PHBs from India (+83%), Botswana (+81%) and Brazil (+50%) were optimistic while those from Japan (-85%) and Spain (-65%) were the most pessimistic. Hong Kong showed the largest drop, with a +81% optimism rating last year dropping to -49% now. The European Union as a region was the most pessimistic at -38% on the optimism/pessimism barometer. Latin America (+11%) and Asia Pacific (+3%) were both optimistic but less so than last year.

A Cold Wind in Silicon Valley

The pickings for the US venture capital community are slim these days. Figures from Renaissance Capital, an IPO research firm, showed that only four technology or communications companies in the US went public in 2008, down from 69 in 2007. Proceeds for venture-backed deals totaled only \$600 million, down from \$10.6 billion the previous year.

The Rich Getting Poorer Impacts Everyone

Institutions are now being confronted with investors and donors who are unable to meet their financial commitments. Many wealthy individuals who previously invested in VC or pension funds or funded university endowments no longer have excess capital to invest or donate.

The impact of these changes is far-reaching. For example, Harvard's endowment lost \$8 billion over the past four months. The California Public Employees' Retirement System (CalPERS) portfolio lost over 31% of its value since peaking last autumn, an \$81.4 billion drop. CalPERS, America's largest public pension fund and one of the leading investors in VC funds, may need to ask state and local employers for more money. The fund has already told private equity companies that it will not be able to meet previous commitments for capital.

Rising Unemployment, With No Relief in Sight

In America, 524,000 employees were laid off in the final month of 2008, leading to a national unemployment rate of 7.2%. "Basically, since December 2007

we've lost 2.6 million jobs [long-term unemployed] with no end in sight," said Peter Morici, a professor at the University of Maryland. "A stimulus package will stabilize the situation, but until we fix the banks and the trade deficit, there won't be any recovery."

In Europe, Recession Forecast to be Worst in 30 Years

The US subprime mortgage crisis has spurred a downward spiral in Europe that is proving difficult to control. In the UK, the National Institute for Economic and Social Research think tank forecasted that this will be the hardest recession in nearly 30 years.

The Bank of England has lowered interest rates to 1%, a historical low. National income in the UK fell by roughly 1.5% in the last quarter of 2008 and industrial production fell by 2.7% during the three months ending November of 2008 compared with a 1.3% decrease in the previous three months. Manufacturing decreased by 3.3% and no manufacturing sectors recorded substantial increases in output.

Alan Clarke, a BNP Paribas economist said: "The data confirms ... that manufacturing activity is shrinking fast. It was also consistent with widespread news reports of prolonged shutdowns, getting rid of shifts and laying off significant numbers of workers."

Germany, France and Spain have all reported significant decreases in industrial output during 2008. In Germany, industrial output decreased by 3.1%; France's decreased by 2.4% and Spain reported that production at factories and mines was 15.1% lower than a year earlier.

portfolio news

- **CyOptics** introduced CWDM (Coarse Wavelength Division Multiplexing) TOSAs (Transmit Optical Sub-Assembly) for the emerging 40GBASE-LR4 standard. This complements their existing 10Gbps TOSA portfolio of products.

The new 10Gbps TOSAs meet the emerging 40G Ethernet requirements. The TOSAs are based on CyOptics' standard buried hetero-structure DFB laser chip design. "The emerging 4x10GbE standard for the 10km interface is the fastest solution to market and uses cost-effective off-the-shelf optical and IC components," said Kou-Wei Wang, VP and GM InP OEM business at CyOptics. "Our new TOSAs leverage CyOptics' technology from the rapidly growing FTTX market to enable next generation 40G Ethernet solutions."

www.cyoptics.com

- **Foxcom** introduced two new products, the BsmarTV and the Sat-Light/Platinum suite. BsmarTV is a high-bandwidth multi-polarity solution that combines voice, video and data via a single cable to the home. The Sat-Light/Platinum series links earth stations, Internet service providers, cable TV head-ends and other communication gateways.

In addition, Foxcom opened operations in Durban, South Africa. Brad Hall, Foxcom Director of Sales for South Africa, says "BsmarTV will provide total fibre-optic solutions for broadband point-to-point multipoint distribution systems, transporting

L-Band, CATV and Ethernet, which includes VoIP services.

www.foxcom.com

- **MobileAccess**, providing a rare bright spot in the midst of seemingly endless dark news from technology companies, reported that 2008 revenues increased 55 percent.

The company has entered into a supplier relationship with Hutton Communications, a leading North American distributor of wireless communications products. Hutton's market presence and distribution expertise will help MobileAccess VARs address the growing needs of enterprise customers that are seeking a carrier-approved approach to complete wireless coverage inside their buildings. The MobileAccess solution enables indoor coverage for a broad range of wireless services and applications including cellular voice and data, vendor-agnostic WLAN, public safety, wireless medical telemetry, paging and Mobile WiMAX services.

"We are excited about the booming opportunity for creating wireless coverage inside customer's buildings," stated Hutton Communications CEO, John Walker. "With today's ever growing need for improved communications in the workplace, both for public safety and commercial needs, the MobileAccess in-building coverage solution will add tremendous value to Hutton's comprehensive line of wireless offerings." Cathy Zatloukal, President and CEO of MobileAccess added, "Hutton is one of the most trusted suppliers to operators and VARs, so

we're pleased to be partnering with them to better support our VARs and enterprise customers who want the most complete carrier-ready wireless solution on the market today."

www.mobileaccess.com

- **Radwin** introduced the RADWIN 2000 High-Capacity solution, which is designed for the WiMAX operator and ISP markets. It provides 50 Mbps of full-duplex net throughput with an extended range of up to 120 km (75 miles). RADWIN 2000 supports multiple frequency bands, from 4.9 to 5.8 GHz, on a single platform and combines advanced OFDM (Orthogonal Frequency-Division Multiplexing) and MIMO (Multiple-Input and Multiple-Output) technologies and a robust air interface.

"WiMAX is moving towards large-scale operations and WiMAX operators have to cope with heavy investments in infrastructure and an emerging subscriber base," stated Adi Nativ, Radwin's VP Marketing and Business Development. "Backhaul is an expensive component of network build-out - and that's why it's crucial to use the right backhaul solution. RADWIN 2000 meets both the business and technical needs of WiMAX operators, delivering unparalleled performance at the most competitive price in the industry. We have already started deploying RADWIN 2000 in several large-scale WiMAX backhaul projects in India and Africa, and in addition are undergoing trials in numerous locations around the world."

www.radwin.com

About Eurofund Eurofund is an early-stage venture capital firm focused on investments in Israeli and Israel-related high growth companies operating in the fields of telecommunications, information technology, the Internet and semiconductors. Eurofund works closely with portfolio companies to ensure long-term value creation through innovation and disciplined execution.