

Two Israeli M&As Add Up to \$6B

**HP bought Mercury Interactive for \$4.5B
and SanDisk acquired M-Systems
for \$1.5B**

On July 25, 2006, US computer giant Hewlett-Packard announced its intention to acquire Mercury Interactive Corporation (OTC:MERQ) at \$52 per share, which was 33% higher than Mercury's closing price on Wall Street that day.

The acquisition is valued at approximately \$4.5B, net of existing cash and debt.

The acquisition of Mercury, a producer of software that tests and optimizes systems and software applications, is expected to increase the size of HP's software business to more than \$2B in annual revenue. Pending approvals and restatement of Mercury's financials, the companies expect to close the deal in Q4/06.

"We are combining two market-leading businesses to create the most powerful management software portfolio in the industry. Together, they will help customers cut their IT costs, speed the delivery of new services, and drive profitable growth," said Mark Hurd, HP CEO and President.

Five days after HP's announcement, SanDisk (NASDAQ:SNDK), the world's largest supplier of flash memory data storage products, announced its intention to acquire rival Israeli company MSystems (NASDAQ:FLSH) in an all-stock deal worth approximately \$1.5B.

The acquisition is aimed at beefing up SanDisk's share of the market for flash memory products for mobile phones, especially smart phones that also serve as music players. Israel-based MSystems develops and markets flash memory that is built into devices, while SanDisk focuses on removable flash storage devices.

Chairman and CEO of SanDisk, Eli Harari, said "This strategic acquisition will give us the critical mass and complementary products, customers, channels, technology and manufacturing base to take our shared vision to the next level."

Quenching the Thirst for Water Tech

**Israel is becoming an innovation leader in a
world plagued by H₂O shortage**

Believe water problems are confined to the 3rd world? Think again. Take Europe, for example. Cyprus, Italy, Spain and Greece suffer from occasional droughts. But who would think that London, the eternally wet capital of Britain expects to experience water shortages within the next ten years? The reasons: a growing population whose lifestyle includes consuming more water, old leaky pipes, and fewer rainy days. And London's water problems are just a "drop in the bucket" when it comes to the whole of Europe.

The United States is another surprising member of the watershortage club. According to Goldman Sachs, water demand in America has tripled over the last 30 years. The US has witnessed a growing need for industrial, agricultural and residential water, while suffering from more and more contaminated water resources. India, China and Africa also suffer national-scale water shortages. All of these translate into a major world problem and a major business opportunity.

Nowhere is the saying "necessity is the mother of invention" more appropriate than Israel, considering its water situation. The country suffers from a severe water shortage and has spawned more than fifty water-related start-ups over the years.

The majority of these young companies did not graduate from the development stage. The main reason: a lack of funding, despite the quarter of a trillion dollars designated for water solutions worldwide. This is about to change. Israel's national water utility company, Mekorot, has established WaTech, a platform for directing innovative Israeli brainpower toward the growth in the world's water market. It joins the Ashkelon Incubator that focuses on water projects ranging from water-security, through desalination, to wastewater treatment.

Israel has come a long way in water-related inventions since its revolutionary drip irrigation technology of the 1970s. If the country's innovative zeal in other areas is any indication, Israel will soon emerge as a water innovation leader.

Yours sincerely,



Aharon Beth-Halachmi

Q3/06: VC Investments Up 15%

Q3/2006 VC investments in Israel were up 15% - to \$302.7 million from last year, according to the Quarterly Venture Capital Report released by Dow Jones VentureOne and Ernst & Young LLP.

The number of deals so far this year is the same as in 2005, but the capital invested is already up 7% from last year.

The number of early stage deals rose, with seed and first round deals representing 29% of total activity in Q3, up from 24% in the 2005 period. Yet a larger percentage of

deals, 34%, were represented by later-stage financings.

Israel's information technology industry remained the stronghold for venture capital activity with 31 deals and \$238.7M invested. Investment in the communications segment was particularly notable this quarter with six deals and \$63.5M invested, a four-fold increase from Q3/2005. Although there were three fewer software deals, software investing was still up 32% to \$115.7M.

• **Zend**, architect of the PHP web language and a leading provider of products and services for developing, deploying and managing business-critical PHP applications, raised \$20M from Greylock, Platinum, Walden, Intel Capital, Azure, SAP & Index.

GENERAL

• Israel jumped 8 points in the World Economic Forum's Global Competitiveness index. The survey ranks Israel as one of the world's most competitive economies, ahead of Canada, France and the Republic of Korea. In terms of technological readiness, Israel leaped 20 points to rank 3rd in the world. Israel ranked 1st in availability of scientists and engineers and 2nd in venture capital availability.

In addition, Israel ranked 7th in the world for innovation. Additional improvements were in macroeconomic management, market efficiency and various areas of infrastructure. Due to the significant improvement in its overall ranking, Israel received a highlighted section in the report.

• On August 28, 2006, Morgan Stanley released a report on "The Incredible Shekel," stating that Israel's economy and its financial markets have shown remarkable endurance, and that the Israeli currency is "undervalued by about 30% against the currency basket".

• The Wall Street Journal placed Israel in the top 22% of countries in terms of economic freedom. Israel received a perfect score for monetary policy.

• A new act passed by the US House of Representatives designates \$20M per annum for US/Israeli research projects in renewable energy.

• According to the Bank of Israel,

FINANCING ROUNDS

• **Amimon**, a fabless semiconductor company pioneering wireless uncompressed high-definition video for universal connectivity among CE video devices, raised \$14M from Stata Venture Partners, Argonaut Private Equity, Cedar, Walden & Evergreen.

• **E-Glue**, a provider of real-time customer interaction software solutions, raised \$10M from Evergreen, Giza, Cedar, Shimon Alon, Ron Zuckerman, Kibbutz Ein-Shemer & Kibbutz Maagan-Michael.

• **Iamba**, a developer of FSAN-compliant BPON technology and QoS mechanisms, raised \$8M from Cedar, Giza & Pitango.

• **Magnolia Broadband**, a developer of semiconductors for the wireless industry & mobile transmit diversity antenna technology, raised \$10M from Intel Capital, Grosvenor Funds, WTI, SCP, DFJ Gotham, ECentury, Selway & Silverstar.

• **MetaCafe**, which develops a web media peer-to-peer video applications sharing solution, raised \$15M from Benchmark & Accel Partners.

• **Mobixell Networks**, a leader in Multimedia Value Added Solutions for mobile operators, service and content providers, raised \$8M from Intel Capital, Apex, TempoPark Fund & CTI Capital.

• **NextNine**, a provider of proactive automated remote service and support solutions for business-critical systems, raised \$10M from Motorola Ventures, Ascend, Ofer Brothers & Redwood.

• **PortAuthority**, which develops software and appliances to prevent information leaks from within organizations, raised \$18M from NEA, Greylock, Sequoia & Lexington.

• **SeaPass**, which provides advanced connectivity solutions for the insurance industry, raised \$11.5M from Dolphin Equity Partners, Inter-Atlantic Group, PNV, Hyperion & Apropus IT.

foreign direct investments in the country reached \$7.7B in January-July 2006, surpassing the total in 2005.

- In August, international rating agency Fitch raised the State of Israel's ceiling rating to A+.
- Israel's rate of civil R&D spending in relation to the GDP is the highest in the world, according to Israel's Central Bureau of Statistics - 4.7%.
- In July, Intel announced the launch of Dual Core, which will be the foundation for Intel's new mobile and desktop product line. It was developed at Intel's R&D center in Haifa, Israel.

M&As

- In July, private equity fund Francisco Partners acquired Israeli library software developer Ex-Libris for \$62M.
- In September, Lucent Technologies acquired Haifa-based start-up Mobiltec for \$75M. This is Lucent's 4th acquisition in Israel. Mobiltec is a provider of content management software for wireless service providers.
- In July, Johnson & Johnson acquired Israeli-based ColBar for \$159M.
- In July, CA (NYSE: CA) acquired XOsoft, a provider of continuous application availability solutions that minimize application downtime and accelerate time to recovery. The deal was valued at \$100M.
- In September, Microsoft announced its intention to acquire Gteko, a provider of simple solutions to a wide range of PC problems. The deal is valued at \$120M.
- In early October Xerox

Corporation (NYSE: XRX) announced it will acquire XMPie for \$54M. XMPie is a provider of

variable information software, which enables cross-media, personalized marketing programs.

Portrait of a Country as a Young Genius

How Israel became an Information and Communication Technologies (ICT) powerhouse, according to the World Economic Forum

The Israeli government and the country's geo-political difficulties have played an unprecedented role in its emergence as an ICT powerhouse, according to a study published in September 2006 by the World Economic Forum. Here are some findings from this fascinating report.

According to the study, Israeli policymakers have concentrated on strengthening innovation and R&D while opening Israel to the technology world at large. They realized that "the national market was too limited to sustain national industries and the political situation precluded selling to neighboring countries. Thus, the focus had to be international..."

The result, according to the study: the ratio between investments in R&D and the GDP is 4.6% - higher than that of any industrialized country. This did not happen by chance. The Israeli government has taken important steps to push R&D forward - higher education was given priority, leading to first class universities in which roughly 30% of students study sciences and engineering. As demand for higher education soared, many private colleges were accredited.

Compulsory military service and the army's high level of technological advancement also contributed to training

a large number of highly skilled tech workers. Another factor is the huge wave of immigration from the former Soviet Union in the 1990's. Over 10% of the nearly one million immigrants were scientists and engineers.

To utilize these workers, Israel established the Incubator Program, which helped fund ideas that previously would not have made it to the development stage for lack of funding. These were later privatized, bringing in more foreign cash. So were the market-friendly Yozma venture capital funds, started in the early 1990's, which helped attract leading international investors.

By the year 2000, there were over 50 venture capital firms in Israel that raised US\$9.4 billion. According to the study, Israel raised US\$600 per capita in venture capital, compared with US\$30 per capita in Europe, making it the most attractive technology market outside the United States.

Other factors outlined in the report that helped push the ICT revolution forward: Israel's only abundant "natural resource" - brainpower; the government itself being an early adaptor in terms of technology; preferential tax treatment for international investors, luring multinationals to establish substantial R&D facilities in Israel and modernization of the Israeli stock market.

● **ColorChip**, a leading manufacturer of glass-based Planer Lightwave Circuit (PLC) chips and modules for the Fiber To The Home (FTTH) networks, has received the Frost & Sullivan's Optoelectronic Components Emerging Company of the Year Award for 2006. The award for Emerging Company of the Year is presented each year to the company that has demonstrated excellence in all operations within the Optoelectronics Industry. The recipient of the award is perceived to exhibit outstanding management, high growth, and positive social and economic impact on local and national communities and end users.

www.color-chip.com

● **CyOptics**. In July, CyOptics announced the availability of its Transmit Optical Sub-Assembly (TOSA) for 4Gbit/sec Fibre Channel transceiver applications up to 80 Km. The 4Gbit/sec Fibre Channel standard boosts the performance of storage area networks (SAN) by doubling the speed while maintaining backward-compatibility with 1G and 2Gbit/sec systems.

CyOptics also announced volume production of its 2.5Gbit/sec DWDM TOSA for use in Small Form-Factor Pluggable (SFP) optical transceivers. This TOSA, which enables 100GHz channel spacing, is fully qualified and addresses CWDM and both the C and L bands.

www.cyoptics.com

● **MobileAccess**. In September, Cisco Systems announced that Hearst Corporation, one of the world's largest diversified communications companies, selected the Cisco Unified Wireless Network in conjunction with the

MobileAccess Universal Wireless Network infrastructure at Hearst Tower in New York.

This constitutes one of the largest "green" enterprise deployments of wireless and evinces a growing trend of wireless adoption due to its green-friendly attributes. To tackle the challenges posed by the Tower's unique green stature, Cisco teamed with MobileAccess Networks in order to implement an innovative approach that would maximize connectivity while minimizing workplace impact. In this arrangement, Hearst Tower gains an out-of-sight wireless LAN solution that blankets 856,000 square feet, spanning from the ground floor to the top of 46 stories.

www.mobileaccess.com

● **RadWin**. In July, RadWin announced that the Sierra Leone Telecommunications Company (SierraTel) has chosen its WinLink™ 1000 wireless broadband solutions to expand network connectivity. SierraTel is the state-owned telecom company and the sole provider of telecommunications services in Sierra Leone. Project deployment is underway.

"A major obstacle to growth in Sierra Leone is the limited reach of wired infrastructure," said Sharka Kargbo, SierraTel's Director of Engineering. "We realized broadband wireless was the answer to our connectivity needs, and after a thorough competitive analysis chose RadWin's WinLink™ 1000 5.8 radios".

"We had WinLink™ 1000 up and running in just hours, and haven't experienced a minute of downtime since. We are also extremely impressed by WinLink™ 1000's ability to transmit over water, and today use the systems to link together two of our exchange servers, which are located 23 km apart on

either side of the Sierra Leone River," added Kargbo.

www.radwin.com

● **Tevet** Process Control Technologies recently achieved a milestone in market penetration activity and celebrated the shipment of the 50th customer system. In addition, Tevet succeeded in becoming a standard measurement procedure for one of the world's leading IC memory manufacturers. This has resulted full adoption in both DRAM and FLASH production and multiple system order win in new 300 mm fab in multiple sites in the United States and in Singapore. In these new installations, Tevet's Trajectory T3 Integrated Metrology Modules (IMM) are integrated onto Novellus (NVLS) Chemical Vapor Deposition (CVD) platforms used for the deposition of critical dielectric films.

Tevet also expanded its OEM integration partners by winning integration projects with additional leading process equipment manufacturers based in the USA and in Japan. These activities are expected to increase Tevet's total available market and to accelerate market adoption and revenue growth rate.

As part of the company's thrust in developing new products and technologies Tevet won a chief scientist grant for the development of a new spectral imaging based metrology technology and has met its first milestone.

www.tevet-pct.com

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