

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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JOSEPH MORGENSTERN, PUBLISHER

L'Chaim, L'Chaim..... to Life!

When an Israeli raises a glass, the toast is not "cheers!", "bottoms up!" , or "prosit", or "nazdrowie" but simply L'Chayim. The literal translation of L'Chayim is "to Life". However, behind every common day colloquialism there is a deep culturally rooted origin. The word life appears more than 400 times in the Old Testament. As early as in the second chapter of Genesis the subject of life is brought to our attention: "the LORD God formed the man from the dust of the ground and breathed into his nostrils the breath of life, and the man became a living being." Israeli youngsters are taught the Bible and by the time they grow up it is a part of their code of behavior. It is therefore no surprise that the number of applicants for places in Israeli medical schools far exceed spaces available or that Israel holds the world's record for the highest number of doctors per capita in any country. The logic is that doctors save lives.

Medicine and biotechnology are closely linked. Biotechnology focuses on the development of pharmaceuticals that are intended to cure major ills such as cancer, MS and AIDS. There has been a significant increase in the number of students enrolled in the life sciences related university programs. The government's support of the sector, including plans to establish two incubators dedicated to biotechnology companies, and the establishment of the National Institute for Biotechnology, located in the Negev are proof of the trend. If even a part of the Government's \$450 million promised support for biotechnology is realized, it will give the sector additional momentum to move ahead.

According to Ernst and Young's annual industry report, total funds raised for the Israel life sciences sector rose to \$293 million in 2001, an increase of 43 percent over the previous year. Israel currently ranks second in total number of medical-technology start-ups globally, sharing its position only with the United States and trailing Canada. Israel has 160 biotechnology companies, employing approximately 4000 people.

At the request of a visiting managing director of a technology transfer company in Australia, we met

managers 20 of life science companies. It became clear that the sector is vibrant at all stages, whether at start up, technology incubator or visible products and at marketing stages.

Organics Ltd., a diagnostic kit company, is a developer and marketer of infectious disease kits for use in developing countries. These are "rapid" tests for identifying AIDS and Hepatitis and are sold in 80 countries.

At NovaMed production was being geared up to increase the productive capacity of an innovative urinary disease "dipstick" test. At BioPure the reverse osmosis principle

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developed at the Weizmann Institute, was being applied to municipal water treatment facilities. At Dispomedic Industries in Dimona, clean rooms were in use to sterilize the company patented safety syringes.

Biotechnology in the style of the third millennium, included Jerusalem based IntelliGene with a platform technology which was granted 10 patents for their selective targeting for gene therapy. The company's technology allows for the targeting of "sick" cells, while sparing the healthy ones.

Ernst & Young predicts that sales from that the sector will rise to \$3 to \$4 billion within the next five to seven years, from \$800 million in 2001. Israel's fast and cost-effective development cycle has been cited as a key advantage relative to U.S. counterparts and is drawing investment funds from various parts of the world into this country.

Israeli Satellites Will Be Used During 2008 Olympics In China

Ben-Gurion International Airport, Israel - Hong Kong Satellite Technology Group (HKSTG) and Israel Aircraft Industries Ltd. (IAI) signed a contract for seven commercial communication satellites. The ceremony took place in the Great Hall in Beijing. The deal may reach as high as \$1.0 billion/

HKSTG was formed in 2001 by a group of private Hong Kong investors. Partners in the venture include the China Aerospace Ltd. Science and Technology Group Corporation (CASC), Sino Satellite Communications Company Limited (Sinosat) and Israel Aircraft Industries (IAI).

In Memoriam

With sadness and a feeling of personal loss we mourn the death of Prof. Sidney Joel Joel-Cohen, a physician who loved life. An internationally acclaimed surgeon, his innovative surgical technique was adopted by a whole generation of surgeons and brought him personal fame. For nearly three decades he untiringly devoted himself to improving the level of healthcare in Israel. He served on a committee to legislate a medical ethics council.

As member of the Technology Review Board of this publication he contributed his worldly wisdom and encouragement to us all.

HKSTG will provide communication services, particularly direct-to-home television services for the rapidly growing Asian market. The demand for HKSTG's Communication services is expected to intensify due to the retirement of other communication satellites that are currently in service. In addition, the new satellites will be used to support the 2008 Olympic games, which will be held in Beijing.

Moshe Keret, IAI's President said during the signing ceremony that, "this venture is a win-win situation for all the parties involved and that the program is based on a long term relationship. This venture is particularly satisfying because it validates the IAI strategic decision to enter the space system market."

Each satellite in the HKSAT series includes 20 Ku band transponders designed to provide a 12-year service life. With 5500 Watts of power, the HKSAT series was designed as the ideal satellite constellation for providing direct TV broadcasting, digital communications, multi-media, Internet and other communication services. The contract allows HKSTG to purchase two HKSAT satellites from IAI's MBT Division, who is the prime contractor for the manufacture of the satellites. HKSAT satellites are based on IAI's successful AMOS series of

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Publisher and Editor in Chief
Joseph Morgenstern, BA. Chem,

Technology Review Board
Prof. S.J. Joel-Cohen, MD, FRCS. FRCOG
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Dr. Clive L. Carpel, M.B. Ch.B.

Copy Chief
Debbie Mor
Web Master
Marty Bokel
Graphics Consultant
Daniel Morgenstern

Subscription Inquiries
Tel. +972-3-5235279 Fax. +972 3-5227799
E-mail: htir_1@netvision.net.il
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communication satellites previously manufactured in Israel. Sinosat will provide ground service. CASC will be used to launch the HKSAT satellites from the Xi Chang satellite Launch Center. The first satellite HKSAT-1 is scheduled to be launched in 2004, with the second satellite launched 18 months later.

HKSTG expects to launch 7 HKSAT satellites, which will position the company to be the premier direct TV service provider in Asia.

Nanotechnology: Origins, Development and Israel's Growing Role

Background: What is nanotechnology?

Nanotechnology is the art of manipulating matter at the atomic scale. It crosses and unites academic fields such as physics, chemistry, biology and even computer science.

Nano- the exotic prefix

Derived from the Greek word for midget, "nano" means 10⁻⁹, a billionth part. A nanometer (abbreviated nm), for example, is one billionth of a meter. An atom measures about one-third of a nanometer. The diameter of a human hair—a measurement notable as nanotechnology's greatest cliché—is about 200,000 nm.

The Past Four Decades

In 1959, the Nobel prize winning physicist Richard Feynman said "There's plenty of room at the bottom." In this speech, he envisioned a discipline devoted to manipulating smaller and smaller units of matter. Feynman continued, "Ultimately—in the great future—we can arrange the atoms the way we want; the very atoms, all the way down!"

In 1974 the term nanotechnology itself was coined by Norio Taniguchi at the University of Tokyo. Taniguchi, perceived engineering at the micrometer scale—so-called micro-technology—from a new, sub-micrometer level, which he dubbed "nano-technology."

In 1986, MIT researcher Eric Drexler wrote "Engines of

Creation", the book widely credited with bringing nanotech into the public's consciousness.

At the same time, researchers at the American Rice University were studying a bizarre molecule. By vaporizing carbon and allowing it to condense in an inert gas, Richard Smalley's research team observed that the carbon formed highly stable crystals of sixty atoms apiece. They suspected the crystals shared the familiar soccer-ball structure used in architect R. Buckminster Fuller's geodesic domes, and named their discovery "buckminsterfullerene," which was quickly shortened to "fullerene," or "buckyball."

The buckyball remains nanotechnology's most famous discovery. It earned Smalley and his colleagues the 1996 Nobel Prize in Chemistry, and cemented nanotechnology's reputation as a cutting-edge research field.

Having explained the prefix, it wouldn't do to overlook the workaday root. Nanotechnology is not just the study of the very small -- it is also very much a technology.

Israel's Growing Infatuation with Nanotechnology

Of late, Israel's major institutes of higher learning have been busy in establishing nanotechnology research and development facilities. The level of funding varies, but the promise is that the resultant research "has the potential to change everything".

In spite of the rush towards supporting basic research in scientific and academic circles, there is much discussion about what nanotechnology will make possible and when -- and if the pursuit of nanotechnology is ultimately worth the effort.

The Hebrew University of Jerusalem recently set up a new \$40 million center for nanoscience and nanotechnology. The center will be part of the Faculty of Science for research and development. In another six months, the university will inaugurate one [physical] component, the center for microcharacterization and electron microscopy. What is being launched now is the official cross-disciplinary activity, the essence of nanoscience research. Hebrew University scientists from the physics, chemistry, engineering and life science faculties, many of whom are already working at the nanoscale, will be carrying out joint research projects and inviting guest speakers.

The Hebrew University is not alone in this endeavor:

Ben-Gurion University, Tel Aviv University, and the Technion all announced major investments in nanoscience and nanotechnology over the past 18 months.

A recent nanotechnology symposium brought academics together to explain the founding principles of nanotechnology to venture capital funds.

"We believe that this is one of the hottest subjects in science: basic science which you can use in the foreseeable future for useful products [in industry]," said Professor Magidor of the Hebrew University. "The first useful products are probably a decade away, but we will be prepared," Magidor continued. "As the major research center in Israel, we should be the major player [in nanoscience]," he said. "There is already some interest from industry. Now we are saying to them: we are here."

The View to the Future

Currently, nanotechnology labs focus on basic research, but they hope one day to apply their discoveries to nearly all branches of technology. Already, research points to revolutionary advances in materials, pharmaceuticals and information technology.

Research that built on Smalley's buckyballs led to the discovery of crystal carbon tubes, similar in structure to buckyballs, but many thousands of atoms long. That has led scientists to envision a wide range of applications—from nanoscale electronics to super materials and to tiny machines.

The first working electronic component for the nanocircuits of the future, for example, was created at the Technion-Israel Institute of Technology in Haifa. Called a nanowire, it's a string of tiny particles of silver, a thousand times thinner than a human hair, which actually passes a current.

Israeli physicist Uri Sivan fathered the nanowire, together with fellow physicist Erez Braun and chemist Yoav Eichen. The Technion team synthesized strands of DNA - the molecule that makes up genes - to make a scaffolding for the wire. Because DNA is an insulator which does not conduct electrical current, they attached grains of silver along the scaffold. The resulting nanowire is three times thinner than those created for microchips.

Prof. Jacob Sagiv, a materials scientist at the

Weizmann Institute of Science in Rehovot, has built three-dimensional structures out of molecules. One of these structures is shaped like a Star of David, each of its sides only 1,000th the width of a human hair.

Prof. Reshef Tenne, also from Weizmann, searched with colleagues in his department and at Oxford University in Britain for molecules to act as switches in computer memory. Unable to find this in nature, they shaped a single layer of nickel-chloride molecules into a sphere. This has not only produced highly reliable magnetic memory switches, it has also led to the creation of tiny molecular pipes.

The Weizmann Institute-developed nanotubes have been warmly welcomed by Prof. Aaron Lewis, director of the Laser Center at the Hadassah Medical Organization in Jerusalem (as previously reported by *IHTIR*). Prof. Lewis and Prof. Tenne both believe the nanotubes will extend the use of the recently developed nanomicroscope, now in use from Beijing to Stanford. "In this microscope, light is passed through a hole only nanometers in dimension, allowing us to examine single genes and even single proteins, and how they attach themselves on the cell surface," says Prof. Lewis.

Punching glass to make a hole only 10 nanometers wide for the microscope demanded the creation of new technology. This knowledge led, in turn, to the development of tiny glass tubes into which Lewis slid an even tinier metal wire, creating an instrument that functions like a surgical laser with a wide range of different lasers depending on the electric pulses sent through it. A fraction of the cost of a variety of surgical lasers, it is now in clinical trials at Hadassah.

Another tool that evolved from the new technology is what Prof. Lewis calls a nano-fountain pen. It is, in fact, a hollow nanotube, which can deposit chemicals at nanodimensions. Its uses may include chemically altering faulty genes. Two Israeli startups are developing products and services based on the Prof. Lewis' scientific work.

The Jerusalem Venture Partners VC fund has announced an investment of \$1m in US company NanoTectonica. This marks the first time that an Israeli fund has invested in nanotechnology. The financing round was led by the world's leading venture capital fund, Kleiner, Perkins, Caufield & Byers.

Ernst and Young:***Life Sciences Investment up 43 Percent***

Ernst and Young (Israel) published figures on the development of the life sciences industry in Israel in 2001. The data include both biotechnology and medical equipment.

The report describes 2001 as a successful year for the life sciences, particularly in view of the down-turn in high tech and industry. According to Ernst and Young (Israel), the field will continue to attract interest, and the upward trend is expected to continue in the coming years.

The report said that government assistance, constitutes an important incentive supporting this trend. According to the report, all these tidings highlight the advance in the life sciences field in general and in biotechnology in particular, in the national order of priorities.

Basing itself on market research conducted in the course of the year, the report determines that employee salaries in the field rose 2% last year, compared with a 10-20% decline in the high-tech and traditional technology fields. Another figure cited by the report in support of this assertion, is a substantial rise in the number of students, registering for life sciences professions at the universities.

The Ernst and Young (E&Y) index of the life sciences industry in Israel include data on 19 Israeli biotechnology and medical equipment companies listed on stock exchanges in the US, Europe, and Israel.

The index gives equal weight to all 19 companies, regardless of their market value and development phase (Given Imaging (Nasdaq: GIVN), which held its IPO last year, will be included in the index only from 2002).

The index declined 17% in 2001, slightly more than Nasdaq, which posted only an 11% fall. The E&Y index rose 19% in the fourth quarter of 2001, while Nasdaq was up 22%.

A distinction between the biotechnology and medical equipment fields reveals significantly differing trends. The E&Y biotechnology index dropped 11% in 2001, the same as Nasdaq.

Biotechnology standouts in 2001 were Pharmos (Nasdaq: PARS), which rose 53%, and Taro Pharmaceutical Industries (Nasdaq: TARO), which gained 29%.

The E&Y medical equipment index posted a sharp 21% drop in 2001, compared with only 11% on Nasdaq. The report attributes this difference to high volatility and a reversal of trends in medical equipment shares. Shares standing out in this field in 2001, were Medcon (up 101%) and Lumenis (Nasdaq: LUME) (80%).

Shares with prominent declines included Pro-Laser (Easdaq: PROL) (92%), Oridion (SWX: ORIDN) (85%), Medvision (Euro NM-Brussels: MEDV) (66%), Visionix (Xetra: VSX) (63%), and SHL Telemedicine (SWX: SHLTN) (53%). XTL Biopharmaceuticals (LSE: XTL) (66%), Hazera Quality Seeds (46%), Healthcare Technologies (Nasdaq: HCTL) (36%), and Keryx Biopharmaceuticals (Nasdaq: KERX) (30%).

The life sciences sector raised \$292.8 million in capital in 2001, up 43% compared with \$205.2 million in 2000 and 139% compared with \$122.6 million in 1999.

Capital was raised in 55 rounds in 2001, compared with 37 in 2000 and 52 in 1999. While there was no substantial change in the number of investments in 1999-2001, the total sum raised was more than doubled, since the average investment was much heavier.

Most investments in 2001 were follow-up investments (second and third round), while seed investments were vastly reduced. At the same time, the report says the number of investments indicates confidence in the life sciences field, despite the economic uncertainty of the past year.

\$151 million was raised in 29 rounds in the biotechnology field in 2001, while \$142 million was raised in 26 investments in the medical equipment field.

Public issues were down sharply, compared with 2000, which was a peak year for raising capital from the public. On the other hand, private placements raised substantially more money in 2001 than in previous years. Only \$257 million was raised from the public in two issues (Given Imaging and Taro) in 2001, compared with \$399 million in eight issues in 2000 and \$67 million in four issues in 1999.

Medical Technology Transfer Company

The Rappaport Institute for Medical Research at the Technion has established a daughter company for commercialization of applications from biotechnology research. BioRap, which is 100 percent owned by the Rappaport Institute, has been established with the purpose of managing the intellectual property of members of the Institute. The company is headed by David Promoff, who has served as Rappaport's Vice President of Finance and Administration for the past seven years.

BioRap will provide professional support to institute members, including legal services, patent registration, business development, recruitment of investors and strategic partners, company set up and operational services.

Within this framework BioRap has established two companies: Vaccinogen, headed by Natan Karin, which is developing a DNA vaccine for autoimmune diseases. A second company, Haptoguard, is developing genome-based diagnostic technologies for the management of diabetes.

Organitech Uses Singapore and Israel Assistance to Further its R & D

(OTC Bulletin Board: ORGT), an applied engineering solutions company announced that it has received its 30% funding advance of \$126,000 from the Singapore-Israel Industrial Research and Development Foundation ("SIIRDF"), for purposes of further developing and operating an existing pilot farm that is testing the commercial feasibility of Organitech's GrowTECH 2000tm solution.

As previously disclosed, Organitech Ltd. and Agronaut Agricultural Services formed a partnership for establishing and operating a GrowTECH 2000 beta site farm in Singapore, and subsequently applied for R & D funding from the SIIRDF to partially finance the beta site project.

The company announced that it has filed an application with the Chief Scientist Office of the Israel Ministry of Commerce and Trade for partially financing the development of a new breeding and cultivation platform specifically designed for a new variety of miniature tomatoes. Over the last several years, Professor Avraham Albert Levy of the Weizmann Institute of Science has been researching and developing a new breed of miniature tomato for

the consumer market. With breeding development near completion, a platform is now required for rapid production of the miniature tomato seeds. Under the proposed project labeled Magnetron, Organitech will endeavor to develop a new automated platform specially designed for optimizing the cultivation, particularly the breeding and seed production processes, of this variety. The company intends to utilize its patented technologies, those integrated in the GrowTECH 2000, to develop such a fully automated solution.

About Organitech USA, Inc.:

The company through its wholly-owned Israel based subsidiary, Organitech Ltd., is an applied engineering solutions company that is developing technologies designed to cost effectively and completely automate the methods by which various foods, plants, and extracts are cultivated.

Britain Seeks to Further Science and Technology Ties

Dr. Adee Matan has been appointed the British Embassy's Science and Technology officer. This new position has been created in the British Embassy, Tel Aviv to promote Britain as a science-based society and to develop the science and technology relationship between the UK and Israel.

Dr. Matan's responsibilities will include building a network of contacts in the Israeli and UK academic and research communities. Dr Matan graduated from MIT Boston, Massachusetts with a PhD in Brain and Cognitive Science.

The Embassy has stressed that "Britain attaches great importance to the science and technology relationship with Israel. In 1999, Britain and Israel established BRITECH, to the value of £15.5 million, designed to promote and encourage joint industrial R&D collaborations between firms in Britain and Israel.

Following the success of BRITECH, the UK and Israel established the Science Networking Development Scheme (SNDS) in 2001, which encourages co-operation between practising scientists in both countries who are already engaged in nationally funded projects".

NEWS BRIEFS

Government Start-up Support Fund Begins Operations

The fund will grant three-year loans of up to NIS 4 million (\$900,000).. A matching investment from a venture capital fund is required.

National Bioethics Council in Formation

The council will advise the government, the Knesset and the legal system on ethical matters related to technological and medical developments.

Boston Scientific invests in Vitalife VC Fund

Details of the investment were not disclosed. Vitalife focuses on investments in the life sciences and biotechnology field.

MPM Capital comes to Israel

In conjunction with Clal Biotechnology Industries, MPM Capital will invest in Mindset BioPharmaceuticals. (Give Nasdaq Code)

To Avoid Going Astray

CellGuide is developing a GPS receiver that can be installed in a cellular telephone battery. The device ^ a satellite-assisted Big Brother - tells you where you are.

\$2.1b Available for investments

Figures provided by senior Israeli venture capital fund executives indicate that \$2.1 billion is available to them for new investments in start-ups.

Broad Digital Raises \$500,000 at \$3.5m value

The company develops computerized systems and technological training.

LetMeKnow to Provide Cellular Information Services to Real Madrid

LetMeKnow Technology and the Real Madrid sports fan club, one of the world's top fan clubs, are jointly launching a fee-based information service for mobile telephones in Spain.

Vitalife: Discount Capital Markets to exploit the life sciences

While most funds are having a hard time coming up with money, Discount Capital Markets Vitalife Life

Sciences Fund is about to close a \$25 million round. Discount Capital Markets CEO, Joseph (Yossi) Riback was quoted as saying: "I believe we'll get to \$30 million. We hope to achieve exits within two years. "

Vertex Israel Opens Singapore Office

Vertex says the office will facilitate strategic alliances and cultivate relationships with Asian investors, entrepreneurs and partners.

IPO's Score on Nasdaq

There were only three new Israeli issues on Nasdaq this year, but they were all quite successful.

"Light Reading": Atrica will Raise only \$30m

The amount is less than half the capital metro solutions company Atrica originally planned to raise. CopperGate: Ahead of the market

CopperGate Communication develops chips for 3G home networking, designs standards, and is recruiting staff (even at a time like this).

Steadicopter Evaluating Detecting Explosives while Airborne

Israeli company Steadicopter is interested in developing an airborne version of the explosives detection product developed by MS-Tech. The system, called Mini-Nose for Detection, (IHTIR 1.2002) was developed in Nes Ziona with financing from the US Department of Defense (40%), the Israel Ministry of Defense (40%), and MS-Tech founder and president Moshe Shalom. The product cost \$4 million to develop. The General Security Services and the Dimona Nuclear Research Center (DNRC) are consultants on the project. The system is capable of "smelling" explosives from a distance, without touching the object being examined, and can also identify the precise type of explosive.

Steadicopter, which has operated under the auspices of the Technion - Israel Institute of Technology since 1999, manufactures automatic, pilotless control systems that utilize unique mathematical models and algorithms. Steadicopter is currently examining the effective range of the MS-Tech systems, as well as whether airborne explosives can be detected.

XTL Shares Rise on Test of Hepatitis Drug

Shares of XTL Biopharmaceuticals Ltd. rose as much as 12 percent after the biotechnology company's hepatitis C drug reduced the virus count in patients

taking part in the first of three stages of testing generally needed for regulatory approval.

The Rehovot-based company said XTL-002 reduced hepatitis C viral RNA levels by half, after a single dose, in a test of 15 chronic hepatitis patients. Worldwide 170 million people have hepatitis C, with about 4 million in the US.

'We expect the product to move forward now to phase Ib trials, which should generate data this year, and into trials for the prevention of re-infection in liver transplant patients.'

Clal Biotech to Invest 7 Million Euro in a German Firm

CEO David Haselkorn told a conference run by Ilanot Batucha that the company will open an R&D center in Yavne after the round is completed. The company, based in Disseldorf, has a branch in Boston in the US, and has about 100 employees. Haselkorn said, "Biotech is an international business. Going abroad creates a network and opens us up to discussions with companies in other countries. He added that, "Capital markets are totally different, and we want to get close to big markets." Haselkorn told the conference that negotiations were underway with other foreign funds considering participating in the round.

Clal Biotechnology Industries manages \$140m., of which \$100 million is invested in 11 companies in the biotech sector.

Evergreen Completes \$60 m. Financing

The veteran Israeli venture capital fund, has raised \$60 million in the first stage of its fourth VC fund, which will manage total funds of \$170 million. The fund manager Ofer Ne'eman declined to confirm or deny the report. With completion of the first stage of the fund, Evergreen will now manage a total of \$520 million. In August 2000, Evergreen completed its \$170 million third fund, and since then has apparently invested most of the money.

According to reports, investors in the third fund, including Bank of America and the Japanese Nippon Investment house, also invested in the fourth fund. Venture capital industry sources see the completion of the first stage of the fund as only a partial success for Evergreen.

Previous performances of the group, considered high for the Israel VC industry, should have attracted at least \$100 million from previous investors. However, other

veteran VC funds in Israel, such as Concord Venture Fund, have encountered difficulties. Concord recently canceled a \$170 million fund because of the global economic situation and foreign investors' concerns about the situation in Israel.

Hence, completion of the first stage can be considered a success for Evergreen, especially as it began raising the money only six months ago.

Keryx Biopharmaceuticals Obtains Worldwide Rights to Novel Technology

Keryx Biopharmaceuticals, Inc. (Nasdaq: KERX; AIM: KRX), today announced that it has obtained an exclusive worldwide license to a novel technology known as Small Integrated Building-blocks ("SIB"), for the conversion of peptides and other existing drugs into small molecules that have the potential for oral delivery. The SIB technology is a breakthrough in rational small molecule drug design. The technology utilizes modular building blocks (scaffolds) in order to mimic a targeted peptide or rigid small molecule. The SIB scaffolds are then used as a template to generate highly focused libraries of small molecule drug candidates that retain flexibility and are expected to possess superior pharmacokinetic properties as compared to peptide and rigid small molecule drugs. The SIB technology has already demonstrated efficacy in the lab.

"The SIB technology is a natural complement to KinAceTM, our protein-kinase modulation technology for drug discovery," said Dr. Benjamin Corn, Keryx Biopharmaceuticals' Chief Executive Officer and President. "KinAceTM excels in generating therapeutic small peptide drugs for life threatening indications, such as KRX-123, which is currently in advanced preclinical development for the treatment of hormone resistant prostate cancer. However, we feel that for diseases which are not life-threatening and for which the treatment is longer-term, small molecules offer an advantage over peptides because of their potential for oral delivery and their improved pharmacokinetic properties. We believe that SIB will significantly increase the value of our KinAceTM platform by allowing us to rapidly convert our KinAceTM peptide drug leads for non-life threatening indications into small molecules."

This license was obtained from the Yissum Research and Development Company, the commercial arm of the Hebrew University in Jerusalem, Israel. The SIB technology was developed by Prof. Chaim Gilon of the Hebrew University's Department of Chemistry, a world-renowned expert in the field of combinatorial chemistry

and peptide synthesis.

"We expect that the SIB technology will open up a whole new scope of potential collaborations for Keryx," added Dr. Morris Lesser, Keryx Biopharmaceuticals' Chairman. "First, the small molecules capabilities provided by the SIB technology should make many of our KinAce™ candidates extremely attractive to pharmaceutical partners seeking in-licensing opportunities. In addition, Keryx will now be able to offer pharmaceutical companies with existing peptide and rigid small molecule drugs an opportunity to convert those compounds into more valuable small molecule drugs."

About Keryx Biopharmaceuticals, Inc.

Keryx Biopharmaceuticals is building a pipeline of drug candidates that target protein kinases by applying its proprietary bioinformatics technology to genomics data. Using its KinAce™ drug discovery platform technology, the company has established therapeutic programs in oncology, immunology, metabolic disorders, and other disease areas. The Company is also preparing to initiate Phase III clinical trials for its in-licensed product, KRX-101 (sulodexide), for the treatment of diabetic nephropathy. The United States Food and Drug Administration recently designated KRX-101 as a "Fast Track" product. For more information, visit: www.keryx.com

LaserComm Secures \$21 Million Funding

LaserComm, an innovator of photonic components and modules and a leader in managing chromatic dispersion in optical networks, announced that it has secured \$21 million in fourth-round funding from internal investors, led by Morgan Stanley Venture Partners and Index Ventures. The new capital will allow LaserComm to support its growing customer base, scale manufacturing, expand its Hi-Mode® dispersion management product line, and to introduce new products based on the company's core technology.

In addition to the round's leaders, many of LaserComm's previous investors joined in the round, including Cedar Fund, GE Equity, Gilde Investment Funds, Giza Group, Link Technologies, and SSM Ventures. This additional funding brings LaserComm's cumulative financing to \$77 million. Giuseppe Zocco, general partner at Index Ventures, joins LaserComm's Board of Directors with this round of funding. "Based on its unique technology, LaserComm provides a powerful and elegant solution to the problem of chromatic dispersion, which is already a key issue in today's 10 Gb/s optical networks and will become even more critical in the emerging 40 Gb/s optical networks environment," said Mr. Zocco.

LaserComm's first commercial product line, the Hi-Mode Dispersion Management Device (DMD), reverses the negative effects of chromatic dispersion-a "blurring" of light pulses in fiber-that cause data errors in optical networks

Ghassan Bejjani, an executive director at Morgan Stanley, said, "Our investments in LaserComm reflect our continued confidence in the company's superior technology, its strong management team, and its proven ability to deliver on product and customer objectives."

LaserComm is currently delivering its Hi-Mode DMD to leading dense wavelength division multiplexing (DWDM) system vendors worldwide.

About LaserComm

LaserComm Inc., a privately-held company, is a leading developer and manufacturer of innovative components and modules for advanced optical networks. The company has headquarters and manufacturing facilities in Plano, Texas, and a Product Development & Photonic Research Center in Tel Aviv, Israel. LaserComm was named in Red Herring's Top 100 leading private and public companies for 2001, and its Hi-Mode DMD was recently honored with KPMG's "Product of the Year" High Tech Award.

Economic Statistical Review for 2001

Israel's GDP contracted by 0.5% in 2001, according to data released by the Central Bureau of Statistics. 2001 has been the worst growth year for the economy since 1953, in the early austerity period of the State of Israel. 2000 saw GDP growth of 6.4%.

Israel's economy, in recent years, has been expanding rapidly and has seen the GNP per capita reach \$17,000.

Editor's note: IHTIR is expecting a return to solid growth as soon as the first part of 2003. This thinking is based on the anticipation of an improvement in the American economy in the second half of the current year. Many of the Israeli high tech companies are heavily dependent on orders for software and hardware from American companies. An improvement in the American economy, is likely to have a major upward pull effect on Israel's economy.

The contraction of this country's economy is connected with a number of factors, among them the recessionary state of the US economy, the crisis in the global high tech industry and the current unrest being experienced

on Israel's borders.

Last year exports were down 13.1%, and imports slipped 6.4%. The fall in exports was especially felt in tourism and among start-up companies in the high tech sector, while the fall in imports was particularly acute in consumer durable goods. The net result is a deficit on the goods and services account, excluding defense items, of \$2.9 billion for 2001, compared with a surplus of \$600 million in 2000. Consumption, both private and public, rose 3%.

Compugen and diaDexus in Cooperative Agreement

Compugen, Ltd. (Nasdaq:CGEN) and diaDexus announced an agreement designed to expand and accelerate diaDexus' ability to identify and validate diagnostic markers and therapeutic targets based on Compugen's advanced computational biology analysis of genomic and proteomic databases.

Under the terms of the agreement, Compugen's LEADS computational biology platform and related tools will be used by diaDexus to perform an integrated analysis of both proprietary and public genomic and proteomic databases.

diaDexus will use the results in its efforts to develop human diagnostic and therapeutic products. In return, Compugen will receive undisclosed cash payments and a warrant to purchase equity in diaDexus.

"We believe that Compugen provides a unique solution for analyzing the vast amount of data represented in both public and proprietary databases," said Ronald M. Lindsay, Ph.D., Chief Scientific Officer of diaDexus. "The LEADS platform is especially suited to solving a major post-genomic problem-determination of the splice variants pattern of individual genes and changes in these patterns that may identify novel diagnostic markers or drug targets for diseases such as cancer. The output from this project will make a significant contribution to our discovery efforts and eventually to our product candidate pipeline."

"We are very pleased to collaborate with diaDexus and to have an opportunity to share in its future success," said Mor Amitai, Ph.D., President and Chief Executive Officer of Compugen Ltd.

"We are proud to have diaDexus, a company building the infrastructure to turn genomic information into diagnostic and therapeutic products, join the impressive list of pharmaceutical and biotechnology companies that have chosen our LEADS platform. These include market leaders such as Novartis AG and

Warner-Lambert Company, a wholly-owned subsidiary of Pfizer Inc."

Compugen's LEADS platform, a sophisticated, biologically verified system, will be used to create a comprehensive view of predicted genes, mRNA transcripts, splice variants, proteins and detailed functional annotation.

LEADS accurately models a series of complex biological phenomena and provides life science researchers with solutions for computation-intensive problems with the goal of accelerating the development of drugs and biological products. Using its proprietary LEADS computational biology platform, Compugen has identified thousands of novel genes and alternatively spliced variants believed to be unique.

About Compugen

Compugen (Nasdaq:CGEN) is a leader in merging computational technologies with biology and medicine to enhance drug discovery and development. The company's innovative predictivebiology technologies support two complementary product development and commercialization divisions.

Compugen's Novel Genomics division is developing human therapeutic and diagnostic products based on target genes, proteins and other intellectual property discovered through the company's innovative research activities.

About diaDexus

diaDexus, based in South San Francisco, California, is focused on translating genomic sequence data into novel diagnostic and therapeutic products. diaDexus has utilized genomics and bioinformatics to identify thousands of disease-associated molecular targets. Currently diaDexus has three diagnostic product candidates in late-stage pre-clinical development.

Given Imaging 2001 Revenues Exceed \$4.5 Million

Given Imaging (Nasdaq: GIVN) announced that sales of its Given Diagnostic Imaging System and M2A video capsule exceeded \$3.2 million in the fourth quarter of 2001. Close to 50% of these sales were made in the United States. For the year ended December 31, 2001, the Company's sales exceeded \$4.5 million. Worldwide, there are more than 200 users of the Given System, and over 3,000 M2A capsules have been sold to date.

About Given Imaging

Given Imaging produces and markets the Given Diagnostic System featuring its M2A Capsule Endoscope, a fundamentally new approach to

examining the gastrointestinal tract. The system uses a disposable miniature video camera contained in a capsule that is ingested by a patient and delivers high quality color images in a painless and noninvasive manner. The test can be conducted while a patient continues normal daily activities. The system received clearance from the FDA in August 2001 and received permission to affix the CE mark in May 2001. It is currently available in the USA, Canada, Europe, China, Taiwan, Australia, New Zealand, and Israel. More than 3,000 patients suffering from diseases of the small intestine such as obscure bleeding, Crohn's disease, intestinal tumors and irritable bowel syndrome have already benefited from this innovative technology. Given Imaging says 4th qtr sales over \$3.2 mln . Given Imaging Ltd., which makes devices that deliver images of the gastrointestinal tract, on Monday said that sales for its devices were more than \$3.2 million in the fourth quarter. Given also said its sales for the year were more than \$4.5 million.

Check Point Software Earnings Exceed Estimate but Share Price Falls

Israeli Internet security company Check Point Software Technologies Ltd (Nasdaq:CHKP) recently reported fourth-quarter results slightly above expectations, citing an upward trend in the business environment.

Check Point posted a net profit of \$77 million, or \$0.30 cents per share, for the quarter ended December 31. In Q4 2000, the company had earnings of \$81 million, or \$0.31 cents per share.



Revenues for the quarter slipped to \$122.5 million, compared with \$140.4 million a year ago. However, sales were four percent above third quarter figures.

A cross-section of analysts' projections pointed to expectations in earnings of \$0.29 cents per share for the quarter, with an average revenue estimate of

\$122.26 million.

Total cash and interest bearing investments, as of December 31 2001 was \$1.03 billion.

Check Point, which is based in Tel Aviv and Redwood City, California, is the market leader for firewall and virtual private network software that protects corporate networks from intruders.

The firm posted net income of \$322 million, or \$1.25 per diluted share, for all of 2001, up from net profit of \$221 million or 84 cents a share the previous year.

Revenues for the year rose 24 percent to \$528 million from \$425 million.

"In 2001 we increased our earnings per share 49 percent," said Chief Executive Gil Shwed.

Israeli Robot in Major Cleanup

An Israeli company SkyBot Ltd. is offering a technological solution for the efficiently and environmentally friendly cost effective cleaning of windows and exterior surfaces of skyscrapers. The solution offered is a robot based on patented technology.

The company's claims include "eliminating the high costs, high risk and low efficiency faced by the window cleaning industry".

The first SkyBot can be seen by Tel-Avivians as it cleans the exterior of one of the city's burgeoning skyscrapers. The robot is claimed to work 30 times faster, if the same job is carried out manually. It is said to reduce the cost of cleaning by 90%.



The two year old company was founded in Israel. The company maintains a "green" policy and its robot eliminates the need for the use of detergents and other chemicals.

SkyBot uses computer vision optics which constantly monitor the glass surface of the area to be cleaned. The resulting images undergo an advanced processing technique based on algorithms for artificial vision. An analysis of these images allows the SkyBot computer to verify that the surface is clean and returns a "go-no-go" command which instructs the robot to advance to the next window surface. SkyBot also is equipped with sensors which act as safety mechanisms which can locate obstacles such as open windows.

Upbeat Prediction for IT

In 2002 the Israeli Information Technology market is expected to return to normal in its expenditures on technology according to International Data Corporation (IDC) Israel. In 2001, the Israeli IT market had an estimated value of \$3.2 billion. When compared to the growth of the gross domestic product (GDP) since 1995, the IT market growth rate is three times that of the GDP. About two weeks ago the Central Bureau of Statistics published figures indicating a 0.5 negative growth in Israel's GDP for 2001. However, IDC now figures the IT market will register 10% negative growth for 2001.

A breakdown of IT expenditures shows that the largest expenditure was on services. In 2001 the Israeli economy spent about \$1.4 billion on IT services, compared to \$600 million in 1994. Since the Israeli market uses more services and less hardware and software, it has been characterized as a mature. IDC points out that 0.25 of all the organizations in Israel are responsible for over 63% of the IT expenditures in

the country, reflecting an imbalance of computerization levels between large and small medium organizations are under-computerized.

The computerization of the organizational sector in Israel includes some 745,000 desktop computers, some 110,000 portable computers and about

5,700 international communication hookups.

About 90,000 organizations are hooked up to the Internet, 26,000 of which operate a Web site. All told, the average investment in IT per employee is an estimated \$1,600 per year.

Communications companies and financial institutions lead in investment per employee, spending some \$8,000 per employee per year, and the education sector is at the bottom of the list, with an investment of less than \$300 per employee per year.

The Israel High-Tech & Investment Report is a monthly report dealing with news, developments and investment opportunities in the universe of Israeli technology and business. The contents are believed to be accurate. While effort is made to ensure its accuracy, it is not guaranteed. Reports about public companies are not intended or are they to be construed as an effort to sell or promote their shares.

Boeing will Produce Israel Aircraft's Arrow Miissile in the US

Israel Aircraft Industries and Boeing (NYSE:BA) agreed to the construction of a joint production line for ballistic missile-intercepting Arrow missiles in the U.S. The two companies are now awaiting U.S. government approval to sell Arrow missiles to other countries.

The co-operation agreement was meant to speed up the supply of Arrow missiles to the Israeli Air Force, and to enable their acquisition with U.S. aid money.

According to the agreement, about half the missiles will be made in the U.S. Two sub-systems of the missile, the "Oren Yarok" radar system and the Gold Etrog intercept management system, are both developed and manufactured using Israeli technology, with full financing of the defense establishment.

In order to set up the joint production line in the U.S., the US congress approved a \$30 million grant to Israel in a special vote. \$135 million total grant the U.S. is to give Israel in 2002.

Sagitta Raises \$15 million

Sagitta, a developer of systems for the fiber optic industry, raised \$15.3 million, at a post-money valuation of \$30 million. The round was led by Pitango Venture Capital, and included Tamir Fishman Ventures, Ascend Technology Ventures and a strategic investor.

The company, currently with 46 workers on the payroll, is expected to end 2002 with several million dollars in sales. Sales projections for next year are planned to exceed \$10 million and a first time ever profit.

In August 2000 Tamir Fishman Ventures and JDS Uniphase (Nasdaq:JDSU) a global manufacturer of optic fiber system components, led a \$4.5 million financing round for the company, at a slightly lower post-money valuation of \$26.5 million.

With the conclusion of the current financing will have a 15% stake in Sagitta. Contrary to a recent Israeli trend toward internal rounds -- fundraising from existing investors alone -- Sagitta's round included three new investors, two Israeli VC funds and one international public company.