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Koor wraps up Telrad deal

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[Koor Industries](#) (NYSE:[KOR](#)) has completed the second phase of bringing new investors into Telrad Networks.

Koor is selling 39% of Telrad to the Fortissimo Capital Fund investment fund, Poalim Ventures and Harbourvest.

Fortissimo is also invested in Modgal (TASE: [MODG](#)), which controls Israel Petrochemical Enterprises (TASE: [PTCH](#)).

Koor is selling the shares for \$16.75 million, of which \$10.5 million will be transferred to Telrad itself as a loan. That leaves Koor with \$6.25 million, which in contrast to an earlier version of the agreement between the companies, Koor will not be investing in Telrad, but keeping.

Koor was also released from its obligations to indemnify Telrad, under the original agreement.

The transaction values Telrad at \$33 million, while in Koor's books its value is \$68 million. At the end of the day, Koor will be posting a significant capital loss.

Telrad develops and manufactures communications solutions and equipment of various kinds, and is known mainly for its switchboards and phones. But for years it's been losing money, and a lot of it.

In 2004, Telrad sales sank 25% and it lost \$36 million. Nor did its fortunes pick up this year. For the first quarter of 2005, it admitted to a \$5 million operating loss.

Under its agreement with Fortissimo and the other investors, Koor agreed to cutbacks at Telrad, including dismissals, which resulted in massive one-time charges amounting to NIS 40 million. Ultimately the company's net

loss came to \$17 million in the first quarter.

Fortissimo, Harbourvest and Poalim Ventures hope the job cuts and other streamlining moves will make the difference, restoring Telrad to the black.

Much of Telrad's problem was the proportion of business it did with Nortel Networks, suggests Eran Gersht, the managing director of Poalim Ventures. "The company has a great deal of accrued knowhow and a large scope of operations," he commented: shifting focus to next-generation solutions, such as Voice over Internet (VoIP), could restore it to profitability.

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