

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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Is Capitalism about to self-destruct? An unlikely scenario!

Someone out there is likely to be researching and writing the novel that will provide ultimate insights into a period of booming share prices. The publication of the Kesselman & Kesselman PricewaterhouseCoopers Money Tree Survey, the report card of venture capital activities for Q1 2001 in Israel, and the popular press' cries of crisis in the high-tech sector, prompts us to step back and put things into perspective. In the past five years we have experienced nearly non-stop gains in equity prices. A rapid rise in technology equity prices began to inflate into a bubble. The bubble dangerously expanded, grew to ever larger proportions. When it exceeded the bounds of physical restraint, "it burst all over us".

Venture Capitalists and Investment Bankers, at the outset of the 'platinum age' 1990s, were individuals unknown to most, except perhaps to students of finance and to those in need of capital.

Traditionally, venture capitalists function in a world apart from other, detached from conventional financial pursuits. Venture capital is and was an industry whose primary task was to gather excess capital, channel it to creating new and productive enterprises and as part of the process, create substantial fees and profits. Those who were privy to the negotiations between venture capitalists and the providers of capital, heard explanations of the high risk these investments entailed. They were also told that 60% compounded annual return was the business goal of the venture capitalist.

The venture capitalists, as the happy results of their activities were popularly publicized last year, were

more and more perceived as seeders of pennies and harvesters of dollars.

The venture capitalists formed alliances and found ready friends among investment bankers, responsible for creating a public market for the shares of the companies fueled by venture capital. Securities analysts joined the fray as the men and women capable of analyzing balance sheets and 'profit and loss statements'. They are part of the same investment banks whose vested interest was for

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analysts to announce 'buy recommendations'. Judging by the proportion of 'buy recommendations', almost totally to the exclusion of 'sell recommendations'. The system worked in an upward moving market. However, in the final analysis, it worked almost exclusively to the benefit of the investment banker.

In the US alone, approximately 50% of Americans own shares. The public was hypnotized by the apparently unending rise in share prices. Its response to 'Buy recommendations' was followed by quick and discreet calls to brokers with instructions to buy. Occasional drops in the share market were "used" by others to enter. A global wave of greed ensued. The greed was fanned by analysts. The great Isaac Newton lived in a period of booming share market prices. He accumulated a portfolio of shares on the London Stock Exchange. They rose and rose and one day the brilliant scientist decided it was time to reap his good fortune. It could not continue to go up, he reasoned. Also, the profit was above all expectations. And so he sold and banked the profit. But then repurchased the sold shares because, he was unable sit on the sidelines while prices continued to rise. The market shortly afterwards collapsed and so did Isaac Newton's fortune. For the rest of his life he never again mentioned the stock exchange. The market succumbed to The Law of Gravity and crashed.

Is capitalism, of which venture capitalists are an integral part, about to self-destruct? An unlikely scenario! There may be structural flaws but not irreparable damage. The flow of statistics re-enforce this view. IVC-ONLINE has concluded that at the end of 2000 the local venture capital industry had a \$3.0 billion accumulation of cash. This almost identically matches the \$3.1 billion raised by Israeli high-tech companies in all of 2000. Not exactly a shortage of cash.

The seeds of the next boom in venture capital are already being sown. As start-ups inevitably feel the squeeze, further cash reserves are likely to accumulate in the coffers of the Venture Capitalists. According to the Money Tree Survey, 18 venture capital funds made no investments during the quarter, either in new companies or in their own

portfolio companies. *So what is ahead of us?* The venture capitalist will avoid start-ups and will shore up his portfolio holdings and await signs of an American economic revival, that will be heralded by a 30-40% recovery in stock prices, based on historical statistical studies. As prices rise the Initial Public Offering market will revive, and the cashing out process for the venture capitalists, will resume. Profits will increase and private equity investors will seek to allocate more funds. When will this happen? Hard to tell exactly! The stock markets could begin their upward move as early as the November 2001-March 2002.

In the meantime only 33 start-up companies in Israel received any sort of funding in Q1 2001. In the preceding quarter 59 start-up companies received investment. Israeli entrepreneurial activity will be delayed but it will not evaporate.

Engineers, communications specialists and technologists currently thrown out of work, will find employment in existing companies. The Intels and Vishays with their well established Israeli operations, will be happy to employers of the skilled, intelligent and diligent. Some may even return to the high tech jobs in the army!

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Publisher and Editor in Chief

Joseph Morgenstern

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Subscription Inquiries

Tel. 972-3-5235279 Fax. 9723-5227799

E-mail: htir_1@netvision.net.il

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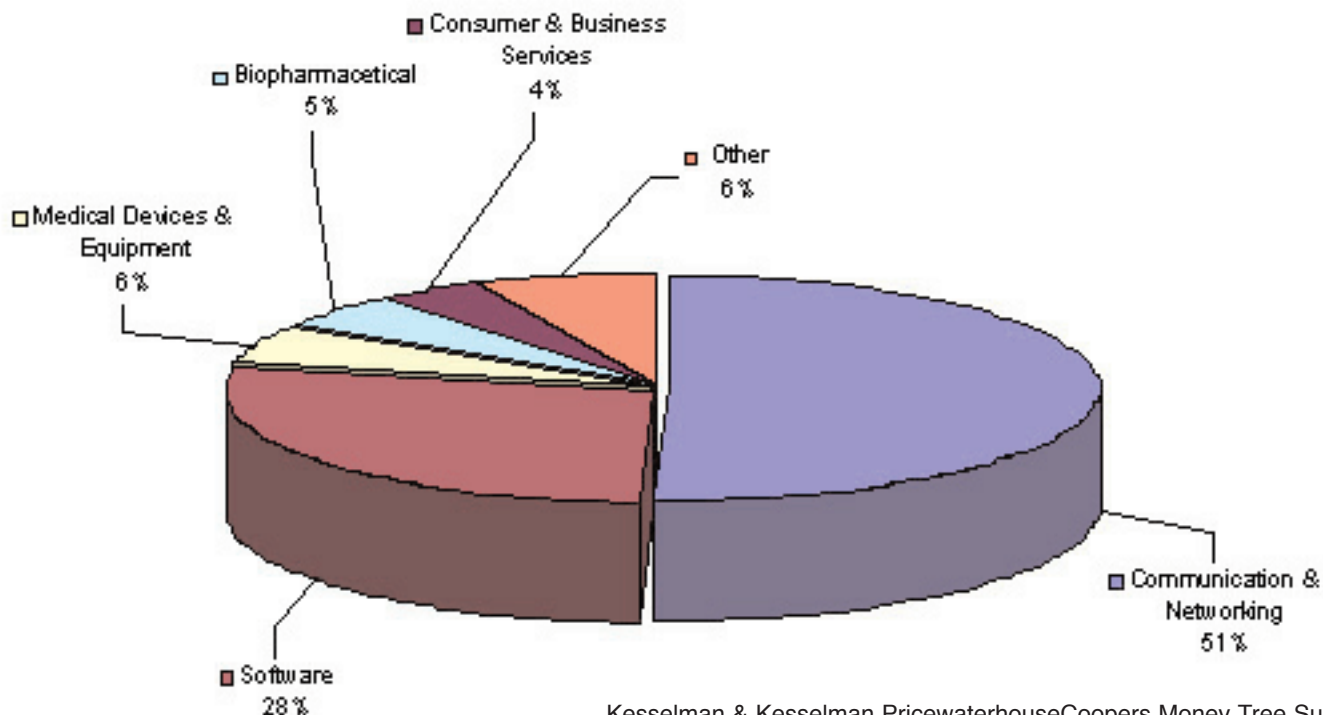
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Venture Capital Investments by Industry - Q1-2001

(% of Total)

\$ 471m. was invested in 132 companies in this quarter, as compared to \$ 845m. invested in 193 companies in the previous quarter. \$ 471m. was invested in 132 companies in this quarter, as compared to \$ 845m. invested in 193 companies in the previous quarter.



Kesselman & Kesselman PricewaterhouseCoopers Money Tree Survey

Infineon and Saifun Semiconductors to Develop Flash Memory Technology

Infineon Technologies AG (FSE/NYSE: IFX) and Netanya based Saifun Semiconductors Ltd. announced that they have established a joint venture, named Ingentix. The new company will develop, manufacture and market flash memory products based on Saifun's patented Nitrided Read Only Memory (NROM) technology. Ingentix initially will focus on developing MultiMediaCard™ storage products, the world's smallest memory cards. The company expects to roll out an extremely low-cost Flash-MultiMediaCard, with a memory capacity of 64 megabyte (MB), in the third quarter of the year 2002.

Benchmark Capital Closes \$220 Million Fund to Invest in Israeli High Tech

Benchmark Capital, Silicon Valley's leading early-stage high-tech venture capital firm, announced

that it has closed a \$220 million fund, dedicated to accessing the Israeli high-technology market. Benchmark Israel has drawn support from institutional investors, leading corporations and influential high-tech executives in the U.S., Israel and Europe.

In addition to Benchmark institutional and individual partners, including Cisco Systems (Nasdaq: CSCO), Rational Software (Nasdaq: RATL), Mercury Interactive (Nasdaq: MERQ), and Infineon Technologies (NYSE: ISX). Benchmark and its corporate partners will work together to best leverage Israeli high-tech opportunities.

"Support for Benchmark Israel has been very strong," said Mark Kremer, general partner of Benchmark Israel.

"The vibrant Israeli high-tech industry is second only to Silicon Valley," said Paul Levy, chairman of Rational Software. "Working with Benchmark for the last five years, I am excited about what we can do together for both portfolio companies and

investors." The new fund will focus on early-stage investing in technology companies that seek to create new markets in areas where the partners have direct experience. These areas include enterprise applications, infrastructure systems, software, networking equipment and, semi-conductors and optical devices.

Benchmark Israel is the sixth fund established by the company since it was founded in Silicon Valley in 1995. It will be managed in Israel by general partners Mark Kremer, Arad Naveh and Nachman Shelef.

Despite the security situation in Israel and market uncertainty, this financing drive exceeded the original goal of \$200 million in record time of about six weeks. Benchmark is considered one of the top ten VC firms in America, following outstanding investments in Internet firms like eBay.

The company suffered a significant blow during the last year, as one of its funds invested largely in dot.coms which ultimately failed. Benchmark's current portfolio totals approximately \$2 billion.

Benchmark noted that in addition to institutional investors (such as leading American universities), four strategic partners were signed on: Cisco Systems (Nasdaq: CSCO), Rational Software (Nasdaq: RATL), Mercury Interactive (Nasdaq: MERQ), and Infineon Technologies (NYSE: ISX). "Benchmark and its corporate partners will work together to best leverage Israeli high-tech," the statement said.

According to Naveh, the strategic partners joined the Israeli fund because of the technological character of Israeli industry, which operates without a local market.

Shelef said that "we plan to invest in about 15 companies, with an average investment over its lifetime of between \$10-15 million."

Benchmark Israel has to date invested in Integra5 and Lycium Networks. Its fields of primary interest include organizational applications, infrastructure systems and software, communications equipment and software, semiconductors and optical equipment.

Biotechnology Consortium Launched with \$30-40 million Investment

A number of Israeli biotechnology companies have received approval in principle to establish a consortium in cooperation with the Magnet Program of the Office of the Chief Scientist at the Ministry of Industry and Trade. The consortium will include both biotechnology companies and academic institutions.

The consortium is to be called Pharma Logica. A core group from the consortium is now being formed before final approval is received. The consortium, operating under the aegis and financing of the Office of the Chief Scientist, will develop technologies and forecasting systems for the low risk development of pharmaceuticals.

The consortium's partners include bio-pharmaceutical companies D-Pharm, Peptor, and Pharmos (Nasdaq: PARS); bioinformatics companies Compugen (Nasdaq: CGEN), BioIT, and HBI and HPBM of the Harlan group, and representatives of academic labs and institutions.

D-Pharm VP of Research and Development Dr. Itzchak Angel, will serve as consortium chairman. Angel stated that the financing for the new project is estimated at \$30-40 million, but the sum is not final, because the Office of the Chief Scientist will authorize financing based on annual or multi-year R&D proposals.

Pharma Logica will operate for three years, according to the group's plan. 70% of the financing will come from the Office of the Chief Scientist, with the remainder coming from academia

BRITECH Provides Funding

Bi-National British-Israel Technology Fund has made available \$720,000 as part of a collaborative R&D project. One partner is International Technologies Lasers (ITL). It manufactures and exports night vision products for military and civilian purposes. Partnering with ITL is British company MDL (Measurement DeviceLtd), with

which ITL will develop the next generation data collection devices for the GIS (Geographic Information Systems) market.

The product is intended to enable data to be collected in a head-fitting device consisting of a precision laser meter, tiny video camera, GPS antenna, sophisticated digital compass and cellular communications.

All the acquired data will be screened on a tiny display, positioned in front of the wearer's eyes.

Israel Unveils new Air-to-Air Missile

The Derby is a beyond-visual-range medium-range missile produced by Rafael, Israel Armament Development Authority. Rafael has been permitted by the Defense Ministry to exhibit the missile at the Le Bourget Air Show this month. The missile was originally developed for the Israeli Air Force.

Officials described the Derby as an all-weather active radar-guided missile, that can be deployed against multiple targets at short- and medium-range. The missile is capable of lock-on after launch as well as before launch. The former is ideal for medium-range targets and the latter is best for short-range targets in engagements, such as dog-fights.

The Derby is meant to resist electronic countermeasures through a guidance system developed by Israel Aircraft Industries's Mabat division.

The Derby is an autonomous 'fire-and-forget' weapon. It is one-quarter lighter than the U.S. AIM-120 Advanced Medium Range Air-to-Air Missile.

Officials said the Derby has been successfully tested and can be deployed on such aircraft as the F-16, F-5 and Mirage. Rafael's vice president for marketing, Udi Ganani, said the Derby has been offered to several countries and is already operational.

\$270 million in OCS Research and Development Grants

Ministry of Industry and Trade Chief Scientist Carmel Vernia, announced NIS 1.122 billion (approximately \$270 million) current allocations for R&D projects for large and medium companies. At the same time he estimated royalty income from successfully completed projects to reach NIS 570 million (approximately \$137 million).

155 companies submitted 448 projects, valued at NIS 4.287 billion, (approximately \$1.03 billion) to the Chief Scientist, a 10% increase in proposals for R&D grants, compared to 2000. The Office's research committee approved funds for 302 projects carried out by 131 companies.

Grant allocation by sector of activity indicated that 55% was allocated to communications, 18% to electronics, 7% each to software and pharmaceuticals, 4% to electro-optics, 3% each to biotechnology and medical equipment and 2% to the chemical sector.

Israel's Hi-Tech Industry has Released 5,000 Workers so Far This Year

The high-tech hiatus of closures created by mostly, but not exclusively dot com failures, has resulted in an unprecedented wave of dismissals this year. According to recently published figures by TheMarker.com, at least 5,000 hi-tech workers have been fired this year.

The layoffs began at the end of 2000. Startups were the first to announce dismissal, but older companies followed quickly.

Prominent companies that laid off staff in recent months include ECI Telecom (Nasdaq:ECIL), which is dismissing 1,000 workers beyond the 400 workers it fired in January. Comverse Technology (Nasdaq:CMVT) revealed 400 job cuts because of deteriorating macroeconomics.

Cisco Israel (Nasdaq:CSCO) announced 100 dismissals, mostly from the development team,

as its parent company slashes staff in the thousands. The profit warning that Gilat Satellite Networks (Nasdaq:GILTF) released for the fourth quarter of 2000 led to the dismissal of 275 workers out of a workforce of 1,500. It targeted all divisions.

Promising startups were also hurt by the dismissal waves, such as OnePath Networks, formerly called Foxcom, which sent home 50 out of 160 workers, including 20 of its R&D staff. In its latest financing round, OnePath raised \$40 million at a company valuation of \$200 million. The company has raised over \$54 million to date.

Editorial Comment

"Pain" is the adjective widely used by investors in describing the emotional experience caused by falling stock prices, the slimming down of investor portfolio values and the disappointments caused by the disappearance of many dot coms. But the real "pain" is the one caused by receiving the "pink slip"---. In the Israeli universe of high-tech, until a half a year ago, getting the "pink slip" was seen as an opportunity for switching jobs, perhaps better wages and most certainly a more favorable options arrangement. Today getting the "pink slip" not only brings with it the inconvenience of looking for a new job but also the uncertainty of finding work in one's chosen field. We hear about the closure or downsizing of Israeli companies with the accompanying dismissal of hordes of employees. However it came as a real shocker when ECI Telecom, as already mentioned in this Report, said it plans to reduce its work force by about 1,000 employees world-wide and cut the salaries of its top managers by 10%. The company currently has over 6,000 employees. In a seemingly perverse investor reaction in trading on the Nasdaq Stock Market, the company's shares responded by rising 29 cents to \$6.38. In the fourth quarter 2000, ECI recorded a net loss of \$113m. compared to net income of \$56m. the previous year. Revenues for the Petah Tikvah-based digital communications solutions developer increased 6.5% to \$306m. from \$288m. in 1999. The maker of telecommunications and

transmission systems also said its first-quarter revenue would be between \$252 million and \$260 million. Analysts were expecting revenue of \$286 million. The company declined to estimate the amount of the operating loss for the

ECI and Comverse Head R&D Grant Recipients

ECI Telecom still leads the list of those firms receiving state support for research and development from the Industry and Trade Ministry. Chief Scientist Carmel Vernia announced yesterday that the digital telecommunications company

ECI will receive a grant of NIS 161 million in 2001. Last year the company received a state grant of NIS 177 million. ECI is expected to return royalties of NIS 104 million to the state during the year.

Comverse which will receive NIS 69 million in state support for research and development in 2001. The company received NIS 101 million last year in government R&D grants, and will return substantial royalties this year.

quarter. ECI Telecom in the 1980s began its rise and emerged as Israel's stellar high-tech communications company. It showed an uncanny ability to develop and commercialize a core technology of speech and fax multiplication over existing old fashioned communications lines. The recent dismal results, according to sources close to the company, were only partially caused by the decline in the global telecom market which saw companies like Cisco and Nortel, among others, misjudge the growth of telecom sales. They build up inventories which remained on shelves as demand dwindled. Decisions previously taken by ECI's board of directors, have had an erosive effect on sales and losses. In a turnaround strategy first announced in the summer of 2000, only less than a year after introducing a 'bigger is better' restructuring plan, ECI Telecom announced its new initiative to divide the telecommunications giant into five smaller publicly traded companies. The "demerger" was a bad idea, we were told. Publicly announcing it, before execution,

was bad strategy. ECI Telecom was a name known to the market place. The five new companies are five unknown little guys calling on clients," our source added. Another source, also very close to the company, agreed that that the "demerger" was a bad idea. ECI's marketing muscle was fragmented, he suggested. However, he conceded that in the environment of 2000, it was difficult to hold on to key employees. Many were attracted by the prospect of joining new companies, that would be brought to the stock market and the new perk options, would make them millionaires.

Wall Street apparently bedazzled the ECI Board by forecasting that the total value of the five new companies to be spunoff, would be a multiple of ECI's market capitalization. However, market conditions prevailed. As of the end of April, ECI's market capitalization was under \$590 million. Its single digit stock price reflects a near fall of 85% from less than a year ago when it traded just under \$40. For investors, undoubtedly there was pain associated with the fall in value of the ECI shares.

However, for personnel among those receiving "pink slips" the pain is likely to be of a different nature. They will look for employment within this country. Their know-how and experience puts them at the very top of international communications expertise. But should they not find suitable jobs they may have to look overseas and that would be the beginning of yet another "pain".

DoubleTwist and Yeda in Exclusive Agreement

DoubleTwist, Inc. and Yeda Research and Development Company Ltd., the commercial arm of the Weizmann Institute of Science, recently announced an agreement whereby the former will commercialize the Institute's GeneCards(TM) database. The GeneCards database provides human gene data and relevant links to other databases of highly characterized human genes. Under the agreement, DoubleTwist will have the exclusive rights to license the GeneCards product to commercial entities,

and also will integrate GeneCards into its online product, DoubleTwist.com. Additionally, DoubleTwist will fund further development of GeneCards at the Weizmann Institute. GeneCards a searchable database, that offers access to concise summaries of more than 20,000 genes and their disease associations. The information contained in GeneCards is particularly useful for researchers who wish to find information about genes of interest in the context of functional genomics and proteomics. "Researchers from industry have been wanting a way to license GeneCards. I am delighted that we can now address their needs through this partnership with DoubleTwist," said Marilyn Safran, head of the GeneCards development team. "In addition to expanding access to GeneCards, this relationship will allow us to continue to enhance and update this valuable resource."

"GeneCards has been popular with academic researchers, and we are very pleased to now make this functionality available to the private sector," said John Couch, Chairman and CEO of DoubleTwist, Inc.

GeneCards, was developed under the direction of Professor Doron Lancet, head of the Weizmann Institute's Crown Human Genome Center. The Institute is a major center of scientific research and graduate study, located in Rehovot, Israel. Its 2,500 scientists, students and support staff are engaged in more than 1,000 research projects across the spectrum of contemporary science.

Millennium Materials Fund 2 Invests in Cymbet

US Cymbet Corp. announced receiving a \$4.5 million private placement from two venture capital investment groups, of which one is from Israel. The Israeli investor is the Millennium Materials Fund 2. Cymbet Corp. was co-founded by Mark Jenson and Genesis Business Centers founded by Harlan Jacobs, as a development stage company which aims to develop a low cost unique manu-

How the Global Individual Investor Can Capitalize on Israel's High-Tech Boom

UPDATE

TASE Publicly Traded Venture Capital Companies

Results for the individual companies

Sadot	- 8.0 %*
Teuza	+ 13.6 %*
Marathon	- 26.0 %*
Mofet	- 4.0 %*
Inventech	-47.0 %*
Tamir Cap	+ na

* Yields Year to Date and as of April 29, 2001

Mofet Venture Capital earned NIS7.1 m. profit (approx \$1.7 m.) in Q12001. In the comparable period in 2000 Mofet netted a NIS132 million profit (approx. \$31.8m.). Mofet cashed out part of its investment in Precise Software (Nasdaq:PRSE) (a holding in the Israel High-Tech Millennium Portfolio, see p11.) and recorded a pre-tax profit of NIS 33.7 million (approx. \$8.1m.) However, that profit was partially offset by a "writeoff" of NIS22.3m. (approx.\$5.5m.) Losses on Investments in VCON and NemoDynamics, responsible for a great part of the loss. Mofet sold \$3.7 million worth of Precise shares in Q2, and is expected to post a \$3.4 million pre-tax profit. . Mofet made three new investments totaling NIS10 million (approx.\$2.4m.) in Q1. The largest of these was \$2 million in Virtio, a US company. The other two investments were follow-up investments in NemoDynamics (\$144,000) and in Correlate Technologies (\$223,000). As of the date of the report Mofet had more than NIS 122.1m. (approx \$29m.) in cash, available for future investments. In the past month, the shares advanced by about 20%.



facturing process based on battery chemistry developed over a 12 year period at Oak Ridge National Laboratories. It is said to have significant advantages over the best rechargeable batteries in the market. An important characteristic of the Cymbet battery, is that it is a true solid state technology, resulting in an extremely large number of recharge cycles (70,000) with minimal loss of capacity.

IHTIR Millennium Portfolio News

Retalix Ltd. (Nasdaq:RTLX) announced it moved into profit in the first quarter. Chief Executive Barry Shaked, in a conference call with analysts predicted that revenues would increase by more than 50% in 2001 to \$55m. and that he expects the company to remain profitable in 2001, but he refused to provide more specific projections.

He also said that the company would be seeking further acquisitions, with available cash reserves of more than \$26m. Retalix posted first-quarter net income of \$2.2 million, or diluted earnings per share of \$0.18, compared with a net loss of \$276,000, or \$0.03 per share, in the same period a year ago.

The results, beat consensus forecasts of EPS of \$0.11.

The US remains the company's most important market, with a growing sector share of 'tier one' companies. Retalix shares are a part of the Israel High-Tech & Investment Report's Model Millennium Portfolio.

Net Income and Revenue Up at Orbotech

First quarter 2001 revenues at Orbotech Ltd. (Nasdaq:ORBK) totaled \$104.9 million, an increase of 27% from the \$82.3 million recorded in the first quarter a year ago. Net income for the first quarter of 2001 was \$21.0 million, or \$0.65 per share (diluted), an increase of 30% compared to net income of \$16.6 million, or \$0.50 per share (diluted), in the first quarter of 2000.

But a company executive warned, that it is taking measures to deal with the possibility of little or no growth in the second quarter, from year to year. It will continue to manage its business with prudence, and will take precautionary measures such as paring back certain operational and other expenses and monitoring its inventory levels closely.

BreezeCom & Siemens Sign Agreement

In a joint announcement, Siemens Information and Communication Networks (ICN) Group and BreezeCOM (Nasdaq: BRZE), a leading global provider of broadband wireless access solutions, signed a long-term agreement for Siemens to source BreezeCOM's wireless BreezeNET LAN products. This agreement will allow Siemens to provide new options in its HiPath MobileOffice Suite. The first item on offer will be HiPath Wireless, a mobility-enabled LAN solution.

China Grants Comverse Access Licenses

Comverse, a unit of Comverse Technology, Inc. (NASDAQ: CMVT), has become the first non-Chinese vendor authorized to sell both voicemail and short message systems (SMS) to service providers in China.

The Ministry of Information and Industry (MII) has granted access licenses to Comverse for its SMS and voicemail systems, making Comverse the only overseas vendor to have this privilege. Comverse submitted a comprehensive range of tests administered by the MII Mobile Equipment Quality Test Center in order to be considered for the MII access license. MII experts highly praised Comverse's successful test results, including the functionality, reliability, flexibility, and signaling performance of its products.

The prestigious MII accreditation follows announcements made in 1999 and 2000 that China Mobile Communications Corporation (China Mobile) and China Unicom respectively, had placed Comverse on their list of authorized ven-

dors for SMS, reinforcing Comverse's status as the leading mobile enhanced services provider in mainland China. Six major mobile operators in China have deployed the Comverse ISMSC system and have officially launched SMS to their customers. These operators include Guangdong Mobile (GMCC), Shanghai Mobile, Liaoning Mobile (LMCC), Hei Longjiang Mobile, Wuhan Mobile and Shanghai Unicom. Comverse has been operating in China since 1993. The company has offices in Beijing, Shanghai and Guangzhou, with research and development centers in Shenzhen and Hong Kong.

Analysts Comments on CHKP

Check Point Software (Nasdaq:CHKP) was dropped by Lehman Brothers to a "Buy" from a "Strong Buy". Lehman lowered its price target on the stock to \$70 from \$110, citing increased competition from firms like Cisco (CSCO), recent pricing promotion, suggesting weaker customer demand, the "absence" of CHKP in three recent major deals, and bankruptcies in the service provider channel, which put revenue growth at risk. After an initial sharp drop of nearly 10 per cent the shares recovered in the sessions that followed the announcement. On balance, analysts continue to maintain very positive ratings for CHKP. While the company reported year-over-year revenue growth of 86%, to \$145 million, and EPS of \$0.32 — besting the Street's number by \$0.03 — Revenues came in \$1 million below the consensus. This brings into question one of technology's highest 2001 price-to-sales valuations.

Since the shares have seen a nice run up recently, and the company reported a revenue "miss", some believe, the time has come to move to the sidelines. For 2001, the expectations EPS of \$1.36 (no change) on revenues of \$647 million. For 2002, forecasts are for EPS of \$1.79 on revenues of \$862 million.

We continue to maintain CHKP in the IHTIR Model Millennium Portfolio.

International Monetary Fund's Report on Israel

The International Monetary Fund established in 1946, serves as a "global crisis banker". In time of fiscal or monetary crisis, the IMF bolsters individual countries by providing the Fund's general resources for short periods. It provides them with an opportunity to correct maladjustments in their balance of payments, without resorting to measures, destructive of national or international prosperity. As part of the process in carrying out its aims, it monitors the economies of its members, that now number 183. It also supervises exchange stability, and orderly exchange arrangements.

Stanley Fisher, IMF's managing director was recently in Jerusalem, and presented the IMF's report. Its content covers nearly all aspects of Israel's economy. The report stated, that Israeli economy by the end of Q3 2000 had experienced the "best three quarters in recent memory" but this was followed by "a very sharp deceleration", resulting from a global turnaround of the high-tech boom, on which a good part of the growth had depended. It also noted the negative impact of the security problem, which had particularly affected the tourism, agricultural sectors.

It lowered its previous projection for the growth of Israel's economy from 4.5% to a "more subdued level" of 1.5-2% for 2001.

The report also noted, that expectations are for a lower level of the record capital inflows in 2000. However, there is no expectation of a worsening of the balance of payments, due to the large sums raised last year, and that are only now being repatriated. As a result the shekel will be revalued as a result of the repatriation of currency. The shekel's strength will also be underpinned, the report suggests, in response to productivity growth of the Israeli economy, which will be led by the resumed buoyancy of the high-tech sector.

The report recommended to Israel's policy makers, to concentrate on main- continued on p 12
taining fiscal stability. One of

ISRAEL HIGH-TECH MODEL MILLENNIUM PORTFOLIO

	Quantity		Commission	Open Amount	Current Value	Gain/Loss
Millennium Portfolio						
AudioCodes Ltd.		AUDC		Price as of 5/18/2001 : 10.00		
Total:	9,350		\$0.00	\$100,073.05	\$93,500.00	(\$6,573.05)
BreezeCom						
Total:	8,300	BRZE	\$0.00	\$100,122.07	\$55,278.00	(\$44,844.07)
Check Point Software Tech						
Total:	3,450	CHKP	\$0.00	\$254,150.01	\$193,855.50	(\$60,294.51)
Comverse Technology, Inc.						
Total:	2,700	CMVT	\$0.00	\$245,870.10	\$175,905.00	(\$69,965.10)
Orbotech Ltd.						
Total:	3,000	ORBK	\$0.00	\$104,061.00	\$103,560.00	(\$501.00)
Precise Software						
Total:	4,300	PRSE	\$0.00	\$96,212.50	\$101,566.00	\$5,353.50
Retalix Ltd.						
Total:	10,200	RTLX	\$0.00	\$99,450.00	\$157,794.00	\$58,344.00
Millennium Portfolio			\$0.00	\$999,938.73	\$881,458.50	(\$118,480.23)

Since the start of 2001 the Israel High-Tech Millennium Portfolio is only down by 11.8%. It is showing signs of strong recovery since March 21 when it was down by 27%.

The ISRAEL HIGH-TECH MODEL MILLENNIUM PORTFOLIO is a simulated portfolio. We accept no responsibility for investment results based on the Model Portfolio.

the ways to achieve that goal is to reduce interest rate levels from the current real rate of interest of six percent.

A Good Report Card from the IMF

* looks for a "subdued rate of growth" of 1.5-2.0% for 2001

* a strong currency supported by capital inflows

*skillful management of fiscal and monetary policies

and a recommendation

*reduce the level of interest rates which at the current real rate of interest of six percent, leaves room for lowering"

Israel's acknowledges concern about the disparity among its population in levels of income came under scrutiny of the IMF which offered suggestions as how to alleviate the problem. The IMF report recommends a rebalancing of spending, with an increasing emphasis on growth enhancing investments in infrastructure, education and training.

While recognizing the short term deceleration of the Israeli economy from its heights in 2000, the report states that the long-term growth prospect for the economy are bright, particularly after solutions are found to the security problem.

"There are causes for optimism that the Israeli economy will emerge from the current downturn with financial stability intact, and poised for a resumption of rapid sustainable output growth" the report concluded.

GalayOr Networks Secures \$8 Million Seed Funding

GalayOr Networks has completed a seed round of \$8 million, in the largest seed financing by an Israeli company since the beginning of the current period of uncertainty in the capital markets.

GalayOr Networks develops on-chip integrated Micro Opto-Mechanical Systems (MOMS) based on a technology that was developed by its chief scientist, Dr. Dan Haronian, beginning in 1996, at which time he served as the head of the MEMS (Micro Electro Mechanical Systems) group at Tel

Aviv University. Dr. Haronian established GalayOr together with Noel Elman, a MEMS researcher at Cornell University and Dr. Uri Geiger, GalayOr's CEO, in late 2000.

GalayOr's core technology is an extension of integrated optics, and is based on suspended waveguides fabricated on chips, which are integrated with other optical components such as DWDM and optical amplifiers. The four basic characters of the technology are: integrating optics at the chip level, switching optical signals, integrating sensing devices for feed-back control and integrating intelligent devices for the digital processing of information.

GalayOr's leading-edge technology can be used for a variety of optical solutions, including optical switching and cross-connect, OADM (add & drop), tunable DWDM, dispersion correction and intensity equalizers.

According to Dr. Geiger, "The current round of funding, especially during these turbulent times in the industry, expresses the confidence of the investor community in GalayOr's technology and management team. The company currently focuses on retaining experts in MEMS, VLSI, optics, communication, software, testing and simulation for its R&D facilities near Ben-Gurion Airport in Israel and its fabrication center in Ithaca, N.Y."

According to Adi Gan, a general partner with Evergreen, "What makes GalayOr's technology unique is its simplicity and the ability to manufacture the product through standard mass-production silicon processes.

The intellectual property developed by Dr. Haronian was transferred to GalayOr by Ramot University Authority for Applied Research & Industrial Development Ltd., which is now one of GalayOr's shareholders under a new model developed by Yizhak Kolberg, CEO of Tel Aviv University Economic Development Company, for the commercialization of intellectual property invented at Tel Aviv University. "GalayOr is considering the possibilities of cooperation with Tel Aviv University for further development of the technology," according to CEO Dr. Uri Geiger.