

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, PUBLISHER

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“A Worldwide Technology Power”

Oslo, Geneva, Paris, Beirut, Jerusalem and Sharm al-Sheikh are cities, which I visited. Some I visited as a tourist and others as a journalist. The stories were published - one became front-page news. Over decades filled with travel, for me, the above cities became linked to the elusive peacemaking efforts in the Middle East. The current Arab-Israeli violence will abate but the Arab-Israeli problem is old, deep-seated and marred by memories whose roots are embedded in spilled blood.

Pessimism, not all! Just a smidgeon of pessimism casting a shadow over my fundamental optimism. October 12th will be associated, for many years as a watershed low point in the history of modern Israel. The date was also the second day of the Tamir-Fishman/Dain Raucher Wessels, 4th annual Growth Conference held in Tel-Aviv. Investment bankers from the United States, venture capitalists from the Europe and India were on hand. As word of the Ramallah "lynching", when two Israeli soldiers died at the hands of an Arab mob, spread among participants, in private meetings, these investors, responsible for billions of capital spoke of their unflagging commitment to maintain investing in Israel's high-tech companies.

On ground zero level, during the current waves of violence, where deals take place, investors expressed some concern but no obstacles as to where to put their money. An anomaly of the times was the little noticed item appearing in one of Israel's daily mass circulation tabloids. Yokneam, Israel based BATM Advanced Communications Ltd., a maker of computer networking equipment, was quoted that it is capable, within six hours, of

moving all its Israel activities to Taiwan or the U.S. Upon further clarification a company spokesman stated that BATM has no intention of moving. "The comment was a reply to questions asking how the current unrest affects the high-tech sector. No one is blind to the process of slimming down of rich market capitalizations. It is happening to many American Nasdaq shares. Many of the Israeli shares were trading at outrageous prices that were natural targets for a downside correction. As a result, buying opportunities

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are emerging. Is there a brighter side as we look ahead to the near-term future? Current global market activity suggests that changes are taking place in market sector leadership. Upward movement in share prices will be dependent on reasonable energy prices and solid earnings. I am pleased to point out that the value of IHTIR Model Portfolio, (see page 11) advanced by two per cent last month.

Venture capital investments in Israel have soared 74 percent in the third quarter of 2000, according to data compiled by IVC-Online.

Moreover, both Intel and Vishay have recently reconfirmed their intention to build additional manufacturing plants in Israel. These investments will provide additional job opportunities in 100% export oriented industries. Intel, has stated that the profit warning it issued last month reflected slower sales, but did not change the company's overall assessment that it needed to increase production capacity. Intel plans for Israel are to invest \$3-4 billion in "a single package" that will include construction of a new plant for the production of 0.13 micron chips, and the expansion of the current Kiryat Gat facility manufacturing 0.18 micron chips.

Peace is a long term objective. The current unrest marked by violence, is unacceptable but will not affect the medium- to long-term prospects of startups, established Israeli companies. The Israeli well entrenched entrepreneurial penchant to "innovate develop, and get quickly to the market" should not be suspect. It is firmly in place and capable of providing what is sought by the global high-tech investor. Forbes Magazine, one of the most respected business magazines said it well: "Hours before a cease-fire was announced in the Middle East, Israelis had other good news as Marvell Technology Group, a U.S. designer of high-speed communications technology, bought its Israeli rival and recent partner Galileo Technology for \$2.7 billion in stock". The deal provides further confirmation of Israel's status as a worldwide technology power".

Yazam Enters Far East Market with Acquisition of Todo Technologies

Yazam, the Israeli leader in seed-stage investing and business development, announced that it has acquired Tokyo-based Todo Technologies, a leading business development firm that for more than 10 years spearheaded technology transfers between Israel and Japan. The deal provides Yazam with critical management expertise in operating in the Far East and offers strong on-the-ground representation in Japan, where Yazam representatives will work with developing technology firms.

Chiaro Raises \$100 million

Chiaro Networks, an Israeli-founded optical networking company, announced it raised \$100m in its third round of financing, and established a record high private equity financing round for an Israeli technology company. Polaris Venture Capital, Israel's biggest venture capital group, led the round, which also ranked as the biggest single investment led by an Israeli fund. Other investors, flocking to the private placement included US venture capital funds CenterPoint Ventures, Crown Advisors, Sevin Rosen and Star Ventures. Chiaro, previously raised \$30m in two financing rounds. Unconfirmed evaluations put the deal at a post-money valuation of \$500m. Before this deal, the largest venture round in Israel was a \$60m round raised last month by Ensemble Communications, a broadband wireless access start-up. Zinook, a Tel Aviv VC fund and research firm, company, says 14 Israeli start-ups recorded financing rounds of more than \$15m in the first two quarters of 2000, compared to only two last year. Founded in Jerusalem three years ago, Chiaro is a start-up developing optical routing technology for internet backbone networks that run between large metropolitan areas.

Chiaro Networks is developing a high speed and scalable optical switch for data switching and telecommunication applications. Its customers are

vendors developing high end switching and routing equipment for the core of the Internet. The target market for the Chiaro switch is the backbone of the internet infrastructure. While WDM, a technology which spreads the chips of the wireless signal over a much wider band of frequencies, has provided an excellent solution to increasing the capacity of the telecommunication backbone "pipes", the Chiaro switch is targeted to solve the switching capacity problem at the intersections.

Potential competitors include companies developing optical switching cores such as Lucent and Nortel as well as companies developing very high capacity electronic switching fabrics. Chiaro, as yet has not released its first product. Companies operating backbone networks are desperate to find technical solutions that can rapidly and efficiently process massively sized packets of data. To meet the challenge, telecom equipment companies are looking to acquire products that integrate optical elements with hardware, software and internet capabilities. The systems under development by Chiaro do that exactly. At last month's Tamir Fishman-Dain Rauscher Wessels Conference, Chiaro was cited as one of Israel's most exciting young companies.

Science Corner

Scientists Develop a Novel System for Analyzing Genetic Data

New genetic research technologies, such as DNA chips, enable scientists to evaluate tissue samples from several patients simultaneously, expressing thousands of genes. However, deciphering the vast amount of information derived, consisting of anything from 100,000 to 1,000,000 genetic 'figures,' demand highly sophisticated data processing tools. Addressing this and similar challenges may soon be easier thanks to Prof. Eytan Domany of the Weizmann Institute's Physics of Complex Systems. He and his scientific team have designed a unique mathematical system for ana-

lyzing genetic data based on a computer algorithm that 'clusters' information into relevant categories. The algorithm searches simultaneously for clusters of 'similar' genes in patients by evaluating the gene expression of tissue samples. (A gene's 'expression' refers to the production level of the proteins it encodes.) Reported in the October 17 issue of the Proceedings of the National Academy of Sciences (PNAS), the algorithm's most powerful feature is that it mimics unassisted learning. Unlike most automated 'sorting' processes, in which a computer must be informed of the relevant categories in advance, the algorithm is similar to human intuition (such as the ability to intuitively categorize images of animals and cars into proper classes). When given a clustering task, it analyzes the data, computes the degree of similarity among its components, and determines its own clustering criteria. Domany created an algorithm that can look for clusters in any data. When applied in a cancer study using DNA chips, the new algorithm proved highly effective, evaluating roughly 140,000 figures representing the cellular expression of 2,000 genes from 70 subjects. The algorithm categorized tissue samples into separate clusters according to their gene expression profiles. For example, one cluster consisted of cancerous tissues, while another contained samples from healthy subjects. The new method also detects different forms of cancer as well as demonstrating treatment effects, picking up differences in the gene expression of leukemia patients that had received treatment versus those that had not. The ability to monitor cell response to treatment and understand the origin of disease in each patient may improve future treatment protocols, which would be effectively tailored to individual pathologies. Finally, one of the algorithm's most promising features is that it enabled researchers to pinpoint a small group of genes from within the 2,000 examined that can be used to accurately distinguish between cellular cancerous processes. In a sense, however, applying the new algorithm to DNA chips is only a

start.

The new algorithm's inherent clustering capacity makes it invaluable for use in data-heavy scientific and industrial applications. It may be used to analyze financial information and MRI data in brain research, or to perform 'data mining,' the process by which specific details are culled from the world's huge and ever-growing data banks, such as those generated by the international Human Genome Project. The Institute's technology transfer arm, Yeda Research and Development, has filed for international patent protection for the algorithm.

Delving into the Nanoscopic

Ever tried determining what's inside a layered chocolate cake without slicing it? Now, how about tackling a similar task, yet on a nanometer-scale. For decades, thinking big has frequently meant pursuing smaller and smaller goals. Take ultrathin films for instance. Often less than 10-15 nanometers in width, ultrathin films are used in diverse applications, from optoelectronics to biological sensors. (A nanometer is roughly one 100,000th the width of a human hair.) Most available techniques do not provide the depth information essential for evaluating layered structures.

Now, Dr. Hagai Cohen and Prof. Israel Rubinstein of the Weizmann Institute have developed a novel method for evaluating ultra-thin films, specifically, non-conducting films on conducting substrates. The researchers developed techniques whereby they were able to determine both the atom type and its depth within the film. The new method provided depth information with a superior resolution of about one nanometer while causing minimal damage to the sample. It also offered a unique side-benefit, yielding information regarding the film's electrical properties. The Weizmann innovation should prove beneficial in developing a wide range of microelectronic applications as well as in studying various chemical and biological systems..

BeConnected Obtains \$7 million Grant

The Office of the Chief Scientist of the Ministry of Industry and has approved an investment grant of \$7 million in BeConnected, a telecommunication developer supplying an end-to-end access solution for emerging telecommunication operators.

The Chief Scientist's Office of the Ministry of Industry and Trade is responsible for implementing government policy concerning the support and encouragement of industrial research and development. In order to qualify for investment, companies have to be approved by the Research Committee on the merits of their specific projects. In this process, top Israeli experts evaluate both the technical ingenuity and the anticipated commercial success of the project. The support of the Chief Scientist is a key factor in the ongoing success of the Israeli high-tech industry.

Be Connected's flagship product, the TAS - Total Access System - is a flexible innovative platform enabling telecommunication operators and service providers to supply any service from any network to all the operators' end-users and all from a single infrastructure. The TAS delivers narrow-band and broadband services, while extending the traditional access network using the available infrastructure and eliminating the necessity for costly replacement of equipment....

Technology Incubator Update

Rina Pridor, who runs the incubator project for the Ministry of Industry and Trade, said total investment in incubator companies during the first half of 2000 rose to \$80 million, from \$40 million during the same six months of 1999 and \$111 million in all of 1999. Most of the investment came from Israelis, including venture capitalists, 25% came from overseas, primarily from the United States. Pridor says that biotechnology has become an increasingly important part of the incubator project. "If two years ago, 5% of the projects were in biotechnology, today 20% of the new projects that are accepted into the incubators

are in this field," she says.

Pridor also noted that as foreign investment in the incubators has increased, foreigners have also begun entering the companies at earlier stages. "However", she said, "no foreign investor has yet been willing to enter a company at the stage of an idea in a briefcase". The incubator project began in 1991, but the first private investment took place only in 1995. To date, private investment in the 24 incubators has totaled \$410 million; 619 projects have been completed, of which 302 simply died and 317 left the incubator as independent private-sector companies.

One well-known incubator graduate is the bioinformation firm Compugen (Nasdaq:CGEN). Sales of project graduates to date total \$115 million, including \$81 million in exports.

The incubators themselves are non-profit organizations, with operating funds provided by the office of the Chief Scientist of the Ministry of Industry and Trade.

Holland's Philips Pays \$40 million for Medical Services Provider

Dutch electronics giant Philips is among the world's largest electronics companies and the largest in Europe with 1999 sales of Euro 31.5 billion. It has acquired 22% of the share capital of Shahal, a leading Israeli telemedicine medical services provider. Philips paid \$ 40 million. And will be assisting Shahal to market its products and services outside of Israel. Shahal, which provides phone-in medical advice and online medical information services, is currently preparing to float its shares on the Swiss stock market. UBS Warburg is the lead manager for the underwriting, which is expected to raise \$ 40 - \$ 50 million for Shahal.

The Shahal valuation is expected to be in the order of \$200 million. Shahal's 1999 revenues came to \$16 million, and it recorded operating

profits of \$1.9 million. The company's subscribers conveniently transfer to the results of miniature ECG recording systems to medical centers. Its telemonitoring services have a history of proven success in the cardiology sector as well as in other medical areas.

Subscribers range from people who suffer from heart ailments or from other chronic illnesses or just are concerned about their medical ailments.

Shahal's main competitor in the local Israeli market is Natali. After years of losses Natali turned a profit in 1998-1999 but registered again losses last year. "People are taking more and more responsibility for their health, as the Internet and related smart systems make personal health services more reliable than ever," points out Philips Medical Systems CEO Hans Barella.

NASA Names Israel's First Astronaut

NASA has named Israel's first astronaut to a 2001 space shuttle flight. Israeli Air Force Col. Ilan Ramon will fly as a payload specialist aboard space shuttle Columbia next summer on a research mission. He's been training at the Johnson Space Center in Houston for the past two years. Ramon, 46, who was born in Tel Aviv, graduated as an Israeli fighter pilot in 1974. He went on to become deputy commander for F-16 and F-4 squadrons and was promoted to colonel in 1994.

Before moving to Houston, he headed Israel's Department of Operational Requirement for Weapon Development and Acquisition.

Aboard the space shuttle, Ramon will fly as a passenger, taking part in scientific research and not as a pilot. He will fly with six Americans, one of whom was born in India and has become a U.S. citizen

CyOptics raises \$57 million

CyOptics, has completed its third round of financing, raising \$57 million based on a company market valuation of \$360 million, post money. CyOptics designs and manufactures high-performance, optical-networking components for the telecommunications market.

The financing round was led by the start-up's new strategic investors, among them Cisco Systems, Intel Capital, Corning Inc. and Vitesse Semiconductors. Corning and Vitesse invested \$30 million together, while one of the initial investors in CyOptics, the JVP venture capital fund, invested \$11 million. JVP was among the seed investors in CyOptics together with France Telecom and SCD, which invested \$7 million in two rounds of financing. In April 2000, the company raised a further \$16 million from Soros Private Equity Partners and the Sprout Group based on a company value of \$65 million, after the money.

CyOptics has since developed improved products such as pulse generating lasers, which produce light pulses for 40Gbps transmission. The company's products are targeted at users that include Lucent and Cisco, who focus on speeding up transmission over large distances and at high capacities. CyOptics was founded in 1999 in Yokne'am, Israel and the United States simultaneously. Many in the industry believe that JVP's strategy in founding CyOptics was based on the successful model of the establishment of Chromatis by Orni Petruchki and Rafi Gidron. Erel Margalit, founder and partner of JVP and chairman of the board of CyOptics, said that the company has the potential to become one of the largest companies in optical components.

Given Imaging Concludes \$30 million Financing

Yokne'am, Israel -based start-up Given Imaging (IHTIR-10/2000) has raised \$30 million from a

group of investors headed by Orbimed Advisors LLC from New York, which invested half the sum. The financing round, the company's third, was held at a company value of \$75 million, after money. Other investors included the current shareholders: Discount Investment Corporation, Elron Electronic Industries, and Rafael Development Corporation, as well as new private investors.

Israel Parliamentary Committee Approves Dual-Listing Rules

Israeli companies whose shares are traded on overseas exchanges will soon be listed in both Israel and the United States. The Israeli Parliamentary Finance Committee approved the regulations in a move which could substantially boost trading volumes on the Tel-Aviv Stock Exchange. The new rules are intended to facilitate U.S.-traded Israeli companies to list in Tel Aviv. The listing approval is to be based on U.S. reporting regulations for foreign firms.

For global investors, it will provide an opportunity to trade in these shares, due to time differences, after the American market are closed. active day many hundreds of millions of dollars worth of the foreign listed shares are traded on Nasdaq.

Their individual trading turnovers exceed the total daily turnover on the Tel-Aviv Stock Exchange. Some of Israel's largest companies, based on market capitalization, trade only in the United States. Among these are Check Point (Nasdaq:CHKPF), Converse Technologies (Nasdaq:CMVT) and ECI Telecom (Nasdaq:ECIL). Check Point, among other companies, has indicated that it will consider a listing on the Tel-Aviv Stock Exchange.

As of now only 23 Israeli companies have shares that are both traded on the TASE and abroad. Sam Bromfeld, the general manager of the local exchange is happy with the dual-listing developments "for which I have worked for a long time".

MODEL PORTFOLIO

The Israel High-Tech Model Portfolio Maintains Positive Performance in 2000 In the past half-year more than a few of the Nasdaq shares plunged. The shares of Lucent, Intel and Microsoft crumbled by as much as half of their value from their highs. One can only wonder when or whether they will return to their lofty previous heights. Some of the Israeli or Israeli related shares have also lost big chunks from their valuations.

Partner, following a successful IPO in October, had a market capitalization of nearly \$2.4 billion. The share price initially rose to \$25 per share from the IPO price of \$13, and now has plunged to a fraction over \$7 per share. Partner, Israel's GSM cellular telephone service provider, bearing the Orange brand name, recently sported a company valuation of less than \$1.4 billion representing a paper loss of \$1b. DeltaThree - a Jerusalem based company went public on Nasdaq in November 1999, and quickly zoomed from an initial \$15 per share to \$60 per share. Recently, the price has nosedived to less than \$5 per share. The Nasdaq, since the beginning of the year has lost some 10%. Israel Helped by the strength of CheckPoint, up by 210% so far this year, the Israel High-Tech Model Portfolio has gained two per cent this year and by 267% since January 1999. In the past ten months the original holding costing \$145,500, helped by two stock splits in 2000, is valued was valued at \$510,000.

CheckPoint has recently reported Q3 results "While Q3 was exceptionally strong, we believe that Q4 will continue to show acceleration," said Chief Executive, Chairman and President Gil Shwed. He added that he expects the company to show 90% revenue growth in 2000 and EPS growth just above 100%. Check Point is engaged in secure enterprise networking solutions that

enable customers to implement centralized policy-based management with enterprise-wide distributed deployment.

For the nine months ended 9/30/00, revenues rose 88% to \$284.8 million. Net income totaled \$140 million, up from \$66 million. Results reflect the strength of the company's markets, products and solutions for securing the Internet and increased financial income. Third-quarter earnings more than doubled, easily beating Wall Street estimates.

The company, with U.S. operations in Redwood City, Calif., said it earned \$61.6 million or 35 cents, a share compared with \$24.7 million, or 15 cents in the same period last year. Wall Street had expected the company to earn 27 cents a share. Revenues also doubled, rising to \$116 million, compared with \$57.8 million for the same period in 1999.

"It's just unbelievable," said UBS Warburg analyst Jordan Klein said. "I can't emphasize how impressed I am with these numbers".

Gilat Communications' Losses Expected to Deepen

The Gilat Communications (Nasdaq:GICOF) holding was dropped from the Israel High-Tech & Investment Report's Model Portfolio towards the end of September. There is an old adage which says that "when a company announces a poor quarter it is not necessary to assume that all the bad news is exhausted".

In October the company confirmed this assumption by announcing that financial results for the third quarter ended September 30, 2000 are not expected to meet published expectations.

Acquisitions are taking longer than expected to be integrated. Even more worrisome is the decline and reduced profitability from Gilat's core business

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	- 16.7 %*
Teuza	- 3.4%*
Marathon	- 5.7 %*
Mofet	+ 65.5 %*
Inventech	+ 20.7 %*
Tamir Cap	- 28.7 %*

* Yields Year to Date and as of October 19, 2000

A portfolio of the above TASE Publicly Traded Venture Capital Companies, assuming equal sums being invested in each position, since the beginning of 2000 currently shows a nominal paper profit of 5.2 %. By contrast the "Tel-Tech": index of the technology shares in the stock exchange in Tel Aviv YTD lost 7.7%. The "Tel-Tech" index was published for the first time in 4.2.2000, and includes high-tech companies in the areas of electronics, computers and life sciences, as well as venture funds.

Mofet Israel Technology Fund and Inventech lead the group, with 65.5% and 20.7% gains since the start of the year.



While we continue to favor Mofet, which has one of the more promising mixes of investments in its portfolio on a longer-term basis we would consider the Tamir Capital Fund which is priced nearly 30% below its IPO price earlier this year. The fund is flush with cash and in view of the lower valuations of mezzanine and early financing deals in which the fund will invest, the long-term investors is likely to do well.

Changes in the IHTIR Model Portfolio

The proceeds of the sale of 5000 shares of Gilat Communications (Nasdaq:GICOF) were used to buy 1400 shares of Precise Software (Nasdaq:PRSE). As a result of the transaction the PRSE holding was increased to 2000 shares. The company's president and CEO Alon Shimon made an impressive presentation at the recent Growth Conference. He seemed quite comfortable predicting a continuation of rising quarterly revenues over the past eleven consecutive quarters. More than 600 companies have already purchased Precise's products. Alon is aggressively adding marketing personnel as well as opening new offices to maintain the pace of demand for its management software products. On October 24 PRSE announced its Q3 results as (\$0.06) which exactly matched the analysts' consensus estimate.

We also added a 250 share holding in Comverse Technology, (Nasdaq:CMVT) which makes voice-mail software for telecom companies. Comverse is a prime example of an Israeli company with a U.S. veneer. It's in Woodbury, N.Y., where Kobi Alexander, its chairman, president, and CEO is based, but maintains a sizable R&D facility in Israel. The total CMVT holding is now 1000 shares. The company is one of the leaders in its field and is maintaining a solid pattern of increasing sales and profits. Its recent decline provided the opportunity to increase the holding..

Push-software BackWeb is Inching towards Profitability

Business software maker BackWeb Technologies reported that revenues for Q3 increased 89 percent to \$11.7 million, from \$6.2 million in the third quarter of 1999 and up 10 percent from \$10.6 million for the second quarter of 2000. Net loss for the third quarter was \$0.5 million, or \$0.01 per diluted share, compared to a net loss of \$1.6 million or

\$0.05 per diluted share for the same period a year earlier. Analysts polled by First Call/Thomson Financial expected a loss of two cents per share. The company's strong performance was driven by the increasing demand for BackWeb's e-business infrastructure. Moving rapidly

We recently listened to a BackWeb corporate presentation and the financial results confirm that the company is meeting its targets. BackWeb is expected to reach break even in Q4 and profitability in 2001. BackWeb, which also has headquarters in Israel, provides customers with "push" infrastructure and applications, which allow preprogrammed delivery of news and other information. In spite of not having recorded a first time profit, BackWeb has been retained in our IHTIR Model Portfolio because of the promising outlook for the company.

Another increase was reported in foreign investments in Israeli securities traded on overseas stock exchanges, despite Nasdaq's fall. Foreign investors purchased \$975 million in securities issues on the overseas primary market. Foreign investments in Israeli shares on overseas markets totaled \$3.44 billion since the beginning of the year and a record \$6.7 billion since the beginning of 1999.

StarBand Files for IPO on Nasdaq

StarBand Communications Inc., a provider of high-speed Internet access via satellite and a joint venture between, Gilat Satellite Networks, Echostar Communications and Microsoft filed to go public. StarBand is looking to raise as much as \$287.5 million in an IPO of common stock, using the net proceeds to fund continued growth of business and operations, expand subscriber base, and for general corporate purposes.

The number of shares and their estimated price range will be disclosed later by the company, which has applied for a Nasdaq listing under the symbol "STRB".

Singapore Focuses on Israeli Investments

A report on the targets for high-tech involvement in Singapore and around the world prepared by Deputy prime minister of Singapore, Dr. Tony Tan, concluded that "Singapore believes that adapting its economy to the information economy is the key to future prosperity and to progress, and is searching for investments in high-tech companies and infrastructures that will strengthen its current status. Dr. Tan recently visited Israel at the head of a 30-person entourage and chose Israel as a strategic target for investment. His visit gave the go-ahead for government investments of some \$100 million and prompted visits to Israel by three other delegations: from the chief scientist's office, the computerization and communications authority and GIC. GIC is one of the biggest investment funds active in the world today. The fund manages over \$120 billion accumulated in the country's currency reserves and pension funds, and it invests this money all over the world. The involvement in Israel came in spite of Singapore's concerns about the enmity of towards Israel on the part of its Muslim neighbors - Malaysia and Indonesia.

The Israeli office of the international venture capital fund -Vertex has become a pivotal player in the Singapore's investments in Israel and whose manager Yoram Oron - has Singapore experience since 1984. Vertex Israel was the first venture capital fund to institutionalize venture capital investments from Singapore. Oron confidently predicts that Singapore's current investments are "just dipping its toes in the water".

EZ-Chip Technologies Secures Second of Venture Financing EZchip Technologies (a subsidiary of LanOptics Ltd., NASDAQ: LNOP), a 10/40 Gigabit network processor provider, announced it has completed a second round of venture financing and will receive \$22 million.

EZchip will use the funds to launch its U.S. operations, complete development of its 10-Gigabit/OC-192 NP-1 network processor and to commence with the design of its 40-Gigabit/OC-768 NP-2 network processor. The conclusion of this investment round completes an investment process begun in early July, when the leading investors of this round, prominent U.S. venture capital firms, agreed to a term sheet for this investment and assumed a pre money value of \$100 million. Ezchip's early investors - LanOptics, Star Ventures, Apax Partners and Tamar Investments - also participated in this round of financing. Ezchip's NP-1 is claimed to be the only single-chip solution capable of 7-Layer processing at 10-Gigabit wire speed.

74% Leap in Capital Raised by Israeli Companies

After a weakness that characterized the High Tech industry in Q2/2000 a major leap occurred in the capital raised by Israeli High Tech companies in Q3/2000. setting a record of all times A sharp increase of 74% in capital raised by high tech companies to more than \$1.0 billion dollars. The capital raised in Q3/2000 exceeds the amount raised during the whole of 1999. The amount of capital raised in communications was more than double.

The quarterly survey conducted by the Zinook research regarding capital raised by private Israeli high tech companies and investments by Israeli venture capital funds. This survey included 76 Israeli venture capital funds. During the third quarter of 2000, 153 private Israeli high tech companies raised \$1.058 billion. This figure is 74% higher than the amount raised by companies in the previous quarter, which totaled \$609.9 million, and 281% higher compared to the amount raised in the parallel quarter in 1999, which totaled \$278 million. By comparison, during the whole of 1999, Israeli high-tech companies raised

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ISRAEL HIGH-TECH MODEL PORTFOLIO

Selected Israeli Growth Companies

	Quantity		Commission	Open Amount	Current Value	Gain/Loss
IHTIR Model Portfolio						
BackWeb		BWEB		Price as of 10/20/2000: 6.31		
Total:	1,000		\$0.00	\$43,500.00	\$6,310.00	(\$37,190.00)
<hr/>						
Check Point Software Tech		CHKP		Price as of 10/20/2000: 169.875		
Total:	3,000		\$0.00	\$17,015.62	\$509,625.00	\$492,609.38
<hr/>						
Comverse Technology, Inc.		CMVT		Price as of 10/20/2000: 110.19		
Total:	1,000		\$0.00	\$58,109.50	\$110,190.00	\$52,080.50
<hr/>						
Gilat Satellite Networkss		GILTF		Price as of 10/20/2000: 54.19		
Total:	1,000		\$0.00	\$56,125.00	\$54,190.00	(\$1,935.00)
<hr/>						
Point of Sale Ltd.		POSI		Price as of 10/20/2000: 19.50		
Total:	7,800		\$0.00	\$49,725.00	\$152,100.00	\$102,375.00
<hr/>						
Precise Software		PRSE		Price as of 10/20/2000: 36.56		
Total:	2,000		\$0.00	\$51,234.00	\$73,120.00	\$21,886.00
<hr/>						
IHTIR Model Portfolio			\$0.00	\$275,709.12	\$905,535.00	\$629,825.88

IHTIR Model Portfolio Investment Summary

Original Assumed Investment at the Start of 1999 was	\$ 246,850
Total Current Value	\$ 905,535
Gain	\$ 658,685 +266.8%

*valued as of October 20, 2000

Note:

9.22.2000 sold 5000 Gilat Communications @ \$12.5

9.22.2000 bought 1400 Precise Software @ \$27.81

9.22.2000 bought 250 Comverse Technology @ \$93.69

total of \$1.01 billion. Zeev Holtzman – Chairman of Zinook and Giza Venture Capital, noted, "The third quarter, despite the optimistic figures, does not reflect the sharp declines in the NASDAQ lately and the security situation." These two factors, estimates Holtzman, " will have a negative effect on the high tech industry in the fourth quarter."

IDF and Foreign Ministry Sites Hacked as Hizbolla Site Crashes

Electronic warfare rages as Knesset, Foreign Ministry and The Israel Defense Forces have recruited the American telecommunications giant AT&T to provide support for its Web site, after hackers tried to sabotage it again. The IDF announced that it would use AT&T and Netvision servers to make sure its site stayed up.

In the meantime, the Knesset Web site was also blocked Thursday morning, after it was bombarded by hundreds of thousands of electronic signals, originating mainly in southern Lebanon. The server of the Foreign Ministry's Web site, maintained by Netvision, was hacked Wednesday and has not yet been restored. Prior to these attacks Israeli hackers.

Issues of internet security surfaced at a most unexpected location when Microsoft Corp. Steve Balmer, senior vice president acknowledged that hackers had broken into Microsoft development sites. Microsoft turned the incident over to the FBI.

On the Edge of the Desert

Professor Avishay Braverman, President of Ben-Gurion University of the Negev (BGU), is advancing the establishment of a National Institute for R&D in Biotechnology and Life Sciences, adjacent to the main campus of the University. BGU is located in Beersheba, at the edge of the Negev.

The announcement coincided with International Conference, "2000 - The Era of Biotechnology", during which an honorary doctorate awarded to Prof. Meir Wilchek, of the Weizmann Institute, a recipient of both the Israel and Wolf Prizes.

Overheard at the 4th annual Growth Conference Tamir-Fishman/Dain Raucher Wessels

"We are looking at a number of areas, but presently, the US the public markets are most receptive to companies in the network area and biotechnology. Other areas of interest, are Internet Infrastructure. The focus is on the ability to work with a lot of systems where bandwidth-the amount of data to be transferred from point A to point B is maximized.

From an interview with Peter de-Vos, Senior Managing Director of Corporate Finance at the main office in Minneapolis, Minnesota, USA.

"Technology driven Start-Ups. Are they still in Vogue?

"There are still great opportunities for these type of companies not only in the public market, but among the venture capital community where investments are in the form of private placements.

A good capital market for technology companies is very relevant for a country which serves as a home for more than 4,000 technology-related start-ups. Israel, with 19 IPOs, ranks second, only to the United States, in terms of the number of technology-related IPOs completed since the onset of 1999".

Mr. Wade Massad, senior managing director
Dain Rauscher Wessels,

"In our technology group optical issues that access the next generation are very popular. In 1999 we did 32 networking deals which is more than anybody else in the industry.

Companies that are active at the edge of network intelligence, have great potential. Boxes that have intelligence will become the core of the network. Israel has some great companies in this field: Lumient, Access and Chiaro".

Vince Vertin, vice-president of finance