

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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## “Global Friendships are Made in Israel”

On October 24 the Department of State issued a warning to U.S. citizens to defer all travel to Israel, the West Bank and Gaza. The U.S. Government, the warning declared "has indications of a heightened threat of terrorist incidents in Israel, the West Bank and Gaza". In the aftermath of the warning two conferences were cancelled. Some Israelis, global investors and entrepreneurs were sure that the sixth consecutive annual Robertson Stephens Growth and Technology Conference scheduled to be held in Tel-Aviv November 6 and 7 would be postponed or cancelled. Not at all so! To underscore the 'business as usual' attitude, Andrew Kaye, Managing Director and head of Robertson Stephens Israel Ltd. announced on Kol Israel, Israel's national radio station that the conference would take place as scheduled. Israel's history has been marked by many conflicts, and the nation has endured short periods of above average political instability. Israelis, over the years, have taken these events without breaking stride. Israel's high-tech sector is highly attractive to the international investment community. Even after nearly two months of violence on the West Bank investors continue to channel billions of dollars in merger and acquisition and direct investments. It is exactly five years since the inaugural conference took place. It opened only a few hours after the assassination of Israel's Prime Minister Yitzhak Rabin. Reminiscing about that day, one of the attendees of this year's conference expressed his gratitude, at the time, that the conference had taken place. "I was glad to have a place to go, to be with people and to hear company presentations", he told me. IHTIR in turn, gave wide coverage to the event.

As it turned out we were correct in our assessment that the conference would usher in more "world class investment conferences" to Israel. It was a stamp of approval by world class investment bankers, that the Israeli high-technology sector had come of age. We correctly reasoned, that Israeli technocrats and entrepreneurs had acquired sufficient attractiveness to attract serious investment consideration. At the first conference, the international venture capitalists and professional investors viewed 42 companies

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who were given the opportunity to present and showcase their products, systems and software. All were anxious to attract investment funds in order to speed up their growth. No fewer than 29 of these were hopeful of moving along towards an Initial Public Offering. At this year's conference, indicative of the rapid growth of Israel's technology sector more than 100 companies participated. In the course of the two day conference IHTIR met with the top Robertson Stephens executives as well as with numerous venture capital investors.

Here was a prime example of the globalization process: Tel-Aviv had become the venue for European, Japanese and Taiwanese venture capital investors. Israel has an outstanding record in bringing technology related Initial Public Offerings to the US capital markets. With 19 deals completed since 1999 it is second only, to the US, but well ahead of Canada, Hong Kong, the UK and Taiwan. The 19 companies involved in these deals accounted for \$1.14 billion of securities offered. An additional 12 Israeli public offerings combined

for a total of 31 public financing issues in less than two years. Robertson Stephens, in YTD 2000, ranked number one in US domestic common equity underwritings, It acted as Lead Manager in 52 underwritings and in another 92 as Co-Manager. It also ranked first with 105 technology equity offerings completed YTD 2000. However, in the current year it has only completed one Israeli Technology IPO. The presence of many of Robertson Stephens' top level management is a potent indicator of a desire to assume leadership in public

financing for Israeli companies. "Israel to me has more companies with real technology content than most countries worldwide and therefore in typical times, when other models are falling apart or investors decide to flee, there is always inherent value in technology. To put Israel into focus beyond the European perspective, Israel has more importance in terms of delivering new technologies to the world marketplace than Japan. There are many interesting technology companies in Tai-

wan but they are hampered by infrastructural impediments on the way to Nasdaq. Here, the Israeli incorporated company can go immediately to Nasdaq. Israel ranks number two among the world's top technology countries and that is the reason why we maintain an office in Tel-Aviv," IHTIR heard from Brian Bean, Managing Director and Head of Technology Banking. The Israel High-Tech & Investment Report asked whether the current period of instability in this country is creating barriers for investing? "Risk begins when it impacts the earn-

ings and the revenues of the companies based in Israel. When making decisions investors primarily look at financial performance. I wouldn't single out the political issue," noted Mr. Bean.

GIZA in response to questions raised by Israeli journalists expressed deep concern about the flow of investment capital to Israel. However, Matthew A. DeBellis, in a Redherring.com report captioned "Israeli VCs Raise Funds Against the Odds" comments: "The almost daily violence in the Middle

### Venture Capital Firm Aims at Israel with \$200 million Venture Fund

Silicon Valley venture capital firm Benchmark Capital, whose investment portfolio includes the likes of eBay and Red Hat has set its sites on a new target: Israel.

The company is setting up a \$200 million fund to make early-stage investments in high-tech firms in Israel at early stage and seed level. The investee companies will have an American orientation and will be prepared for Initial Public Offerings in the US. The Benchmark Israel Fund will also cooperate with the Benchmark Europe vc fund established earlier this year. The three managers of the fund are Mark Kremer; Arad Naveh, former M&A director at Scitex and Nahman Shelef, former 3Com v-p business development.

Bechmark was founded in 1995 and is based in Menlo Park, Calif. It manages more than \$2.0 billion in committed venture capital.

East casts a pall over meetings between venture capitalists and entrepreneurs in Israel. But the zeal that U.S., Israeli, and international investors have for VC deals, appears to be stronger than their fear of war. The fund-raising stands in contrast to heightened concerns in recent weeks over turmoil between Israelis and Palestinians".

### ***A Change in Direction of Government Support of High-Tech Industries***

The Chief Scientist in the Ministry of Industry and Trade, Carmel Vernia, plans to institute a new financing model in 2001 for companies receiving government support for research and development. The new model will focus increased support for R&D activities, while decreasing funds used to cover a company's general expenses. As a result, the level of financial support will increase by 20 percent, but since the Chief Scientist's budget has not changed, there will be fewer companies receiving this support. Under the current arrangement, the Chief Scientist's office can finance up to 17 percent of a developer's salary (including benefits) or grant a 45 percent global reimbursement on administrative costs for selected projects. Mr. Vernia's new plan, drafted together with the Budgets Division of the Finance Ministry, will help a company cover up to 25 percent of a developer's salary, while allowing only a 20 percent reimbursement for general project costs. An interim report with recommendations for revising the R&D Law is now on the desk of Finance Minister Avraham Shochat. The transfer of government-financed R&D outside of Israel when an Israeli firm is acquired by a foreign company, previously not allowed and generally considered by investors as a sticking point, has already been approved. In such instances, the government will be entitled to compensation in keeping with a set formula. The relaxation of this prohibition is intended to encourage companies to apply for R&D support. Previously, many companies kept from applying for governmental support fearing that it would disqualify them from being

acquired by foreign corporations in merger and acquisitions transactions.

### ***Venture Capital Investment up by 41% in Q3***

Israeli and American venture capital (VC) firms invested \$1.034 billion in private, Israeli start-up companies during the third quarter of 2000, according to a Money Tree survey published recently by Kesselman & Kesselman, a leading Israeli accounting firm and the Israeli branch of Price WaterhouseCoopers. The figures represent an unexpectedly high 41 percent increase in investments when compared to the previous record of \$753 million raised in the preceding quarter. A similar study published recently by IVC-Online, the research division of the Zinook venture capital firm, reported nearly identical third-quarter investments in Israeli high-tech start-ups totaling \$1.056 billion. The Money Tree survey covers data culled from 60 Israeli venture capital funds and seven American VCs. The survey reports that 166 Israeli high-tech firms raised capital, of which twenty, each raised more \$20 million. These companies represented more than half of the total raised by all of the companies. Foreign venture capital firms accounted for 70% of the total amount invested.

### ***China To Buy VSAT Technology From Israel's Gilat Satellite***

Shanghai will spend millions of dollars to improve its Internet services using satellite communication technology from Israel's Gilat Satellite Networks (NASDAQ:GILTF), state media reported recently. Shanghai has also decided to set up a Very Small Aperture Terminal, or VSAT, application and research center with Gilat Satellite Networks, the official Xinhua News Agency reported. Accessing Internet services using VSAT technology will eventually increase connection speeds by 100 times, as compared with the use of computers equipped with special reception and

transmission cards, the report stated. China's Internet service is extremely slow as millions of users attempt to log on to its already overcrowded telecommunications networks. In addition, while the government rolls out Internet infrastructure in China's major cities, much of the country is still waiting to be connected to standard fixed-line telephone services. Gilat's expanded role in developing Shanghai's Internet infrastructure follows an agreement this year with China's Xinjiang province to purchase 1,050 units of the company's DialAway VSAT satellite communications equipment to be used in public call offices operated by Xinjiang Post & Telecommunications Administration. Xinjiang is an autonomous region in the far northwest of the country. Gilat is a leading provider of telecommunications solutions based on VSAT satellite network technology. It provides satellite-based, end-to-end enterprise networking and rural telephony solutions to customers across six continents, and markets interactive broadband data services. Gilat's shares are included in the Israel High-Tech Investment Report's Model Portfolio.

### ***Next-Generation RF Chips Designed By TelesciCOM to be Manufactured By IBM***

TelesciCOM Ltd., a manufacturer of Broadband Wireless Access and Two-way Satellite Access chip sets, previously mentioned in IHTIR in 1999 as having secured an equity investment by Intel, has announced that it has selected IBM's advanced silicon germanium process technology for its upcoming radio frequency chip. They will become a part of TelesciCOM's chip sets and is designed to integrate all of the circuitry and necessary for converting RF signals directly to baseband frequencies and vice versa. It is one of three chips in TelesciCOM's that has been described as a groundbreaking solution that will make low-cost wireless access a reality for residences and small-to-medium businesses. The chip will be manufactured by IBM Microelec-

tronics at its Burlington, Vermont, USA wafer fabrication facility, using the BiCMOS SiGe process technology IBM developed for high-performance communications applications.

"Fixed broadband wireless access is expected to be an important enabler of high-speed network access to the home and small businesses," said Gary Patton, director of wireless products for IBM Microelectronics. "IBM's industry-leading SiGe technology will enable RF chips to provide high performance, cost-effective solutions for this explosive market."

IHTIR has learned from third party sources "that the criteria for IBM to cooperate, is a potential in future sales in the magnitude of tens of millions dollars".

TelesciCOM Ltd. is a provider of integrated circuits and software solutions for Fixed Broadband Wireless Access and Two-Way Broadband Satellite Access applications that allow quick and low-cost deployment of broadband solutions to homes and small-to-medium businesses. TelesciCOM's products are utilized in telecommunications equipment that allow communication service providers to provide new services to their subscribers. TelesciCOM is a privately held corporation headquartered in Tel Aviv, Israel, and its U.S. office is located in Sunnyvale, California.

### ***IBM to acquire an equity stake in EZchip Migdal Haemek, Israel***

EZchip Technologies (a subsidiary of LanOptics Ltd., Nasdaq: LNOP) and IBM announced a technology agreement intended to speed the introduction of EZchip's NP-1 network processors.

As part of the agreement, IBM will acquire a 5% equity stake in EZchip Technologies. Under the agreement, IBM plans to manufacture EZchip's 10-Gigabit network processor using IBM's industry-leading semiconductor process technologies.

## RECENT HEADLINES

For followers of the broad spectrum of Israeli companies on Wall Street

++**NUR Macroprinters** Reports 14th Consecutive Record Quarter in Revenues and Record Net Profits before one time Salsa Digital acquisition related costs

++**Sapiens** Teams With IBM To Offer Flexible Financing Options For eMerge e-Business Solutions

++**Tower Semiconductor Ltd.** and Brooks Automation SignPurchase Agreement

++**GuruNet** Changes Name to Atomica

++**Amdocs** Fourth Quarter Revenue Increases 72.4% To \$315.1 Million, Annual Revenue Tops \$1 Billion \$315.1 Million

++**Mercury Interactive's** LoadRunner Selected By Multex.com to Optimize Web Performance ColdFusion Developers Name Mercury Interactive's LoadRunner Most Innovative and Best Testing Solution

++**Dynarc** and **Orckit Communications** Make End-To-End IP Solution For xDSL Services Available

++**AudioCodes** New cPCI Media Gateway Product Offers VoATM and VoIP for Access and 3G Wireless Networks

++**ClickSoftware** has announced the licensing of its ClickSchedule scheduling solution to Knology Ulticom

++**CommTouch** and **VeriSign** to Deliver Secure Email and Messaging Transactions for Wireless Subscribers Worldwide

++**Liraz Systems** Purchases Additional **Level 8** Shares

++**EZchip** has licensed Alcatel's industry leading triple speed MAC (media access control) soft core technology for its next generation flagship 10-Gigabit processor.

++**AXENT's** Webthority Certifies **Radware's** FireProof to Provide High-Availability Load-Balancing Solution

++**ECI Telecom** Announces Third Quarter 2000 Results. Revenues from Strategic Businesses Rise 31%, Record Book to Bill 1.4

++**Retalix Ltd.** and Fujitsu-ICL extend distribution agreement

++**Sanctum's** AppShield Defends Israeli Government Web Sites Against Hacker Assault in stocks that are priced for perfection

++**Vertex Management Israel** announced that Singapore alone, is investing a total of \$76 million in its third fund- Vertex Israel II

++**RSA Security, Securify and RadView** Join Sanctum's Application Security Alliance

++**BreezeCOM** Announces Launch of New Carrier-Class Product Line. Service Providers Worldwide to benefit from BreezeACCESS II

++**DSP Group** Ranked 71st Among of this Year's 200 Best Small Companies by Forbes Magazine

++**ECI Telecom** Enhances its IP Telephony ITX Family with MIND CTI Billing and Customer Care Solution

++**Jacada** Continues Global Expansion with Launch of Canadian Subsidiary

++**Magic Software** Third Q Revenues up More Than 55% Over Last Year as Company Continues to Aggressively Invest in Worldwide Solutions Business

++**M-Systems** Introduces Pocketable, Reliable and Simple-to-Use Personal Storage Device for PC and Mac Users

++**Electric Fuel** to Produce New Line of Dis-

posable Cellphone Batteries for Wal-Mart

++**Accord Networks Partners** with Network Data Systems to Offer Network Integration Services

++**BreezeCOM** third-quarter earnings rebound. The company said net income for the quarter was \$3.7 million, or 11 cents a share.

++**Magic** Signs Deal With Athlon Group to License its RentPro™ Car Rental Management System. Deal Estimated at more than \$1.0 million

++**Fifth Third Bank** Adds Internet-Based Treasury Management Service With **Fundtech's** webACCESS Solution

++**Zoran** Announces New Highly Integrated DVD Chip Set for Midrange & Entry Level Markets

++**ECI Telecom** Signs a New Contract with Mannesmann Mobilfunk, Germany's Largest Cellular Operator

++**Orbotech** Receives Major Order From Honeywell's Advanced Circuits Group; PCB Inspection Equipment Order Total Approximately \$6.9M

++**Point of Sale** Becomes **Retalix Ltd.** Changes Ticker to **RTLX**.

++**Seabridge** to launch XpressPass142 at Telecom 2000.

Digital Marketing Services, An AOL company, to use **Alchemedia's** content protection software.

++**Siemens Venture Capital (SVC)** to invest directly in Israeli High-Tech

++**Business Layers** Named Internet/eCommerce Company of the Year

++**Electric Fuel** Reports Third Quarter And Nine Months 2000 Results.

++**CreoScitex** Wins Outstanding Achievement Award for British Columbia Export Excellence

++**ClickSoftware** announced that it has secured a major contract with Service America  
Precise Helps Amazon.com Get a Read On Proactive

Performance Management

++**GEO Interactive** signs content deal with Hollywood.com, Inc.

++**CommTouch** Extends Corporate Messaging Solutions with Agreement to Acquire Wingra Technologies

++**Orbotech** Announces Third Quarter 2000 Results; Revenue up 36% with 47% Increase in Net Income

++**NICE Systems** Releases New Integrated Applications for Customer Experience Management

++**Andersen Consulting** and **Amdocs** Form Global Alliance to Deliver Leading CRM and Billing Solutions for Communications and Internet Providers

++**Alchemedia** announced that Marathon will integrate Clever Content protection technology into its Web design and hosting services.

++**ING Barings Ltd.** Becomes a Designated Sponsor for **OTI** on Neuer Markt

++**ViryaNet** reported revenues of \$7.5M for the third quarter, an increase of 85%..

++**Elbit Systems** subsidiary El-Op wins \$3 million contract to supply Danish army with thermal imaging systems

++**Congruency, Inc.** and **Orckit Communications** Announce Co-Marketing Agreement for VoIP over DSL

++**Radware** Reports Third Quarter Results - Record Sales of \$11.1 million

++**Nova** Announces Another Record for its Third Quarter 2000 Results.

++**NetManage** Announces Third Quarter Results. Increase of 46% in Net revenues

++**Magic Software** Enterprises Uses Magic Emerchant to Help Hoffmann Gmbh Develop Sophisticated Online Presence

++**BreezeCOM** and Chiquita Bring Broadband Wireless Access to Remote Areas of Central America; Chiquita employs high tech to solve an age-old problem

**++Accord Networks** Chosen to be the Heart of Megaconference II, the Largest Worldwide IP-based Rich Media Communications Event

**++++ 3Q00 Revenues and EPS Reach a Record High Revenues Rose 46 Percent to \$46.6 Million, Net Income Increased 42 Percent, EPS Increased to \$0.58**

**++OTI** Receives Order to Equip Second U.S. Truck Stop M-Systems Opens New Office in Korea to Meet Growing Needs of Market

**++Aladdin** Announces Third Quarter and Nine Months 2000 Financial Results Web2P to open 2 Asian branches in Japan and Korea.(Hebrew).

**++LanOptics** Announces 2000 Third Quarter Results

### ***VC Portview Communications***

#### ***Completes Fund-raising of \$61 Million***

**Portview Communications**, an international venture capital fund that specializes in communication technology, today announced the completion of its fund-raising, totaling \$61 million.

Portview Communications focuses on public network technology and products designed for incumbent and next generation carriers. It invests in early stage companies that develop "TCB -- things carriers buy" in Israel, the US, the UK, Sweden and Finland. Portview Communications assists portfolio companies in penetrating markets in Europe and North America. The fund has presence in Israel and London, and will begin US operations in Washington, D.C. soon.

Portview was founded by Israeli residents Robin Hacke and Julie Kunstler, managers of HK Catalyst, a former high-tech consulting firm. They have served as executives, directors, investors and advisors to 110 high tech companies over the past decade. The Portview investment team also includes Shaun Ledgerwood, based in London,

who brings nine years of experience at carriers such as Cable & Wireless and GTS, and Sandy Roskes, who will manage the fund's operations office in Washington, D.C.

Since Portview's first closing in March, the Fund has invested in such companies as PacketLight Networks Ltd., Ceragon Networks Ltd., and the American company Quicksilver Technology Inc. Portview is the successor fund to Catalyst, which invested in companies such as TTI Team Telecom (Nasdaq: TTIL), Floware (Nasdaq: FLRE), Tdsoft Communications (Israel), Intralinks (NY) and Ridgeway (UK).

According to co-founder Robin Hacke, "Our expertise is taking talented technologists from their home countries, and aiding them in penetrating the major communications markets in the United States and Europe."

Co-founder Julie Kunstler added, "Portview plans to invest in roughly 12 companies by mid-2002. Subsequently, the fund will continue to invest in its portfolio companies. The investments will range between two and seven million dollars per company."

Portview Communications established an advisory board, whose members are deeply involved in the telecommunications market. Among the members of the advisory board are Betsy Bernard, Qwest Executive Vice President; Peter Cochrane, chief technologist at British Telecom; Ian Clark, former head of JP Morgan's Telecom Group; Paul Wiefels, founding partner of the Chasm Group LLC; and John Cioffi, Stanford professor and co-founder of Amati Communications.

#### ***Magic Software First to Take Advantage of Fast-Track Dual Listing on TASE***

**Magic Software Enterprises** (Nasdaq: MGIC) announced that it is the first company to take advantage of new regula-

# 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

<b>Sadot</b>	- 19.1 %*
<b>Teuza</b>	- 11.4 %*
<b>Marathon</b>	- 17.4 %*
<b>Mofet</b>	+ 73.7 %*
<b>Inventech</b>	+ 26.2 %*
<b>Tamir Cap</b>	- 28.9 %*

\* Yields Year to Date and as of November 21, 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 6.75%**. The "**Tel-Tech Index**", the benchmark index we use for comparison of investment performance of technology shares listed on the stock exchange in Tel Aviv, YTD lost 15.2 %. The "**Tel-Tech Index**" first published by the TASE in April 2000, includes high-tech companies in the areas of telecommunications, electronics, computers and life sciences, as well as venture capital funds.



Considering a **12 % drop in the NASDAQ index over a four consecutive sessions in the second half of November** the TASE Publicly Traded

Venture Capital Companies continue to hold up well.

**Mofet Israel Technology Fund (+73.7%)** and **Inventech (+26.2%)**, for the second consecutive month, have advanced and maintain group leadership. Their performance reflects their promising investment portfolios, notwithstanding a period of a dearth of Initial Public Offerings which provide venture capital companies with capital gains.



tions allowing the fast-track dual listing on the Tel Aviv Stock Exchange of Israeli companies whose shares currently trade only on U.S. capital markets. Shares of Magic, which is listed on Nasdaq, began trading on the Tel Aviv Stock Exchange in mid-November.

In a move designed to boost volume and liquidity, Israel's parliament last July approved measures to allow Israeli companies traded in the United States to also list in Tel Aviv without additional reporting to the Israeli regulatory authorities. Under the new regulations, U.S. listed Israeli companies will be able to report to the Tel Aviv Stock Exchange using the same form required of foreign companies by the U.S. Securities and Exchange Commission. They will not have to translate their financial reports into Hebrew or convert dollars into shekels.

Currently, more than 100 Israeli companies are traded in the United States; however, very few are dual-listed. Formula Systems, Magic's parent company, already trades on both Nasdaq and the Tel Aviv Stock Exchange, but the company had dual-listed before the new regulations went into effect. Magic's sister company, **Crystal Systems Solutions**, also is expected to dual list.

"We expect this development to increase the volume of Magic trading, making the stock more liquid for investors," said Dan Goldstein, chairman of Magic.

Magic Software Enterprises, a member of the **Formula Group** (Nasdaq: FORTY), develops, markets and supports software development and deployment technology that enables enterprises to accelerate the process of building and deploying applications that can be rapidly customized and integrated with existing systems. Magic technology, applications and professional services are available through a global network of subsidiaries, distributors and Magic solutions partners in approximately 50 countries.

The Formula Group is an international information

technology company principally engaged, through its subsidiaries and affiliates, in providing software consulting services.

### ***America Online Invests in Israeli Valis***

US Internet giant America Online (AOL) has invested in Israeli start-up **Valis**, a leader in the development of content and community tools for the cellular media. Valis' mission is to build the basis for the future evolution of wireless interactive entertainment. This is achieved by the development of specially designed community tools, which use existing technology and do not require any changes in either mobile units or their infrastructure.

The company uses the ability to accurately locate cellular telephone users, enabling community members to know the location of other members, and whether they are available for a chat.

The company has not revealed the size of the AOL investment.

### ***Tel Aviv University signs R&D deal with IMEC***

Tel Aviv University will sign a cooperation arrangement with one of the world's leading microelectronics research and development centers, IMEC of Belgium. The Catholic University of Leuven, situated next to IMEC, in Belgium, will also be party to the joint project. Leuven is an academic center for the European Union. The arrangement will allow Tel Aviv University to improve its chances to obtain European sources of funding for original research projects, to accredit researchers at a higher international level and to permit high-tech companies to access know-how specifically in the field of microelectronics and the next generation integrated circuits. IMEC has a good international reputation in the field of microelectronics and has an annual research budget of 100 million euros. In its research center, IMEC is carrying out R&D in

the fields of design methodology, silicon technology, devices integration and microsystems. Among the companies associated with IMEC's research center are giants such as Philips and Siemens.

## IHTIR Model Portfolio: Company News and Editorial Comments

### ***Retalix Ltd. Announces Q3 2000 Results as Revenues Rise 24 Percent to a Record \$8.1 Million***

Retalix Ltd., (NASDAQ: RTLX), a leading provider of integrated enterprise-wide software solutions for the retail food industry worldwide, formerly known as Point of Sale Limited, announced its operating results for the third quarter ended Sept. 30, 2000.

#### **Shares of Retalix are held in the Israel High-Tech & Investment Report Model Portfolio.**

Net revenues for the three months ended Sept. 30, 2000, were a record \$8.1 million, an increase of 24 percent from \$6.5 million in the third quarter of 1999. The company reported a net loss for the quarter of \$566,000, or (\$0.05) per share, compared to a net profit of \$1.6 million, or \$0.14 per share, in the third quarter of 1999.

The net loss for the third quarter of 2000 as compared to 1999 reflected increased expenditures on research and development and sales and marketing associated with the rollout of the company's Application Service Provider (ASP) initiative in Israel and the U.S. Research and Development expenditures increased 143 percent to \$2.9 million in the third quarter of 2000, from \$1.2 million in the third quarter of 1999.

Sales and marketing expenditures increased 124 percent to \$2.4 million for the third quarter of 2000, from \$1.1 million in 1999.

### ***Precise Software Solutions Ltd. Sells 5.18 mln shares on Nasdaq***

(NASDAQ:PRSE) whose shares form a component of the Israel High-Tech Model Portfolio completed a secondary offering on Nasdaq, selling 5.18 million shares at \$26-3/8 each, an industry source said.

Of the shares offered, 2.59 million shares were offered by the company and the remainder by selling shareholders.

The company had originally planned to offer about 4.25 million shares but decided to increase the amount due to strong demand. A week after the offering the shares traded at \$33. The funds will be used for the acquisition of technology and to expand marketing channels, the source said.

Precise Software Solutions is a provider of information technology infrastructure performance management software. The company's software optimizes the performance of an organization's infrastructure by assisting in detecting performance slowdowns, isolating the root cause, determining the impact on the organization's business and suggesting remedial action before users are impacted.

#### **The Portfolio's Performance**

With the Nasdaq setting a new 52-week low (down below 3000) and the Dow below 10,500 we can only be optimistic about the business progress of the companies in our Model Portfolio. In the past month the performance of **Checkpoint Software Technologies**, a stock that is priced for perfection, has fallen by one third of its value, nearly \$60 a share. "Oh Tempores O Mores" (the times and the customs) said the Romans. CheckPoint is a company whose results over the past two years have always exceeded analysts' expectations. Moreover, the company now holds more than 50% of the global market for internet security products. Sticks and stones may break the bones but words uttered on Wall Street are even more destruc-

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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 11/20/2000: 8.00		
Total:	1,000		\$0.00	\$43,500.00	\$8,000.00	(\$35,500.00)
Check Point Software Tech						
Total:	3,000	CHKP		Price as of 11/20/2000: 112.50		
			\$0.00	\$17,015.62	\$337,500.00	\$320,484.38
Comverse Technology, Inc.						
Total:	1,000	CMVT		Price as of 11/20/2000: 92.44		
			\$0.00	\$58,109.50	\$92,440.00	\$34,330.50
Gilat Satellite Networks						
Total:	1,000	GILTF		Price as of 11/20/2000: 41.00		
			\$0.00	\$56,125.00	\$41,000.00	(\$15,125.00)
Point of Sale Ltd.						
Total:	7,800	POSI		Price as of 11/20/2000: 17.00		
			\$0.00	\$49,725.00	\$132,600.00	\$82,875.00
Precise Software						
Total:	2,000	PRSE		Price as of 11/20/2000: 33.50		
			\$0.00	\$51,234.00	\$67,000.00	\$15,766.00
IHTIR Model Portfolio			\$0.00	\$275,709.12	\$678,540.00	\$402,830.88

### IHTIR Model Portfolio Investment Summary

<b>Original Assumed Investment at the Start of 1999 was</b>	<b>\$ 246,850</b>
<b>Total Current Value</b>	<b>\$ 678,540</b>
<b>Gain</b>	<b>\$ 431,690 +174.9%</b>

\*valued as of November 20, 2000

tive. Perhaps, the fall in Nasdaq has come about due to the comments and reports from Wall Street analysts' with their worries about earnings, the uncertainty about the outcome of the American presidential election or even about the Middle East violence. One thing is clear that when the Electronic Herd begins to sell it attracts followers. Seasoned investors apply the use of options to lock in their profits but this is not recommended except for professional investors or seasoned money managers. We believe that we can best serve our subscribers by pointing to emerging changes in the business direction of the portfolio companies. Another way is to drop a holding which we believe loses its edge due to competition or inability to carry out its business plan. That is not to say that the portfolio is only useful for the "value/long-term investor. When we introduce a new holding as we recently did with Precise Software, it indicates that we believe that it is a timely inclusion. A speculator could consider our move as good entry point. The traditional November rally has been frittered away for the reason mentioned above. US tax selling may put additional pressure on Nasdaq prices but we are now carefully looking at shares which represent good long term value at prices which are knocked down from the spring of 2000 levels.

### ***Flexlight raises \$9 million in Seed Money***

The Israeli start-up company Flexlight, a developer of optic networks, has raised \$9 million in seed money from Israeli venture capital fund Concord and from the US Coral Ventures. This round of capital-raising has netted one of the largest sums ever reported in Israel for seed money.

Flexlight was founded by two former executives from ECI Telecom, Yossi Errol, who was a supervisor of optic networks product management at ECI, and Oren Marmor, who worked as a systems engineering manager in the company's optic networks department. Flexlight develops comprehensive platforms for optical communications between a central office (regional communications switchboard) and local communications points (an optical communications center in an office building or a

campus). The company is developing solutions for this optical sub-network, including products that will be used by the communications provider and products used by the end user. Sources at Flexlight estimate that the market is currently worth about \$1.1 billion and will reach \$2.5 billion by 2004. The network proposed by Flexlight facilitates the transmission of all existing types of services as well as those planned for the future.

### ***From Concept to Clinic***

Israel's Chaim Sheba Medical Center has joined forces with Aran R&D Ltd. to provide a one-source solution for medical device companies and professionals seeking to transform innovative product ideas into viable medical devices.

The venture offers in-house scientific and business support to guide the project from inception, through development, to realization.

### ***Average Weekly Surfing Time in Israel 8 hours***

A leading Israeli Hebrew daily newspaper reports that Internet site Walla! continues to be the most frequently visited site. 22% of the Israeli population surfing the Internet say Walla! is their main site. Yahoo! and Nana each held a 10% share of the Israeli Internet sites market. The figures are part of a survey conducted by the Shiluv Research Institute. The survey also reveals that most surfing is done from home. 23% of the population surfs from home, compared with 5% who surf at work. 10% of the population surf both from home and from work, compared with 62% who don't surf at all. Shiluv compiled the survey from a random national sampling of 991 interviewees aged 18 and up, among the Hebrew-speaking Jewish population.

Most Israeli surfers (53%) are light surfers (1-3 hours a week). 33% surf 4-10 hours a week, and only 14% surf 11 hours a week or more. The average weekly number of hours surfed in Israel is slightly more than 8 hours.