

# **ISRAEL HIGH-TECH & INVESTMENT REPORT**

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## **Meet Israel's Venture Capital Industry 12000% Growth in 13 Years**

Due to lack of venture or any other capital on its home turf Israeli companies in the 70s turned to Wall Street to fuel their expansion. At that time the short-list of Wall Street companies who raised funds for their activities on Wall Street included BioTechnology General, Elbit Computers, Electronics Corporation of Israel (ECI), Elron Electronics Industries, Elscint, Fibronics, InterPharm, Laser Industries, Optrotech, Scitex and IIS Intelligent Information Systems. On September 30, 1984 the total stock market valuation of these companies stood at \$780 million. In 1997 the Israel Ventures Association handbook listed that 22 Israeli public offerings in the US raised \$743 million.

The first generation of venture capital funds began to operate in the late 1980s and this movement accelerated in 1990s. Local and international "money men" were noticing that Israel had become second only to the United States with its 1 number of start-up companies. The conclusion was reached that there existed a pool of entrepreneurial capabilities and a continuous flow of new ideas within Israel. In view of the modest beginnings of the Israeli venture capital industry it is mind boggling that as of December 1997 Israeli technology and private equity funds had raised \$2.1 billion of which \$1.2 billion had been invested and \$900 million remained to be invested.

The explosive boom in startups has attracted the nucleus of an expanding venture capital industry.

There are 85 venture capital firms active in Israel. Technology venture capital funds have raised between 1991-1997 more than \$1.5 billion.

The Israel venture capital industry was born in 1985. At the time it was a remarkable birth yet inconspicuous. In retrospect, as some babies tend to be, it was amazingly small, highly precocious but long on hope and full of promise. The infant was christened- Athena Venture Partners. Athena's managing partner was a past Commander of Israel's Air Force Dan Tolkowsky. Another partner Fred Adler, was one of America's premier venture capitalists who had assisted several Israeli companies in raising capital on NASDAQ. Glen Tobias, a General Partner at Bear Stearns helped to structure the fund which raised \$25 million. Glen Tobias wrote to the Israel High-Tech and Investment Report at the time, "Athena Venture Partners

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represents an attractive investment opportunity to participate in quality high-technology companies at the venture capital stage, with an emphasis on such companies based in Israel". The "high-tech sector" we wrote in our Issue 1, January 1985, "crowned by enthusiasm, engendered by the successes already achieved, has created an encouraging environment for its further rapid growth and expansion. It provides an atmosphere which can nurture the dreams of young scientists, investors and entrepreneurs, with the dreams being turned into the realities of tomorrow".

At the same time there began a continuing and harmonious interaction between the Israeli Government and hi-tech entrepreneurship. It undoubtedly accelerated the successful development of all stages of the "smart" industries, including academic, R&D, transition to com-

mmercialization, and venture capital - the business development catalyst.

An expression of that support is the Government of Israel research and development (R&D) budget of \$400 mln. The R&D expenditure represents 2.2% of Israel's Gross Domestic Product, according to data published by the Central Bureau of Statistics. The funding subsidizes the average startup with about \$150,000a year.

On a percentage basis the business sector, primarily high-tech industries accounted for 46% of the total. 37% was allocated for R&D in the country's universities, 10% for government and 7% for non-profit organizations.

The recent resounding and high profile acquisitions of Israeli high-technology companies by America OnLine and Platinum and will undoubtedly add to the impetus to launch a

## The Bottom Line

- \* 2,500 Hi-tech Start-ups currently active in Israel
  - \* Over 80 Venture Capital Funds managing about \$3 bln. dedicated exclusively to hi-tech investments - representing more per capita than any other country or continent on the globe
  - \* Massive presence in Israel of American Investment Banks specializing in hi-tech
  - \* More companies on NASDAQ, the chief exit for venture capital funds, than any other country outside of North America
- Israel Venture Association

second generation of venture capital funds with capital of \$100 million, or more. The business press now regularly quotes heads of venture capital management companies. Many of these, if not household names, have become prominent due to their ability to spot "a good deal". Giza, Veritas, Evergreen, Dovrat/Schrem, Clal Venture, Challenger, Comverse, Apax-Leumi, Jerusalem Venture, Kardan, Marathon, Medica Ventures, Neurone, Medmax, Mofet, Ofer, Shirat, Renaissance and Walden have shown that they have the ability to attract foreign capital and invest

the major trends evident in Israeli venture capital. "There is tendency to address 'earlier stage' enterprises that require more management attention. More venture capital funds are creating internal structures which can provide management assistance along with capital. Another trend is the growth in size of individual funds who can provide funding at later stages when greater sums are generally required," Mr. Manor points out. Just as Israeli companies look to attracting foreign strategic partners so foreign financial groups seek suitable Israeli partners with

## SUPERPOWER

Israel is rightfully acknowledged as a superpower in the field of Internet software. Companies such as Unique, with its super technology to compress a movie so that it can be seen on a computer screen; CheckPoint with a world leading market share of Internet protection from unauthorized intrusion and most recently Mirabilis with its friendly ability for Internet users to communicate with each other when online are among visible examples. The Internet culture among young Israelis is widespread and mushrooming. It begins at birth and gets its greatest impetus during the period of army service. Comfy produced a keyboard which allows toddlers to connect and activate games on the Internet. In due course Israelis undergo a compulsory three year period of army service. Shortly after entering the army they find out that Israeli Defense Forces select the most talented among them and train them electronics and software at the most advanced technical levels. By the time they complete service they are "well cooked" and ready to apply their expertise to civilian pursuits. Computer software programming, the application of algorithms to compress text, data and data encryption skills and telecommunications know-how are useful skills to bring to a job and invaluable for entrepreneurs who decide to strike out on their own. The lightning like appearance of Israel as a superpower on the international Internet software scene should not be misconstrued as a passing phenomenon

it in the expanding sea of the universe of Israeli high-tech. What gave credence to these activities were the outlandishly bountiful rewards garnered from venture capital backed companies such as ESC Medical, Gilat Satellite, Mirabilis and most recently Memco. The Israel High-Tech & Investment Report asked Eliezer Manor, the Executive Director of the Israeli Venture Association to pinpoint

whom to co-invest in high-tech investments. Israel's Clal Group recently announced that together with the French Banque Nationale de Paris and Rind Butler Group of the US it has established the "Omega" Capital Venture Fund, amounting to \$100 million. The fund will invest in Israeli high tech companies, with the cooperation of US and French companies. Clal is to make connections with Israeli com-

panies, and experts from technological and financial fields. Hillel Milo, who founded the Clal Capital Venture Fund in 1995, has been appointed the fund's CEO.

The Zisapel brothers founders of the RAD Group of companies, a group of companies specializing in electronics and computer communication with a turnover in excess of \$500 million, are forming the RAD Ventures Fund which aims to raise \$100 million from local and foreign investors for investment in Israeli computer, telecommunication, intranet and internet companies.

The local venture capital industry will be on

full display in mid-September when the Israel Venture Association hosts an International Conference on high-tech venture capital. Israeli Companies on Wall Street Gilat Smart Investors' Favorite Reports Record Sales for 2Q 1998 Gilat Satellite Networks Ltd. (NASDAQ: GILTF) announced revenues of \$34.6 million for the second

quarter ended June 30, 1998, a 37 percent increase over the same period in 1997, when

the company had sales of \$25.3 million. Revenues for the six months ended June 30, 1998, were \$65.6 million, a 42 percent increase over the first half of 1997, when the Gilat had sales of \$46.3 million. Operating income was \$10.3 million, compared with \$6.3 million for the first six months of 1997, while net income was \$9.3 million (\$.081 per share), compared with \$6.9 million (\$.061 per share) for the same period last year. Operating income increased by 64 percent between the first half of 1997 and the first half of 1998, while net income increased by 36 percent. The earnings forecasts on Wall Street are being raised to \$2.12

per share from \$2.05 for 1998. The 12-month price target for Gilat is above \$50. Gilat has been a favorite of the Israel High-Tech & Investment Report for more than a decade. Gilat also reported that PageNet, one of the largest paging operators in the US, has chosen an enhanced version of Skystar Advantage (TM) to facilitate the communication of

## MEMCO & PLATINUM: ANOTHER BLOCKBUSTER DEAL

MEMCO Software, a leading provider of information security software, signed a definitive agreement to merge with Platinum Technology, a major provider of IT infrastructure management software. The combined offerings of both companies is expected to provide an advanced solutions for protecting enterprise networks, databases, and systems across multiple platforms. The transaction's value is in excess of \$500 million and as a result MEMCO will become a wholly-owned subsidiary of Platinum. Platinum will exchange 0.836 shares of PLATINUM common stock or \$26 per each share of MEMCO Software. Platinum CFO Michael Cullinane said he expects the software company's agreed acquisition of MEMCO Software to boost 1999 earnings by \$0.01 to \$0.05 a share. "Going forward we see more of a boost to earnings," he added. "I think security is a very significant area in which we will play a dominant role." Cullinane said Platinum expects to be able to cut Memco's expenses by 20%, which will likely include layoffs. He declined to project how many jobs may be cut, but said most acquisition-related redundancies are in the finance and administration areas. Memco's fundamentals remain strong, Memco shares are unlikely to trade based on their fundamentals, but rather to trade in line with Platinum until the acquisition closes in early 1999.

Narrowband Personal Communication Services (NPCS), commonly called "two-way

paging". In 1994, the US Federal Communication Commission issued licenses to service providers such as PageNet for a segment of spectrum dedicated to two-way paging. NPC-Skystar is intended to serve as a satellite-based infrastructure linking the geographically dispersed base stations in the new NPC networks. Narrowband services include acknowledged message delivery, the ability to preprogram responses, message initiation from the paging unit, use of the paging device as a wireless modem and transmission of news headlines or stock quotes directly to the pager.

PageNet is a wireless information provider serving more than 10.4 million subscribers in the United States, Canada, and Spain through an extensive network of sales and service offices, resellers and affiliates. PageNet offers text and numeric messaging with local, regional and nationwide coverage options. PageNet also provides broadcast and personalized information services, including exclusive CNN news, sports and financial updates. In an unrelated development Gilat has been chosen by Kazak Telecom to supply satellite telephony equipment for Kazakstan's Nationwide Satellite Network Project. Gilat will deliver several hundred FaraWay(TM) VSATS, to serve as the foundation for Kazakstan's satellite telephony infrastructure. The deal is worth an estimated \$6.2 million to Gilat, with most of the delivery expected within a year.

**CheckPoint Profits Exceed Expectations**  
Check Point Software Technologies Ltd. (Nasdaq:CHKPF) announced record financial results for the Q2, 1998. Net revenues for the quarter were \$34.3 mil. compared with \$18.0 mil. for the same period in 1997, an increase of 90%.

Net income for the quarter was \$19.2 mil., or \$0.50 per share (diluted), compared with net

income of \$7.4 mil., or \$0.20 per share the same period in 1997, an increase of 158% in net income and 150% in net income per share. In the second quarter, the main sources of revenues and profits for Check Point's were enterprise security and virtual private networking, or VPNs.

During the second quarter, the company's total installed base crossed the 51,000 mark, with more than 8,500 networks worldwide now using its award-winning VPN solution.

In the week following the earnings announcement selling dropped the price of the shares from \$32 to \$25. The decline was attributed to option expirations and expectations that the company's Q3 results will be considerably lower than analyst expectations.

#### **LanOptics and RadLan in Joint Development**

LanOptics Ltd. (NASDAQ: LNOPF), marketer of Fast Ethernet and Gigabit Ethernet Switches and Internet applications, and RAD-LAN Computer Communications Ltd., a manufacturer of distributed multi-layer switching products, announced the signing of a joint development agreement for a new generation of multi-layer Ethernet routing switches. The switch will be marketed by each company under its own label.

#### **NATO Group Orders BVR ACMI**

BVR Tech Ltd. said it had won a contract to supply its EHUD fourth generation air combat manoeuvring instrumentation system (ACMI) to a NATO training hub in Belgium. BVR's German strategic partner, Bodenseewerk Geratetechnik GMBH (BGT), won the contract for the system, which will be supplied to the Tactical Leadership Program (TLP) facility.

BVR did not disclose the value of the deal, but said that, including the contract, the company's defense backlog amounts to \$62.5 mil-

lion.

#### **Lucent to Buy Lannet for \$117mil.**

Lucent Technologies, North America's largest producer of phone equipment, announced that it will acquire Tel Aviv-based Lannet for \$117 mil. in cash from UK-based Madge Networks N.V.

Lannet, which produces local area networks and data communications products, was acquired by Madge Networks in November 1995 for \$300 mil.

Bill O'Shea, president of Lucent's Data Networking Systems group, said his company is interested in the Israeli firm because of its international customer base and strong sales channels, particularly in Europe, where Lucent is trying to expand its activities. He added that Lannet's products are complementary to Lucent's data networking product line. In addition, Lannet's workers, technology and location could be important assets for Lucent, he said.

Following the deal, Lannet will become part of Lucent's Enterprise Infrastructure Products Group (EIPG). The company's CEO, Shmuel Levy, will join Lucent as president of the EIPG Israel Technology Center. Lucent said that Lannet's center of operations will remain in Israel. "We are pleased to have a center of excellence in Israel, which is a high-tech hot spot, to complement our data networking assets in New Jersey, Silicon Valley and the Boston-Washington corridor," O'Shea said.

The center will be Lucent's first development center in Israel. Earlier this year, Lucent made a \$6 million investment, amounting to a 20% stake, in WaveAccess, a high-speed wireless Internet-access technology company, also based in Israel. Lucent's revenues for the nine months ended June 30, 1998 were \$22.1 bln..

#### **Point of Sale Limited Concludes IPO After Accepting Low \$7 Pricing**

Point of Sale Limited (NASDAQ:POSIF) on July 10 concluded its initial public offering on the U.S. Nasdaq National Market of 2,750,000 ordinary shares, including 2,200,000 shares offered by the company and 550,000 shares offered by selling shareholders.

The company's stock was issued at \$7.00 per share with high-tech specialist Hambrecht & Quist LLC as lead manager. The deal was priced at \$7, well below its \$9-\$11 projected price range, and the number of shares on the deal were lowered to 2.75 million from 3.63 million. Prior to the American issue Point of Sale shares had traded on the Tel-Aviv Stock Exchange (TASE) \$8.75. The Israeli shares fell by more than 18% the next day and by as much as 40% at one point in the 30 day period after the IPO.

The handling of the issue with the subsequent fall of prices on the Tel-Aviv Stock Exchange came under widespread criticism on the part of Israeli shareholders and the local financial press. The consensus was that the POSIF management could have handled the IPO in a more mature manner and that the offering, in view of the dismal market conditions, could have been delayed.

The company realized \$14,322,000 and paid \$1,347,000 in underwriting discounts. "The pricing of the issue was a disaster but we fulfilled our goal for raising the funds and are confident of applying these funds constructively and to increase our profits from activities in the US," said Brian Cooper, PoS' CFO to the Israel High-Tech & Investment Report. Prior to the IPO, the shares were trading at a P/E ratio of 23 x estimated 1998 earnings of \$0.38 a share. At a recent P/E ratio of 14 times \$0.38 estimated earnings a share for

1998 PoS could become attractive if the company can maintain a sales and profit gain of 30-40%, as is expected of high-growth companies.

#### **Intel to Include Zoran's DVD Software**

Zoran said that Intel is including Zoran's digital video disk (DVD) software in graphics cards Intel sells to computer makers. Shipments began this summer. Zoran's SoftDVD allows PC users playback of-better-than laser disc quality DVD movies on their PCs.

#### **BTGC Earnings and Sales Higher**

BioTech General, a profitable US based biotechnology company, with most of its R&D carried out in Israel, reported 2Q EPS of \$0.09 vsats. \$0.08 per share in the prior year, on revenues of \$18.6 mln. vsats. \$15.7 mln. in 1997. The company has received approval from the FDA for the marketing of BioLon in the United States and this brings to 25 the number of countries where BioLon has been approved. BioTech said the U.S. market for sodium hyaluronate products used in these ophthalmic surgical procedures is about \$100 mln. a year.

#### **MEDIS EI**

reported 2Q EPS loss of (\$0.07) vsats. a loss of (\$0.08) per share in the prior year

#### **PEC Israel Economic Corporation**

reported 2Q EPS of \$0.36 vsats. \$0.67 on revenues of \$13.8 mln. vsats. \$19.6 mln. last year.

#### **Cimatron**

reported 2Q EPS of \$0.06 vsats. \$0.13 on revenues of \$5.6 mln. vsats. \$4.5 mln. last year.

#### **ECI Telecom**

reported 2Q EPS of \$0.52 vsats. \$0.39 on revenues of \$197.0 mln. vsats. \$162.2 mln. last year. Analysts' mean estimates were \$0.49, according to First Call.

#### **Air Service Expanded**

Israel's Knafaim-Arkia Holdings Ltd. said it purchased \$180 mln. in new aircraft and was investing in a Nigerian joint venture as part of plans to expand its passenger and cargo operations. Knafaim said it purchased two BOEING CO 757-300 planes for \$125 mln. that would be used for charter flights to Europe and three ATR 72-seat planes for \$55 mln. from Aerospatiale for domestic and regional flights. In a third deal Knafaim invested \$2.5 mln. for a 30% stake in a joint venture Nigerian domestic airline.

#### **Teva News**

Teva Pharmaceutical Industries whose shares have reacted and move downwards in response to poorer than expected Copaxone sales said it had raised \$110 million in a private offering of senior notes to institutional investors in the United States. The securities, with maturities ranging from 2005 to 2018, bear an average interest rate of 6.9 percent. The company also reported that it received approval from the FDA to manufacture and market Diclofenac Potassium, a generic rheumatism treatment. The drug will be the first generic version of Novartis Pharma's Cataflam to hit the market. Teva said annual sales of Cataflam are \$100 million and added that it had 13 drugs in the pipeline for U.S. FDA approval. It said that they would be an important factor in improving company earnings.

#### **Geotek Seeks Protection Under Chapter 11**

Geotek Communications Inc., a one time high-flyer whose communications business was based on military technology said that it filed voluntary petitions seeking protection under Chapter 11 of the Bankruptcy Code. The company also said it obtained \$10.0 million in debtor-in-possession financing, which coupled with the bankruptcy filing, should allow Geot-

ek to conduct business while it attempts either to reorganize with creditors or find a strategic buyer for its business. Subject to court approval, Geotek said it will use all operating revenues, in addition to the \$10.0 million in financing from S-C Rig Investments III, L.P., an affiliate of the Soros Group, in order to continue operations.

### **International Economic Conference**

At the International Economic Conference, held recently in Israel, Robert Hurst, a vice-chairman of the American investment bank Goldman, Sachs, said Israel heads the list of countries where his firm sees real opportunities for consulting, research and capital-raising.

Robert Hormets, another Goldman, Sachs executive, said Israel has one of the most internationally well-connected economies in the world, as well as having many other positive traits that give it great growth potential. For instance, Israel gets very high marks from international rating agencies in areas such as technology and infrastructure.

Israel is second only to the United States in the number of research institutes, he said, and second only to Germany in percentage of engineers in its population. The International Economic Forum ranked Israel fourth in its ability to absorb new technologies.

However, Hormets added, the government's role in the economy continues to be too large, even when compared to less developed countries.

Bank of Israel Governor Jacob Frenkel, who chaired the globalization session, stressed that the only solutions to the main problems facing the economy today -- low growth and high unemployment -- in the long term.

Professor Haim Ben-Shahar noted that the government's inflation target for 1998, of 7 percent to 10 percent, already is outdated,

because inflation is running at a level of 3 percent to 4 percent. He called on the government to utilize this opportunity to lower its target to 2 percent to 4 percent.

However, he said, the government also must work to gradually lower real interest rates. Ben-Shahar said the "crawling peg" exchange rate mechanism, under which the shekel is permitted to fluctuate freely within a defined band, also has become anachronistic, and should be abolished. The time has come for the shekel to be allowed to float freely, he said. There is a good chance of a real depreciation of the shekel in the coming months, he added.

## **SCIENCE CORNER**

### **Sudden Climate Warming Took Place in Africa 2,000 Years Ago Weizmann Institute Study Reveals**

A sudden warming of climate lasting several centuries took place in equatorial Africa some 2,000 years ago, according to a new study reported by a Weizmann Institute-led team in the August 14 issue of *Science*. The scientists performed an isotopic analysis of the sediments from Hausberg Tarn, a small lake at an altitude of 4,350 meters on a slope of Mt. Kenya, a dormant volcano in East Africa whose top (at 4,600-4,700 meters) is covered by permanent glaciers. They found that a rapid and significant warming of lake water - by about 4 degrees centigrade - took place between the years 350 BCE and 450 AD, reflecting a warming of climate in equatorial East Africa. This study helps determine how the climate fluctuated naturally long before modern industries began releasing large quantities of greenhouse gases into the atmosphere. Such research may, in turn, throw light on today's climate. It may allow scientists to distinguish between natural climate variability and the global warming believed to be affecting our planet in recent years due to man-



made factors. "Our findings show that the climate can warm up suddenly without any connection to human activity," says research leader Prof. Aldo Shemesh, head of the Environmental Sciences and Energy Research Department at the Weizmann Institute of Science. He conducted the study with Prof. Wibjorn Karlen of the University of Stockholm in Sweden and Weizmann Institute graduate student Miri Rietti-Shati. "Documenting climatic changes that took place in the past in various parts of the globe may help scientists make more precise predictions about the potential effects of modern activity on the climate of the future," Shemesh says. While periods of ancient warming have been identified in numerous parts of the world, the new study makes a unique contribution to this area of research because it was conducted on the equator, a region that plays a crucial role in determining the climate system throughout the planet. Moreover, it is the first quantitative assessment of a past warming period on the equator to be performed at such a high altitude, where evidence of past climate changes is particularly difficult to ascertain due to the close proximity of mountain glaciers. Mt. Kenya's hidden "archive" The scientists, accompanied by local porters, reached Hausberg Tarn following a long and arduous hike lasting several days. Using boats and special drilling equipment they carried with them, they obtained a nearly 2-meter-long core of sediment from the bottom of the lake. This sediment, containing fossil algae deposits, was later analyzed at the Weizmann Institute. Using carbon-14 dating, the scientists first determined that the core contained deposits which had accumulated over 3,000 years, between 2,250 BCE and 750 AD. Then, using a new method developed by Prof. Shemesh, the researchers studied the ratio of oxygen isotopes in the remains of the algae skeletons,

called biogenic opal, which accumulated in the sediment. Isotopes are versions of the same element that are almost identical in their chemical properties but differ in weight and in other physical properties. Thus, for example, the most common isotope of oxygen is O-16, but there is also a heavier oxygen isotope, O-18. The relative quantities of these two oxygen isotopes in biogenic opal are the result of climatic conditions prevalent in the area when the sediment formed; they reflect the lake's temperature and the isotopic composition of its water at the time of sediment deposition. Thus, when the water was cooler, the opal contained relatively more O-18 compared with O-16. By studying the ratio of the isotopes, the scientists were able to identify the period of sudden warming. This research has also established that the measurement of biogenic-opal oxygen isotopes in lake sediments is a unique and valuable way to investigate past climate. "Our research has shown that sediments from high-altitude lakes provide a unique isotopic archive of climatic changes," Shemesh says. The scientists note in their paper that the warming on Mt. Kenya may have been part of a more global climatic phenomenon because a warm period occurring during approximately the same period had been recorded in two other parts of the world - in the Swedish part of Lapland and in the northeastern St. Elias Mountains (southern Yukon Territory and Alaska).

#### **Supercom to Issue Passports in Britain**

Israeli company Supercom has won a tender published by Her Majesty's Stationery Office, the British government printer, to print passports for British citizens for the next four years. Supercom general manager Eli Rosen said that the company won the tender thanks to the technology it developed which prints documents that cannot be forged. He said the

deal was worth \$5 million over four years. Rosen refused to disclose details of the quantity of passports the company will print, as the matter is considered a British state secret. Nevertheless, the Home Office estimated that, up to the end of 1999, some four million passports would be issued using the new method. British Home Secretary Mike O'Brien said the new technology, based on a patent registered by Supercom, would make forgery of the passport bearer's photograph and signature impossible. Supercom won the project in conjunction with Siemens of Germany. It is expected to go ahead at the end of 1998. In the course of the project, Siemens will cooperate with the British Passport Office in collating applications and gathering the information required to issue passports. At the same time, the printing itself will be carried out by Supercom in cooperation with Her Majesty's Stationery Office.

Supercom was set up in 1998 by four private founders. It has developed several new technologies, including unforgeable digital printing, and a smart card containing a picture and personal details that can transfer information without physical contact.

Supercom is currently preparing for a NASDAQ issue which is expected later this year.

#### **Clal Electronics Acquires 10% of MediaGate, 6% of Nanomotion**

Clal Electronics Industries (CEI) has signed an agreement under which it will invest close to \$6 mil. million in MediaGate, in return for 10% of the company's shares. The purchase took place as part of a \$10 million capital raising. MediaGate's major shareholders are Elron and the company's founders. MediaGate has developed Internet access services via modem, telephone, fax, pagers and conference calls. MediaGate server provides users a central mail box for all electronic mail, cellular telephone,

fax, pager, ICQ, Interfone and Faxfone messages. All these messages can be heard on the telephone, including written messages, or alternatively, through the Internet browser. The product is designed for Internet service providers. CEI also has invested \$3.5 mil. in Nanomotion, as part of a \$10 mil. capital raising. CEI held 14% of the company's capital, and following the investment, its holdings will increase to 20% of the company. Nanomotion develops innovative tiny precision motors. The company's shareholders are the Marathon, Polaris and Mofet funds.

#### **Elron Electronics**

reported 2Q EPS of \$0.15 vsats. \$0.32 in prior year period, on revenues of \$8.78 mln.. vsats. \$7.70 mln.. Analysts' mean estimates were \$0.03, according to First Call. The company's shares are trading at a 25% discount to their net asset value (NAV) of more than \$23 a share. Elron's basket of young companies is expected to contain several that are expected to go public in the next 12-24 months.

#### **INDIGO**

has reported a 2Q EPS loss of (\$0.07) vsats.(\$0.23) on revenues of \$33.0 mln.. vsats.\$23.8 mln.. last year. Analysts' mean estimates were (\$0.10), according to First Call.

#### **Pharmos**

Pharmos Corp. said it will record about \$900,000 in net product revenue in the second quarter. Pharmos did not report any revenues for the first quarter of 1998 or 1997.. The majority of second quarter net revenue is from shipments of Lotemax and Alrex, two ophthalmic products. Food and Drug Administration approval for both products was received on March 9 of this year.

The company reported a first quarter loss of \$2.3 million, or \$0.06 per share, in 1998, ver-

sus a loss of \$2.6 million, or \$0.08 per share, a year earlier. Pharmos is a pharmaceutical company involved in the development and commercialization of proprietary products.

#### **NICE Systems Ltd.**

NICE Systems Ltd. (NASDAQ: NICEY), a leading global provider of CTI recording and quality measurement solutions, reported second quarter 1998 revenues increased 60 percent to \$24.0 million compared with \$15.0 million for the second quarter of 1997. Net income rose 106 percent to \$5.1 million from \$2.5 million in the same quarter last year, (excluding one-time charges related to an and the write-off of certain assets resulting from the move of the company's headquarters to its new facilities in Ra'anana, Israel.) Taking into consideration the one-time charges of \$9.0 million, net loss for the quarter was \$4.0 million. The gross profit for the second quarter rose 62 percent to \$13.8 million from \$8.5 million in same quarter last year. Operating profit, net of one-time charges, gained 61 percent to \$3.7 million from \$2.3 million for the year-ago second quarter.

"The strategic decision to focus on call centers in 1998, highlighted by the acquisition of Dees Communications last year and the acquisition of the assets of IBS this quarter, is paying off handsomely. Our leading position in the North American call center market is consistent with NICE's dominance in the financial institutions and the air traffic control markets." Stated a NICE executive. For the second quarter of 1998, the company's North American revenues accounted for 49 percent of total sales. Revenues generated in Europe and in the rest of the world accounted for 31 percent, and 20 percent of total sales, respectively.

NICE Systems' products meet the increasing demands of financial institutions, voice call

centers, securities traders, air traffic control sites, public safety, security, transportation and utility organizations. The company also develops and markets communications intelligence (COMINT) systems for government agencies. NICE Systems is headquartered in Tel Aviv, with a US subsidiary based in New Jersey, a Canadian subsidiary based in Vancouver, BC, and a German subsidiary based in Frankfurt.

#### **VOCALTEC COMMUNICATIONS LTD**

reported 2Q EPS loss of (\$1.10) after charge vsats. . (\$0.24) on revenues of \$5.9 mln.. vsats. . \$3.4 mln.. last year. Analysts' mean estimates were (\$0.25), according to First Call. The company said 2Q 1998 results include a charge of \$9.7 million related to research and development write-offs.

#### **TECHNOMATIX TECHNOLOGIES**

reported 2Q EPS of \$0.26 vsats. . \$0.27 in prior year period, on revenues of \$17.1 mln.. vsats. . \$13.9 mln... Analysts' mean estimates were \$0.26, according to First Call. Technomatix said that results for the 2Q of 1998 were negatively impacted by the strong dollar. In constant currencies, revenue growth would have been 29% and EPS would have been four cents higher than actually reported for the quarter, it said.

#### **Possible Merger**

Koor Industries (NYSE:KOR) is considering merging its TADIRAN TELECOMMUNICATIONS subsidiary into its ECI TELECOM LTD unit, sources close to Koor said. Management is looking at a whole set of potential opportunities in the telecommunications sector and a merger between ECI and Tadiran is one of the possibilities being discussed..

#### **Electric Fuel. and General Electric**

will jointly develop a new all-electric, battery propulsion system for powering electric buses and heavy duty trucks. The first application

for the system will be an all electric, zero emission, full size transit bus. The two companies have recently been awarded funding from the Israeli-U.S. Bi-national Industrial Research and Development (BIRD) Foundation for the joint development of the electric propulsion system.

#### **Orckit Communications Tipped**

Orckit (NASDAQ:ORCTF) was rated new buy by analyst Steven Levy at Lehman Brothers Inc. Levy said Orckit is well-positioned to supply bandwidth-expansion equipment to telephone companies worldwide, for which demand is increasing, because of its alliances with other companies, such as Fujitsu Ltd. The two companies recently won a \$100 million equipment order from GTE Corp.

#### **Tadiran Reports**

2Q EPS of \$0.88 vsats. \$0.72 per share in the prior year, on revenues of \$313 mln. vsats. \$299 mln.. in 1997. Analysts' mean estimates were \$0.76, according to First Call.

#### **Force is the Only Reply to Terrorism**

Seven years ago the forces of the free world, led by the US waged a war against Iraq, called Desert Storm . The Government of Israel in coordination with the US agreed to a policy of non-retaliation to Iraq in spite of the Scud attacks on Israel and mostly on Tel-Aviv. There were 40 missiles which landed mostly in the Tel-Aviv area. After the war and until this day many of us know that it was a mistake not to retaliate since the Scud missiles that reigned on this city were a form of terrorism.

Terrorism in the Middle East, in the Israeli lexicon calls for military retaliation. While responses by force have not brought Peace to Israel we are confident that they have reduced loss of life and property. Terrorists do not think as normal people do but they do understand force. The unleashing of Tomahawk

cruise missiles armed with high-explosive warhead and traveling slightly faster than the speed of sound on terrorist targets was a minimal response to the terrorist acts on American, Kenyan and Tasmanian people. It is unlikely that the strikes on the terrorist training camps in Afghanistan and the destruction in Sudan, of a chemical weapons plant will mark the end of terrorism against the US but the message is that the US is determined to respond in the only way which terrorists understand. It is hoped that the American response will send a clear message that the old non-retaliatory policy of treating terrorists as criminals, considering their acts of violence as crimes, and making every effort to apprehend international terrorists who attack U.S. citizens or interests so that they are prosecuted according to the rule of law, is over. The message is that terrorism and terrorists will no longer be treated by "rules of law" which are intended for people who live within the realm of social and international law.

#### **Keep in Touch**

For nearly fourteen years we have featured in print, news of business and investment opportunities related to the Israeli technology sector. The goal then as today is to provide a conduit of information from Israel to the rest of the world. Our subscribers, many of them loyal readers for more than a decade joined us in the past year by means of the Internet.

We invite the conference attendees to visit our website <http://www.ishitech.co.il>

Our Israel High-Tech & Investment Report website is being visited by individuals from no fewer than 29 countries. We proudly note that the Report is featured on the NASDAQ website as well as on the popular Virtual Jerusalem website. Our global exposure is grows as we maintain our credibility by maintaining a flow of objective information.