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The Anatomy of a Technology Startup

Innovation and technology are evolving to bring many benefits to the way the business world carries out its activities. A young startup, "Onset Technology, Inc." (Onset), has developed and is currently rolling out a software program which links the traditional facsimile to the modern E-mail. The result is major step-up in office communications efficiency and the likelihood that Onset may create for itself an important marketshare in a segment of the business communications industry.

The small but very smart company, is developing a package with the capability to provide voice, fax and E-mail in a single mailbox. Onset Technology Inc. was founded by Israeli Gadi Mazor who during his army service became acquainted with the power of algorithms when applied to telecommunications problem solving. Prior to founding Onset in 1997 Mazor, under the aegis of the BIRD-Foundation, provided risk-free R&D services. The customer would only pay his participation cost in the program if satisfied with the results. The entrepreneurial no-risk approach to American companies proved a success. After he repaid the first of a series of grants in nine months the BIRD-Foundation encouraged Mazor to continue this activity. One of the companies was Caere which eventually became a strategic partner in Onset.

Onset focuses on developing products that enable the next phase in human interaction with computers - the automatic interpretation, or recognition, of text and voice data and commands. It develops and markets automatic-recognition products that help users communicate with their computers. Automatic-recognition tools are software products that recognize and interpret text and voice data and convert them into digital format. Onset's highly proprietary technology relates to context-related recognition using probabilis-

tic algorithms. It applies this technology to low-resolution image interpretation, thus improving optical character recognition (OCR), enhancing color processing, and enabling application-specific recognition. Onset also applies the same core technology to speaker-independent voice recognition, enabling efficient voice compression, voice over data, and hands-free dialing.

Background

Facsimile is so commonly used that it is taken for granted. Yet is a highly complex technology of communication. Facsimile is the communication of a photograph, or written or typewritten characteristics by electrical means over usually fairly long distances.

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The information is converted into signal waves and entered into the transmission system. At a remote receiving point, a receiver reconverts the information signal into a copy of the original material.

Facsimile is widely used in the United States. There 40% of US phone charges are accounted for by fax usage. The facsimile market is very appealing because there are 500 million users worldwide. E-mail, by contrast, is the most commonly used Internet application. It is easy to receive and to store. It may be replied to, forwarded to, or resent

at the click of a mouse. Its use is widespread and unlike a facsimile, whose message is a static graphic representation, the contents of an E-mail message may be changed or altered. This inherent quality makes e-mail ideal for usage in draft contracts, journalism or in the transmission of any texts which require some alteration, editing or adjustment. The e-mail market is also very appealing as it has 100 million users worldwide and the number is growing daily.

Providing the Solution

The answer is Onset's flagship ThruFax, a fax routing software. It identifies incoming faxes and automatically routes them to the addressee via e-mail. The software's Optical Character Recognition capability converts the fax image into useful text - users can edit contracts, modify copy, or save the data to their own information systems such as resumé databases. The product is being presented at the current CeBit show. ThruFax is sold for \$395

per server. ThruFax requires a network connection to a working fax server system, Windows 95, 98, NT4 or higher, a Pentium-based CPU, 20MB free disk space, 32MB RAM (64MB/NT), and a MAPI-compliant e-mail system.

Marketing

The company's products are sold by the Santa Cruz based American Onset Technology Inc. The business plan calls for the marketing of 2,000 packages of ThruFax to bulk fax users, by the end of the year.

ThruFax will be distributed through fax server partner companies and value added resellers as well as directly from the company's website.

Financing Onset's Activities.

Initial funding for Onset came from fees from consulting to Israel's Ministry of Defense but were not enough to finance development activities.

ties.

In 1997 the company secured a strategic investment from a Taiwanese scanner manufacturer. Pursuing a pattern of seeking only strategic partners Onset acquired the Belgium Flanders Language Valley as its other strategic investor. Currently it is raising an additional sum of \$3.0 million.

What is in the Pipeline

Onset is well advanced in developing "the unified message" box. This will offer the option of receiving a fax which will be delivered as an E-Mail or voice message.

The company has been invited to appear and present its novel voice recognition product at the

Transferring Information Globally

More than 3.4 trillion e-mail messages crossed the Internet in the United States in 1998. By comparison, 107 billion pieces of first-class mail were delivered by the U.S. Post Office last year. (eMarketer Inc.) Nearly 50 percent of the U.S. population, or 135 million people, will communicate via e-mail by 2001. Fifteen percent of the U.S. population (approximately 30 million adults 16 and over) use e-mail now. (Forrester Research) More than 3 billion "permitted" commercial e-mail messages were sent in 1997 and this number will grow to 250 billion by 2002, creating a market that will soar from less than \$8 million in 1997 to more than \$950 million in 2002. (Forrester Research) Electronic mail has overtaken the telephone as the primary means of business communication. (American Management Association) 41 percent of online users check their e-mail daily. (FIND/SVP)

Demo Mobile Show to be held in San Diego in April.

The Competition

An American company, eFax.com reported that 100,000 users registered to use its free service in its first month. eFax.com offers a fax number to individuals so they can receive faxes in their own e-mail account. A company executive said the service processed almost 250,000 pages during the period. "Their product does not touch the fax itself, only transfers it to your e-mail account. Basically, you sign for a number that they allocate to you (in the Chicago area). Then, any fax that is received by them, is sent through e-mail to your account. They embed a micro-viewer, so that their faxes can be more compressed."

American investors during March, boosted the price of these shares by 50% in one week.

Conclusion and Projections

There is a major business opportunity for products that enable the automatic interpretation, or recognition, of text and voice data and commands. Onset could well become a candidate for acquisition by either a major producer of scanners or possibly by an Internet portal. Probably the most attractive route for the company is via the Internet where it is possible to attract millions of viewers. Onset's technology is extremely sophisticated and though it may not establish for the company a unique position, it does offer the combination of fax, e-mail and voice-mail in one neat bundle, a step-up on existing market offerings. The company requires a major effort in establishing broad recognition, and there is little doubt in our minds that in the current consolidation of smaller companies into the large ones, Onset could be seen as a prize plum, ripe for the picking. Furthermore, given the size of the market, even a small share could turn Onset into a major participant in the unified messaging field.

Comverse buys Amarex

Comverse Technology, Inc. (Nasdaq: CMVT) announced the acquisition of privately-held Amarex Technology, Inc. Amarex, based in New

York City, NY, develops software-based intelligent peripherals and service nodes for telecommunications network operators, including British Telecommunications plc (NYSE: BTY) and MCI WorldCom, Inc. (Nasdaq: WCOM), which enable a wide range of interactive voice response-based services. Amarex also develops software for call center-based customer service applications.

Amarex brings to Comverse a range of interactive voice response-based enhanced services for network operators, such as virtual private network services, 800 services, network announcement services, customer service/customer care services, operator-free collect calling, call forwarding services, and directory services, that complement our current offerings. Amarex is a proven, established supplier, with software already integrated with Comverse's platforms, and relationships with customers including British Telecommunications and MCI WorldCom. Comverse, as the world's leading provider of platforms for multimedia messaging and other enhanced services to the network operator community, brings to Amarex its more than 275 wireless and wireline customers, which include 13 out of the world's 20 largest telephone companies. By combining forces, we believe that a large number of Comverse's customers will benefit from the increased number of services they can offer to their residential and business customers." Comverse Technology, Inc., headquartered in Woodbury, New York, designs, develops, manufactures and markets computer and telecommunications systems and software for communications and information processing applications.

Imaging Satellite to Be Launched in 1999

The first Israeli-US civilian imaging satellite, developed by Israel Aircraft Industries (IAI) and El-Op, in conjunction with US company CORE Software Technology (CST) will be launched December of this year.

\$250 million will be raised to finance the launch of the first three satellites, including insurance, launch, and operation. Part of the finance will come from the partnership's shareholders' equity,

and preparations have now begun for issuing bonds in the US. The issue is to be managed by Merrill Lynch. The intention is that after the first satellite is launched, the company will be made public.

The imaging satellite is named "Eros", and is based on the "Ofek" series of military imaging satellites. West Indian Space has signed an agreement with the Israeli government for the provision of services from the satellite, and it will compete in international markets with US company Lockheed Martin, which has developed a similar satellite. Company sources said the satellite would have the same imaging and resolution capability as the competing US satellite, with a ground resolution of just one meter.

PCs in 50 percent of U.S. Homes

Half of U.S. households currently own a PC and 33 percent have online services, according to Odyssey Research of San Francisco. Odyssey also reports that PC households increased the number of hours they spent using PCs for entertainment by 23 percent to 4.9 hours per week in the most recent study, up from 4 hours per week six months ago. Odyssey President and CEO Nick Donatiello said the PC "is graduating from a productivity tool to an entertainment platform." He added, "The TV has been the unrivaled entertainment and information medium in U.S. households for decades. The PC hasn't changed that yet, but it is successfully competing for attention."

Web Rating Reports Agree on Leaders

The Web site properties of America Online (AOL), Yahoo! (YHOO) and Microsoft (MSFT) were the three most heavily-trafficked Internet sites in February, according to separate reports issued Monday by Media Metrix and Nielsen/NetRatings (NMR) services. Media Metrix estimated there were almost 64 million users on the Net during February, while Nielsen/NetRatings estimated the number of people in the United States with Net access is 97 million, or 34 percent of households. The toll of tax season was evident as Media Metrix said among at-work users, USTreas.gov, an entry point to the IRS tax Web site, ranked No. 22 in February with 40 per-

cent of all visitors accessing the site from work. The balance of the Media Metrix top 10 ranking of Web properties, in order, were Lycos (LCOS), Disney (DIS) and Infoseek's (SEEK) Go Network, GeoCities (GCTY), Netscape, Excite (XCIT), Time Warner Online (TWX) and Blue Mountain Arts. The Nielsen/NetRatings report also estimated the largest Web advertisers.

Microsoft was top-ranked, showing 302 million banner ads during the month to 32.2 million people, and reaching 54.7 percent of Internet users. The other top-five banner advertisers were CatalogLink, Amazon.com (AMZN), Yahoo! and First USA.

Net usage to double

A British market research firm projects the number of people using the Internet will double to 300 million by 2005. In the United States, Datamonitor PLC expects 95 million people will be online, Bloomberg news reported. One factor driving the growth will be the declining cost of access to Net services, as free access providers grow and computer makers bundle service with hardware. Use of audio and video, Net telephony, video conferencing and online music listening will also boost usage.

Nice's Management System Selected by First USA

Nice-Systems Limited said First USA has selected its call centre, monitoring and quality management system, NiceUniverse, for all of its customer service centres. The completed implementation of Nice's computer telephony intergrated solution is valued at millions of dollars, Nice said.

First USA, a subsidiary of Bank One Corp, will use NiceUniverse to monitor and evaluate the activity of its customer service representatives who serve over 56 million credit card members.

Palm-sized Communication Devices

News from CeBIT this year has been dominated by companies exhibiting smaller and smaller computerized communications devices. CeBIT has unveiled new palm-size computers that can surf the Internet, play audio, act as word-processors in

color, and connect with personal computers by infra-red or radio.

Laptop Telephones

Laptops incorporating a telephone are now being offered. Microsoft unveiled its Hermes Internet telephone powered by its Windows CE (compact edition) software. The world's biggest personal computer maker Compaq Computer Corp (NYSE:CPQ) show-cased a little hand-held device -- the Arrow 2100 -- which boasts a color screen and radio connectivity.

3Com Corp of the U.S., which leads the hand-held market with its best-selling Palm Pilot, announced improved products in the form of the Palm V and Palm IIIx. IBM joined in the act announcing a deal with Finnish mobile telephone power house Nokia Oyj and travel services company SABRE for travel booking for executives on the move. The Japanese telecommunications giant NTT announced a deal with Symbian, the consortium including Motorola of the U.S., Ericsson of Sweden, Nokia and Psion Plc which plans to market the next generation of Internet devices. NTT later announced it also planned a deal with Microsoft. At the CeBIT show Sun Microsystems announced a tie-up with Symbian. Analysts said this was an outflanking move against Microsoft. All these products aim to be the next generation of devices that can surf the Internet, and appeal to mass consumer markets.

"The first 200 million computer owners used Intel machines - (PCs using Intel Corp (Nasdaq:INTC) chips and Microsoft's Windows software) - the next 800 million will not," 3Com chief executive officer Eric Benhamou was recently quoted as saying. IBM believes that in the next five to 10 years there will be over one million businesses and one billion people using one trillion mobile and network devices to communicate worldwide.

Israeli Telecommunications at CeBIT

More than one hundred Israeli companies displayed at the CeBIT exhibition. Those who were not exhibiting were businessmen reviewing new products, conducting business meetings with sup-

pliers, and sometimes making a purchase. Another respectable Israeli delegation represented Israeli companies that had come to view and learn, mostly in the communications field. Israeli communications companies generally send to the CeBIT exhibition both marketing and technical personnel, as a sort of advanced training course. CeBIT is a giant melting pot for such training, perhaps the world's best. Germany regards CeBIT as an economic event: 7,508 exhibitors, 2,862 of them from overseas, in an area nearly 100 acres. Besides Germany, which has more than 4,000 exhibitors, Taiwan had 524, the US 434, Britain 304, the Netherlands 118, France 105, and Israel was represented by 120 companies.

Communications is regarded as CeBIT's most important exhibition, since it draws all other fields to it, such as information, software, multimedia, Internet, e-commerce, and other technologies. The communications exhibition area, spread over seven huge halls, has grown 16% compared to last year, and the number of companies incorporated in the field has grown 14% to 934. The focus of communications this year was telephony in general, and Internet cellular telephony in particular. Exhibited were networks combining land line and cellular telephony, and new communications products. 250 software companies exhibited more than one thousand software products for small and medium sized companies, plants and offices. Over a hundred Internet companies presented the latest Internet uses and applications, complete Internet solutions, security, management, design and various hardware products. According to all the initial signs, in addition to communications, the hottest area at CeBIT 99 was e-commerce on the Internet. Many software, communications and information technology products and presentations focused on this field, which is still in its infancy. If e-commerce was considered somewhat minor at last year's CeBIT, it took a key role this year.

ED-OP

Repay Government Grants

A rule of thumb is that every \$1.00 spent on research and development results in \$10 worth of sales. The following table lists six years of Elscint's

net revenues compared with six years of R&D spending. The correlation is an almost perfect \$10 of sales resulting from each \$1.00 spent on R&D. A vibrant, exciting and economically high contributing group in Israel is its high-technology sector. It yields many benefits to this small country in terms of big-time exports, jobs for a highly educated population and international prestige. In the past year lengthy discussions with local Australian government representatives, a visiting Australian minister and members of that country's business and financial communities all point to their efforts at understanding what makes Israel's high-tech group tick. Much positive comment from the Australians has been bestowed on this country's Government program of assisting technology based companies with bountiful research and development funding. Individuals close to the scene will add to the R&D funding, a well endowed venture capital industry with a war chest of more than \$1 billion available, highly educated graduates of Israel's institutes of higher learning and a supply of intelligent Russian immigrants. With growing signs of economic difficulties in Russia there is a strong likelihood of new arrivals from that country.

Credit for Israel's prowess as an exporting high-tech economy is partially traceable to the Government of Israel's generous program of industrial research and development grants. 50% and in some instances 60% of industrial R&D budgets are funded by the Government grants. The underlying philosophy behind the program, is to create jobs and exports. The Office of the Chief Scientist of the Ministry of Industry and Trade supervises the program. If the R&D results in commercial sales the R&D grant is repayable at the rate of 2% or 3% of turnover.

Hindsight is 20/20 vision. But our view is that the Office of the Chief Scientist, of the Ministry of Industry and Trade is negligent in not having prepared a framework for dealing with the Government R&D grants in the event that the startup or recipient company is sold to a foreign company. This lack of a framework for dealing with such situations has created a recent flap of considerable proportions. This issue calls for urgent review and the establishment of norms. Its resolution probably will be at the expense of the taxpayer.

The current debate originates in a November 29, 1998 announcement when Elscint Ltd. (NYSE: ELT), a subsidiary of Elbit Medical Imaging Ltd. (Nasdaq: EMITF), reported that it had completed its sale of its CT business to Picker International for \$ 269.5 million. Elscint also announced the completion of the sale of its (MRI) magnetic resonance imaging and (NM) nuclear magnetic medicine businesses to GE Medical Systems for \$100 million. The operations sold by Elscint had more than 450 employees from all over the world.

The products paid for by Picker International and GE Medical Systems were developed with the benefit of heavy R&D funding, as evidenced in Elscint's annual report and the hundreds of employees

owed their employment to the excellence of the company's products.

Following this and in a totally unexpected transaction Elron Electronics Industries a

40% owner of Elbit Medical Imaging Ltd. (EMITF) which is a 57% owner of Elscint Ltd has sold control of EMITF to a real estate company whose flamboyant owner has announced his intention to operate his acquisition the field of real estate.

To many observers the proposed sale appeared to

YEAR	R&D \$ thousand	NET REVENUES \$ thousand
1996	28,282	311,420
1995	26,367	281,906
1994	24,119	234,875
1993	24,373	237,804
1992	22,932	220,891
1991	18,347	190,900
Total	144,390	1,477,796

be sacrilegious. The medical imaging assets sold for \$270 million were created with Government and private funding. As a result of the sale to foreign companies the Government of Israel could lose royalties of up to a quarter of a billion dollars.

Proposals for guarantees that the sellers undertake to invest \$200 million in Israeli high-tech companies are absurd when taking into account that the framework of Elron's business, a company which has been in the foreground in developing many of Israel's high-tech enterprises, is an investment in high-tech. Asking the real estate tycoon to invest \$50 million in medical imaging is equally absurd.

We firmly align with Efi Arazi, a Scitex founder who says that "anyone receiving assistance from the Chief Scientist should sign a contract obliging him to repay the amounts in the event that he sells his start-up to a foreign company, or transfers its main activities from Israel. It's an entirely legitimate demand that entrepreneurs repay the Chief Scientist for the grants, at high interest, according to the length of time and the amount of the assistance. I'm an entrepreneur and not an administration expert, but the rate of the repayment should be such that the State benefit from the risk it takes when it invests in start-ups. The refund can be even ten to twenty times the amount of assistance. It's impossible to prevent companies leaving Israel. However, it's possible to create a climate in which, if companies choose to leave, they will repay the grants, since they are not fulfilling the aims for which the grants were given, such as providing jobs." We have entered a period of mergers and acquisitions when a week does not go by without an announcement of a foreign company buying up an Israeli high-tech company.

Big sums are involved and if Government research and funding programs are not to be seen as massive giveaways of the public funds a simple framework for a return of unpaid royalties should be established. Israelis have a wonderful expression for suckers ... they call them *freyers*. The national phobia is not to become a *freyer*. We think that the time

has come for establishing regulations which take these issues into consideration and demand accountability.

US Investment Bank and Nessua Zannex Nessua

Zannex reported to the Tel Aviv Stock Exchange that it had reached an agreement in principle to cooperate with a US investment bank in the provision of investment banking and trading services in Israeli securities traded primarily on Nasdaq. It is rumoured that the Investment bank in question is Piper Jeffrey of Minnesota. Nessua Zannex is a relatively new brokerage firm, formed by combining Nessua, a veteran brokerage firm and Zannex is a young firm of financial portfolio managers.

Elbit Systems Seeks to Take Over Cyclone

Elbit Systems Ltd. (Nasdaq: ESLTF) announced that it is issuing a tender offer for 100% of the shares and debentures of Cyclone Aviation Products Ltd. ("Cyclone") of Karmiel, Israel, traded on the Tel-Aviv Stock Exchange. The value of the offer is approximately \$10 mil. Cyclone provides maintenance and logistics services and support to aircraft and helicopter operators and manufactures aircraft structures and assemblies.

Gilat Satellite Reports Earnings Gain

Gilat Satellite Networks Ltd (Nasdaq:GILTF) reported 4Q EPS of \$0.76 vs \$0.51 in the prior year, on revenues of \$49.7 mln vs \$30.0 mln in 1997. Analysts' mean estimates were \$0.75, according to First Call. Full year EPS were \$2.14 vs \$1.51.

Oshap Shares Climb on SunGard Deal

Oshap Technologies Ltd. (Nasdaq:OSHF) shares recently collapsed in one session by 27%. Oshap announced that it is being acquired by computer services and software firm SunGard Data Systems Inc. for \$210 million in stock. The offer represented nearly a 50% premium over Oshap's previous closing price of \$10.50. As a result of the acquisi-

tion SunGard will move into asset-management software, which will enhance its financial-services software line. Oshap has an 18% stake in the Israeli Tecnomatix Technologies Ltd. (Nasdaq:TCNOF).

William Cohen in Missile Talks with Israel

American Secretary of Defense, William Cohen in a recent visit to Israel, stated that the United States was exploring ways to fund R&D on a third battery for Arrow, an Israeli-produced missile jointly funded by both countries. Early last year, Israel asked the U.S. to expand the Arrow anti-missile missile project from two batteries to three. Development of the Arrow began a decade ago as part of the U.S. "Star Wars" Strategic Defense Initiative but really took off after Iraq fired 39 Scud missiles at Israel during the 1991 Gulf War. When the U.S.-supplied Patriot missiles proved disappointing in that conflict, the United States and Israel pushed ahead to develop the Arrow. It is designed to track incoming missiles and guide an anti-missile missile at a speed of two miles (three km) per second towards the target.

ECI Denies Acquisition Bid

ECI Telecom Ltd (Nasdaq:ECILF) denied it was in talks to acquire Advanced Fibre Communications. "We know AFC but we haven't had negotiations. We don't have any such deal and we don't intend to," ECI CFO Doron Inbar stated, "We are in contact with a few companies, but AFC is not one of them," Inbar said, saying any discussions were at a preliminary stage. ECI has been looking for a U.S. acquisition that would complement its core business in digital telecommunications and data transmission. Analysts said the goal was to win access to the American market rather than to acquire technology. The United States accounts now for about a quarter of ECI's revenues. In the days following the announcement large blocks of ECI's shares were offered for sale, driving down the price of the stock by nearly 20% to \$32 per share.

Investment Banker Touts Indigo

Lehman Brothers said it raised Indigo NV to a buy from a neutral rating. Lehman believes the company's 1999 turnaround is on track. Unit shipments

will be driven by accelerating U.S. demand. Lehman projects strong growth in high margin consumables and service revenues, to be up 27% in 1999. During the second half of 1999 and during the year 2000 the company should benefit from the rollout of new high-end, faster speed UltraStream, with wider third party distribution in the U.S. and Europe. Together with growth in the U.S. sales force the company should experience an increase in sales. Estimates for 1999 are an \$0.05 loss per share and a profit of \$0.22 per share for 2000.

Makhteshim-Agan Change Focus

Makhteshim-Agan is likely to move from chemical processing to biotechnology. Makhteshim-Agan, a global leader in generic agrochemistry, is likely to change its focus and move into three defined directions according to vice president for R&D Yoel Sasson. Makhteshim-Agan is also a global leader in plant protection chemicals. The company's marketing network is deployed in five continents, and it has the major market share for several of its products. According to Sasson, agrochemistry has been undergoing comprehensive changes in recent years. The market is characterized by a range of new, highly active molecules with focused selectivity (at drug level). He says that, due to these changes, the company's continued growth is likely to be based on three possible alternatives: Conversion of the company's technological base from chemistry to life science and biotechnology, similar to the move most of the large agrochemistry companies in the world have made. Change in strategic concept, by entering the field of discovery, development and manufacture of original, active molecules. Strengthening and deepening of capabilities in current areas of expertise - generic agrochemistry - while continuing to develop new, patent-based products.

Makhteshim-Agan recently reported in its financial statements that the global economic crisis, including the Brazilian crisis (the company's main export market), has not adversely affected activities, apart from some marginal effect. The company's annual sales total \$600 million.

Comsor Invests in Lanoptics

LanOptics Ltd. (Nasdaq: LNOPF), a manufacturer of Fast Ethernet and Gigabit Ethernet Switches and Internet applications, announced that ComSor Trading Fund, an affiliate of Comverse Technology, Inc. (Nasdaq: CMVT), has entered into a binding agreement in principle to invest in LanOptics. ComSor is a partnership with International Financier George Soros. ComSor will purchase LanOptics at a price of US\$3.00 per share. Closing of the investment is expected to occur early April.

New Dimension Software Acquired for \$650 million.

U.S. firm BMC Software Inc has signed an agreement to acquire Israel's New Dimension Software Ltd for \$52.50 a share. "The transaction is a cash purchase value at more than \$650 million," Houston-based BMC Software said in a statement. BMC Software said it will carry out the acquisition through a cash tender offer for all outstanding New Dimension shares. It said it has entered into option agreements with two holders of more than 60 percent of the outstanding shares. The agreements give the U.S. firm the right to purchase these shares at the tender offer price for a stipulated period and require the shareholders tender their shares to BMC Software. New Dimension develops system management software. Its shares closed up \$1.375 at \$48.94 in Nasdaq trading after the announcement was made public.

Optimism on TASE

Overseas Investors Recommend Increased Investment in Israel

Flemings Bank's regional desk, one of the outstanding desks for overseas investors' activity on the Israeli stock market, recommended considerably increasing investment in the Israeli market, at the expense of reducing investment in the Greek market. The desk, which monitors Europe, Africa, and the Middle East, makes its recommendation on the basis of the IFC emerging markets index, and specifically on the basis of the IFC index for coun-

tries in Europe, Africa, and the Middle East. The desk's recommendation now is to increase investment in the Israeli market to 40% above Israel's weight in this index, and, conversely, to reduce Greece's weight to 80% of its index weight. The explanation of this preference is the sharp rise recently posted by the Greek market, now considered expensive, and the lag in the Israeli market, which is a long way behind in dollar terms. Flemings points out that the Israeli market is now trading at a third of the value of the Greek market, and that the Israeli market is expected to rise, with a reduction of at least 2.5% in Bank of Israel interest rates in the course of the year. Flemings especially recommends the shares of Israeli banks, which are expected to benefit from the interest rate reduction, from lower than predicted allowances for doubtful debts, and from recovery in economic activity in Israel. The recommendation from Flemings Bank today is another in a series of recommendations from overseas investors on the Israeli market recently. It is estimated that foreign investors have been stepping up their activity in the Israeli market, which explains, among other things, the market's recent rises few days - although it is generally agreed that, this time, the advances were in fact led by local investors. Nevertheless, the reports of recent overseas investor activity are not consistent, and some Israeli banks claim that, for the time being, there is no noticeable revival in their interest. TASE Managing Director, Saul Bronfeld said today that "the continuation of privatization during the coming year will further increase the international interest in Israel." The TASE spokesperson said foreign analysts were optimistic regarding the market's future. In its February market commentary, Salomon Smith Barney analysts recommended increasing Israel's weighting in the emerging markets portfolio from 2.3% under the IFC's current benchmark to 7.3%, while ING Barings believes that the TASE share indices will rise by 19% in 1999, and that the inflation rate will fall to 5%. The bank's economists expect the TA 100 index to reach a level of 345 points by the end of the year.

Moreover the Israeli government is planning to

offer 14% of the shares of Bezeq, Israel Telecommunication Corporation, for some \$370 million in April. International investment banks are showing an avid interest in the offering, which is expected to be the largest ever in the history of the Tel Aviv Stock Exchange. The largest offering to date was the government's \$300 million tender offer for 30% of Israel Chemicals' shares in December 1998. Recently the government and Bezeq chose the leading underwriters. The privatization of Israel's largest banks is continuing as well. The government also sold another block of Bank Leumi's shares, amounting to 2.5% of the bank's equity. The shares were sold to Lehman brothers, the winning bid in a tender that included Goldman Sachs and UBS. In April 1998, Lehman Brothers won a similar tender when it purchased 2% of Bank Leumi's shares. TASE's Managing Director, Saul Bronfeld said: "The success of privatization proves that the Tel Aviv Stock Exchange is an attractive venue for foreign investors. Despite the drop in the number of issues in recent months, the TASE's allure has not declined. Large, high quality companies continue to be a source of attraction for foreign and local investors. The continuation of privatization during the coming year will further increase the international interest in Israel." Foreign analysts are optimistic regarding the market's future.

Pharmos Corporation Receives Notice of Allowance on Dexanabinol Patent for Use in the Treatment of Multiple Sclerosis

Patent Approval Follows Report

Highlighting Medical Benefits of Marijuana

Pharmos Corporation (Nasdaq: PARS) announced that it has received a Notice of Allowance from the U.S. Patent and Trademark Office for a new patent entitled Tumor Necrosis Factor Alpha Inhibiting Pharmaceuticals, with claims covering the use of dexanabinol as well as various non-psychoactive cannabinoid analogs, derivatives or metabolites in the treatment of multiple sclerosis.

The new patent defines novel therapeutic applica-

tions for the use of dexanabinol and other synthetic, non-psychoactive analogs of cannabinoids. In preclinical tests, Pharmos has demonstrated that dexanabinol could exert anti-inflammatory effects by preventing the production or release of Tumor Necrosis Factor (TNF) alpha. These compounds are also advantageous in that they do not produce certain side effects of other anti-inflammatory drugs used in the treatment of multiple sclerosis, such as steroids, and particularly in that they do not cause the psychoactivity of natural cannabinoids.

"We are very pleased with the granting of this patent," said Dr. Haim Aviv, Pharmos' Chairman and CEO. "Our expectations of dexanabinol having multiple neurological applications are confirmed by, among other factors, its amelioration of the severity of multiple sclerosis in animals. Dexanabinol's neuroprotective properties could also be beneficial by preventing or decreasing the cumulative neurological damage caused by multiple sclerosis, which is a chronic degenerative disease. We are looking forward to the beginning of Phase III trials to confirm dexanabinol's efficacy in head trauma patients."

The recent completion of a successful Phase II clinical study showed dexanabinol to be safe and well-tolerated in severe head trauma patients. There were no unexpected adverse experiences reported for either the drug treated or placebo group. Intracranial pressure, an important factor and a predictor of poor neurological outcome, was significantly reduced in the drug treated patients through the third day of treatment, without a concomitant reduction in systolic blood pressure.

The patent allowance follows last week's much

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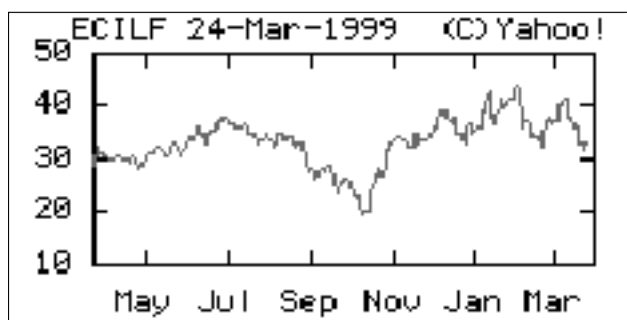
anticipated report from the National Academy of Sciences' Institute of Medicine (IOM) evaluating the medical benefits of marijuana. The IOM, which was commissioned by U.S. drug czar Barry McCaffrey, found that marijuana's active components are potentially effective in treating muscle spasms associated with multiple sclerosis, AIDS related anorexia, pain, nausea, and other ailments. However, due to the risks associated with smoking marijuana -- lung damage, cancer, and emphysema -- the drug should be administered by a safer, fast-acting, and reliable method. The report recommends that more clinical trials be performed to develop a smokeless alternative to treat patients.

The worldwide market for dexamabinol in the treatment of severe head trauma may reach \$1 billion annually and is significantly larger if other neurological conditions such as multiple sclerosis and stroke are treated with the drug. An estimated 2.5 million people suffer from multiple sclerosis, which is most commonly found in the United States, Canada, Europe, and South America.

ECI Announces Share Buy Program

ECI Telecom Ltd. (Nasdaq: ECILF) announced that its wholly owned subsidiary, ECI Telecom (1990) Export Ltd., has adopted a share purchase program under which it will purchase up to a total of 1,000,000 Ordinary Shares of ECI Telecom Ltd. from time to time, in open market purchases or negotiated block trades. Purchases will be dependent upon market conditions and may be discontinued at any time. Purchased shares will be held by the subsidiary for investment purposes.

The announcement comes in the wake of a sharp drop in ECI's shares (see chart)



Gilat Shares Gain 50% in Two Months

IHTIR's Choice of a Small Cap for 1999 was Gilat Communications Ltd. (GICOF:Nasdaq) (see IHTIR: January 1999).

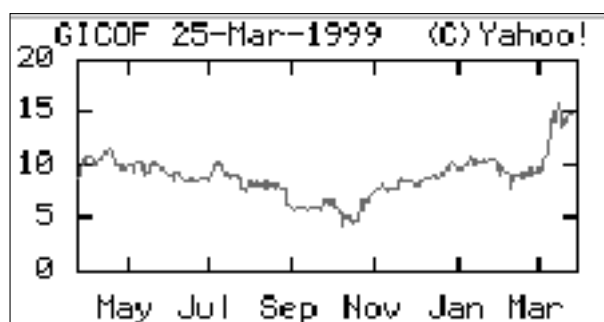
Subsequently two recommendations were announced by two investment bankers in the US. Apparently these recommendations attracted a spate of buyers and the shares which had traded under \$9 a share in January advanced sharply to the \$15 level on average daily trading turnovers of more than 40,000 a session.

On March 3 the company released its strong Q4 results.

The below chart shows the movement of the Gilat shares over the past year.

Our analysis points to a further growth in sales and earnings and leaves Gilat as our premier choice for further capital growth among Israel's low. capitalization companies.

3 Mos. to Dec. 31:	1998	1997
Revenues	7,959	4,816
Net income	2,144	759
Sh. earns. (basic):	\$0.23	\$0.10
* Sh. earns.:	\$0.23	\$0.10
Years Ended:		
Net sales	23,562	14,252
Net income	5,162	1,897
Sh. earns. (basic):	\$0.56	\$0.27
* Sh. earns.:	\$0.55	\$0.27



Comverse Technology Announces Record Fourth Quarter and Fiscal 1998 Results

Comverse Technology, Inc.(NASDAQ: CMVT) announced for the fourth quarter of fiscal year 1998, ended January 31, 1999 record net income

after taxes of \$32,369,000 (\$0.66 per diluted and \$0.72 per basicshare), and record sales of \$190,102,000.

Comverse's Board of Directors also declared a three-for-two stock split, Shares resulting from the split are to be distributed by April 15, 1999.

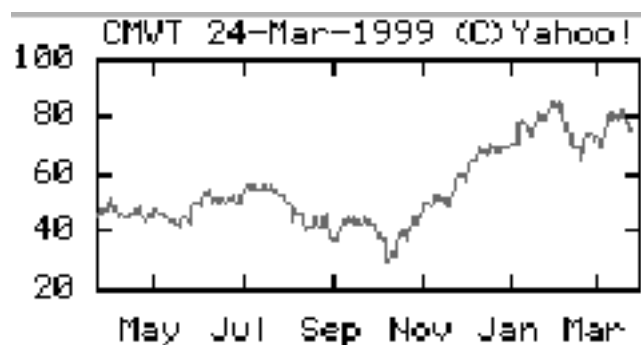
For fiscal year 1998, ended January 31, 1999, Comverse posted record net income of \$111,527,000 (\$2.33 per diluted share; \$2.52 per basic share), and record sales of \$696,094,000.

Editorial Note: In our IHTIR January issue we featured Comverse Technology and wrote that:

"CMVT is one of the outstanding companies offering enhanced services platform and its record is among the best in the field. Its management is committed to further broadening its already commanding position and sees the wireless communication to the Internet as "the greatest business opportunity of our times". Based on the market's perception of the CMVT shares it would seem that the current p/e ratio of 26 x 1999 estimated earnings is a supportable price level.

ICQ Users Now Go Off-Line

A new global seamless technology called Signaler automatically notifies ICQ users that somebody wants to chat, even when the user is not on-line. The Signaler software is the latest offering from NECS, subsidiary of Israeli Bell South International Group, creators of MailPush e-mail notification service <http://www.mailpush.com> and C-WebMail software <http://www.cwebmail.com>. Signaler will make the popular ICQ on-line chat network more



convenient while giving the entire Instant Messaging industry a boost. ICQ was created by Israeli

Mirabilis and was acquired by America OnLine in 1998.

"Signaler allows ICQ users to be reachable even when their PC is not connected to the Internet," said NECS General Manager Zvika Eadan. "Signaler enables chat buddies to send ICQ chat requests even while they are not connected to the Internet -- as long as their PCs are turned on.

Currently, when you want to connect with a person off-line, the choices are either 1) sending a message and waiting for your buddy to get on-line -- which could take hours, or 2) making a phone call -- which defeats the whole purpose of on-line chat," said Eadan.

Signaler features a patent-pending "signaling" technology that pops an ICQ message onto your PC screen that actually includes the name of the chat buddy who is looking for you. The icon is accompanied by the signature ICQ sound effect and is preceded by a special telephone ring that gives you an additional heads-up.

While Signaler enables users to know when their chat partners are on-line or off-line, your privacy is protected. Users have the ability at any time to 'turn their ICQ flower to red' and thereby become invisible to the ICQ world.

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