

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
January 1999 Vol. XV Issue No.1

JOSEPH MORGENSTERN, PUBLISHER

You are invited to visit us at our website: <http://www.ishitech.co.il>

Israeli/US Researchers Lay Basis for Organ Replacement Technology

After two and a half decades covering Israeli scientific and technological innovation and the business of Israel's science and technology numerous world class developments have fired the imagination. Among the more memorable among these was the story of the commercialization of interferon discoveries spawned in the laboratories of the Weizmann Institute; the building and commercialization of computerized tomographs (CAT scanners and magnetic resonance imaging machines; and the discovery, development and the commercialization of the carbon dioxide surgical laser. Each of these discoveries and their later commercialization had the characteristic of making the world a little better than before. They were the epitome of the ancient Talmudic concept of Tikun -- literally an improvement of the world we live in.

A recent study published in Science Magazine details the research of an American scientist in collaboration with an Israeli scientist resulting in the the identification of a new group of human cells. With the end the 20th century upon us and looking ahead to the new world of the coming century I am confident that science will provide many, if not all, of the remaining answers to the secret of life itself. Science will also extend man's life span and improve his quality of life. Will surgery become less important in healing ailing parts of our bodies? Will genetic engineering lead to the creation of body organs for replacement?

"The embryos employed in the research study were donated by couples who had undergone in vitro fertilization treatment at our Rambam Hospital IVF Unit. The donors did not plan to have any more children -- eliminating any ethical questions. The embryos of fer-

tilized human eggs resulting from in vitro fertilization treatment, were cultivated until they reached the blastocyst -- an early metazoan stage. The subsequent treatment of the embryos resulted in their dividing and possessing the unique property of cell division without aging. This characteristic gave rise to an embryonic stem cell being characterized as "immortal". These cells which have a special status because of their potential to develop into an individual were coaxed chemically so as to be able to develop outside of the body. What was most intriguing is that these cells have the power to divide into 210 different types of cells -- perhaps all having the ability to be converted into tissue for body parts. The cells have many possible uses, of which the most promising is to grow

In this Issue

Israeli/US Researchers Lay Basis for Organ Replacement Technology
Publisher's Report on the City of London Initiative
Aladdin Acquires eSafe Technologies
OrdaCard Offers Secured ID Card
Comverse Technology Inc.: an in-depth company report
Nomura Invests \$8.0 million in Versaware Technologies
Elron Completes Acquisition
Just the fact, please on Internet Content
Compression Technology May Improve TVs
A Not-so-Sweet Side of Sugar
ECI and Siemens in Joint Development
Elsint Completes Sale of Nuclear Medicine to GE Medical Systems
Gilat Satellite to Raise \$200 million on Wall Street
Indigo and Hewlett Packard Join Forces
HK Catalysts Affiliates with the Chasm Group
Editorial Review: Past Year and the Odds on a Continuation of the Boom and Bloom Years into the Twenty-First Century

**Seasons Greetings to all of our Subscribers
and a Happy and Prosperous New Year**

**Joseph Morgenstern and the Editorial Staff
Tel-Aviv, Israel**

new tissue, of any kind, for transplant into a patient's body. Scientists have for the first time picked out and cultivated the primordial human cells from which an entire individual develops. Some of the potential applications for these new cells could be for bone marrow replacement or for use in tissues being implanted in cardiac situations. Eventually, the hope is to use the cells to grow tissue for human transplants and introduce genes into the body as a remedy for inherited diseases.

The research and development, now in the planning stage, relates to differentiation of these cells. As the differentiation (identifying and modification of these cells for various applications in the human body) progresses, patent protection will be sought and technologies will necessarily be developed," says Professor Joseph Itskovitz of the Faculty of Medicine, Technion Medical School and Head of the Obstetric and Gynaecological Department at Haifa's Rambam Medical Center, during our in-depth discussion of his work and its future implications. The cost of further research and development will be substantial, due to the plan of dividing the project into as many as six lines of individual development. Prospects are slim for obtaining large budgets from Rambam's limited research and development funds. However, Professor Itskovits has drawn numerous inquiries from the Israeli business community. Several groups have stated an interest in discussing a role in the further financing. Will Professor. Itskovitz' scientific findings lead to improving the lot of man? Is a laboratory of "human spare parts" close to reality? Obtaining the financial backing, forming a scientific and business team are the obvious first steps.

Formulating research aimed at differentiation of immortal human embryonic stem cells, development and upscaling and eventually human trials will follow. Competition from the other top researchers in the US, perhaps with massive backing of pharmaceutical companies seems inevitable. The answer to these questions and the hurdling of these obstacles prior to commercialization are much more difficult to predict, as many issues beg

for resolution. The recent stunning commercial success of ICQ, the Internet chat service, a software developed by the Mirabilis whizzkids who sold their three year old business for \$287 million has grabbed and temporarily held the public's attention. However, we would expect that Israel's place and reputation in the the global marketplace as a leading source for outstanding science and technology will be built on the strength of a growing list of scientific developments and technologies related to medicine.

Publisher's Report

City of London Initiative

London is by far the most popular city in Europe for vacationing Israelis. They enjoy the sites – Buckingham Palace, #10 Downing Street, the Tower of London, the theater, the shops and the vastness of a city which has the chic and class of a modern metropolis. Yet few Israelis travel to the "City", London's wholesale financial center. Ask the average Israeli where Wall Street is. He is likely to answer that he has visited there. You are likely to draw blank stares when asking about Bank or Threadneedle Streets.

In an unprecedented event the United Kingdom's Department of Trade and Industry, partnering with the Israel Britain Business Council and in association with the Israel British Chamber of Commerce brought a group of "some of the best financial specialists from the world's leading financial center" who participated in Tel-Aviv in first ever financial services seminar entitled The Advantages of London. The visitors were headed by a highly personable Lord Levene the Lord Mayor of the City of London. For Lord Levene, highly experienced in business, finance and government, this was the third visit to Israel but first as a promoter for London, the financial center. "I would sell you the advantages of London as a provider of financial services. 18% of all global investing or \$2.8 trillion turnover is done in London." The Lord Mayor further stated that "I see Israel as part of Europe rather than as an emerging country".

Mr. Francis Cornish, the UK Ambassador to Israel pointed to the very recent ground-breaking agreement signed between Israel and UK with the establishment of BriTech fund, with \$25 million, to be matched by the private sector, for helping to finance the activities of promising UK/Israel high-tech projects.

Prof. Ben-Zion Zilberfarb, Director General, Ministry of Finance expressed the Ministry's satisfaction with Britech and added that the Ministry has been in contact with the Tel-Aviv Stock Exchange and Israel's Securities Authority to facilitate dual listings. "We see dual listings as an important tool in participating in the globalization process," stated Prof. Zilberfarb. Only a handful of Israeli companies have dual listings, on the Tel-Aviv Stock Exchange and on NASDAQ. The Israeli companies listed on the AIM market and the London Stock Exchange are all single listings.

That Israeli companies, especially the high-technology firms, have preferred to go to Wall Street for their financial needs and for the registering of their shares for trading, was stressed by various speakers. For almost every 20 Israeli companies whose shares are traded on NASDAQ, the New York Stock Exchange or AMEX, only one company is traded on London's AIM - Alternative Investment Market. However, if Theresa Wallis, AIM's Chief Operating Officer has her way this ratio will change in the near future. "Earlier in the year we initiated the Information Technology Index which we publish daily. The index has drawn attention to the high-tech companies and their trading turnovers have gone up noticeably. The IT Index has risen 30% this year which is more than general index of shares. Of the 311 companies traded on AIM 28 are foreign companies. One of the advantages of an AIM listing is that it allows young companies to come to the market. A record of three years of sales and 25% of the shares to be held in public hands, and consolidated accounts in keeping with IAS, UK and GAP principles of accounting are the requirements for a listing. However, AIM is becoming an address for Israeli companies, as

Israel with six listings is second only to Ireland among non-UK listers, stressed the London Stock Exchange executive. According to a well placed London source, AIM's growth has slowed in 1998 following the cancellation of favorable to investors tax concessions. The removal of the tax "sweetener" lowered the attraction for investors for trading AIM stocks.

An indication of a commitment of the British financial community to get a foothold in Israel's "Silicone Wadi" were executives who were previously active in the Middle East but for a variety of reasons had omitted Israel from their agenda. For Peter W. Swarbreck, Director for Middle East and Africa for Merrill Lynch Mercury Asset Management, a veteran of 10 years of activity in this part of the world, it was a first visit to Israel. He told IHTIR that the group has already invested some \$50 million in Israel but his trip was to assess the market for investment management services to Israeli pension funds. A few years ago pension funds in Israel were not allowed to invest outside of this country but new legislature, part of the liberalization program in Israel, has relaxed restrictions on investment by pension funds. As a result a defined percentage of total assets may now be invested outside of Israel.

Attendees of the Seminar were mostly members of Israel's service professions including attorneys, accountants and businessmen but also apparent was the absence of Israeli entrepreneurs or corporate chief financial officers who are interested in financial services.

The visit to Israel by the high-profile British group is indicative that the British have finally noticed the business potential of Israel's investible sectors, including the high-tech group of companies.

The seminar, however, was devoid of the "spice and pepper and excitement" generated at similar events organized by Wall Street professionals. The organizers have personally expressed the hope and expectation that it would be a springboard to broadened interaction for the City of London and Israel. As a next stage the organizers might consider inviting Israeli entrepreneurs who are slated to

be the movers and shakers of the next generation of high-tech companies. These will be the future clients, for whom raising capital in England, with a subsequent listing on the London Stock Exchange or the AIM Market may prove to be an attractive option.

Lord Levene's remarks that "London offers investors access to the largest and most liquid pool of international investment capital in the world," and "It operates subject to high standards of regulation, tailored for international issuers and it enjoys very competitive costs," carried for us the authentic ring of commitment to the issue.

Aladdin Acquires eSafe Technologies

Aladdin Knowledge Systems Ltd. (NASDAQ: ALDNF), a leader in the field of software information security, announced the signing of an agreement to acquire the assets of EliaShim Ltd. and its subsidiaries, US-based eSafe Technologies Inc. and eSafe Europe. The acquisition will be paid with 1.2 million Aladdin shares and \$6.5 million in cash.

Aladdins newly formed Internet Security Unit will integrate Aladdins market-leading technology with eSafes Desktop-to-Gateway security solutions, enabling companies to make free and unfettered use of the Internet as a vital business tool, safely and effectively. eSafe anticipates sales of approximately \$5 million in 1998

eSafe's development is directly linked to the Internet which has become the main focus for many businesses, providing the commercial and communications framework within which they carry out a wide range of activities such as data analysis, e-mail and e-commerce. The Internet's rapid growth has produced enormous benefits, but it also exposes users to a wide range of new threats. Particularly dangerous are Vandals hostile Java Applets and malicious ActiveX controls which execute without any user-intervention revealing to the initiator of the vandal sensitive information such as passwords or account details, transferring funds or silently dialing high tariff phone numbers, and other developing Internet-borne threats of a criminal nature.

eSafes innovative approach which combines malicious code detection at both the gateway and the desktop with anti-virus protection, real time access monitoring and an integrated management system, has been widely recognized for its leadership, as demonstrated by its recent selection as PC Magazines Editors Choice in the Internet Security Utilities category.

Forrester Research: Securing Java And ActiveX, published June 1998 concluded with the following key points: Hostile Java and ActiveX applets pose serious security risks, which will become widespread in two years By year, 2000 72% of Fortune 1,000 companies will be reliant on Java and ActiveX as part of their intranet and extranet infrastructure, exposing themselves to malicious code infection that could cause damage that would bring a business to its knees Blocking Java and ActiveX at the firewall is impossible as companies come to rely on these technologies To catch malicious code, users must deploy solutions that operate at both the gateway and the desktop level IDC: Vandals, Viruses and eSafe, published April 1998 concluded with the following key points: Vandals, or malicious code applets, represent a very serious threat to server and desktop security

OrdaCard Offers Secured Photo ID Card

OrdaCard announces new Internet based high volume secured photo ID card production services. They are based on Clal Imaging's Web UPC system to be printed on the Indigo digital offset printer. OrdaCard also announced a new Internet service for remote photo ID cards production. The service is based on a new product developed by Clal Imaging Ltd. and the upgraded Indigo offset digital printer. The system allows remote live enrollment at customer sites anywhere throughout the world, secured transfer of data, photos and biometrics data over a low cost Internet connection to OrdaCard's central printing location. OrdaCard will then print personalized data on plastic cards Magnetic stripe cards and smart cards using an Indigo offset printer that works at speeds of up to 5,000 cards per hour, integrated into the modern smart card production line at OrdaCard

Comverse Technology, Inc.

The shares of Comverse Technology, Inc. [CMVT: NASDAQ] are worthy of investing as a long-term core holding for inclusion in a portfolio of Israeli shares. Due to their recent sharp price runup the shares would best be purchased in periods of price weakness. The company has a five year record of continuous growth in revenues and profits. The company is expected to earn \$2.73 a share in 1999. The growth for CMVT's computer and telecommunications systems and software for communications and information processing applications are driven by the growing wireless networks and the deregulated wireline telecommunications industries. CMVT's product line is known as Enhanced Services Platforms [ESP]. The ESP market is pro-

SALES in US millions					
1994	1995	1996	1997	1998	1999
\$108.2	\$137.1	\$207	\$489	\$689 est.	\$834
EARNINGS per share					
1994	1995	1996	1997	1998	1999
\$0.55	\$0.75	-- --	\$0.75	\$2.23 est.	\$2.63

jected to grow at a 30% rate, for the foreseeable future. All but 10% of CMVT's sales are generated from the ESP market Trilogue and Access NP, the company's lead products are acknowledged as industry leaders.

At a recent company presentation Itsik Danziger CEO, Comverse Network Systems pointed to an annual 53% growth in net income since 1990. He stressed the financial strength of the company due to its \$500 million cash on hand and a healthy balance sheet with total assets of \$900 million.

As of the week ending December 18 there were 9 brokers recommending CMVT as a Strong Buy, 3 as a Moderate Buy and none were recommending sale of the shares.

The popular Zacks financial rating service ranks CMVT number 18 of a total 157 companies surveyed in the telecommunications industry.

Public companies file quarterly reports known as Form 10Q. These documents are couched in considerably more restrained and conservative lan-

guage, than generally found in reports issued by Wall Street analysts who are known either as buy or sell analysts and often align their opinions with investment bank's vested interest.

In form 10Q, in its report for the quarter ending October 31 management stated that:

The company has benefited from the growth in its business and capital base over the past several years to make significant new investment in its operations and infrastructure, intended to enhance its opportunities for future growth and profitability. The Company's results of operations reflect the significant increase in its investment in operations in recent years. The Company intends to continue to make significant investments in the growth of its business, and to examine opportunities for additional growth through acquisitions and strategic investments. The impact of these decisions on future profitability cannot be predicted with assurance, and the Company's commitment to growth may increase its vulnerability to unforeseen downturns in its markets, technology changes and shifts in competitive conditions. However, the Company believes that significant opportunities exist in the markets for each of its main product lines, and that continued strong investment in its technical, product development, marketing and sales capabilities will enhance its opportunities for long term growth and profitability. The merging of Boston Scientific involves the integration of two companies that have previously operated independently. The combination of two sizable technology-based companies involves significant complexities, and no assurance can be given that the combined Company will be able to integrate the operations of Boston into the Company without encountering difficulties or experiencing the loss of key Comverse or Boston personnel or that the benefits expected from such integration will be realized. The integration of two companies across geographically dispersed operations can create the risk of disruption in operations of the combined Company, and neither company's management has substantial experience in managing such integration or the operations of an entity the size of the combined Company. The Company does not expect to realize cost savings in the near

future as a result of the Merger, and no assurance can be given that any savings can be achieved in future periods. As a result of its significantly greater concentration on a small number of large telephone company customers, Boston's business has historically been considerably more volatile than that of Converse, and the operations of the combined Company are likely to be less predictable

and subject to greater risks from actions of individual customers than the operations of Converse in recent years. The tele-communications industry is subject to rapid technological change. The Company's revenue stream will depend on its ability to enhance its existing products and to introduce new products on a timely and cost-effective basis. This includes any customer-requested custom software enhancements required in the normal course of product delivery and customer demands for the technological convergence of the Company's products. The Company's products involve sophisticated hardware and software technology that performs critical functions to highly demanding standards. There can be no assurance that the Company's current or future products will not develop operational problems, which could have a material adverse effect on the Company. In addition, if the Company were to delay the introduction of new products, or to delay the delivery of specific custom software enhancements, the Company's operating results could be adversely affected. The Company sells a majority of its products to companies in the telecommunications industry. This industry is undergoing significant change as a result of deregulation and privatization worldwide, reducing

restrictions on competition in the industry. Unforeseen changes in the regulatory environment may have an impact on the Company's revenues and/or costs in any given part of the world. The worldwide enhanced services systems industry is already highly competitive and the Company expects competition to intensify. The Company believes that existing competitors will continue to present substantial competition, and that other companies, many

with considerably greater financial, marketing and sales resources than the Company, may enter the enhanced services systems markets. The 1997 acquisition of Octel Communications Corporation, a significant competitor of the Company, by Lucent Technologies, Inc. may intensify the competitive environment in the industry, and there can be no assurance that similar business combinations or industry consolidation will not occur in the future. The enhanced services platforms industry has experienced a continuing evolution of product offerings and alternatives for delivery of services. These trends have affected and may be expected to have a significant continuing influence although the impact on the industry generally and on the Company's position in the industry cannot be predicted with assurance. Significant changes in the industry make planning decisions more difficult and increase the risk inherent in the planning process.

Conclusion

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 communi-



Nomura Invests \$8.0 million in Versaware

Nomura International has invested \$8.0 million in Versaware Technologies Inc., innovators in digital electronic publishing. Versaware Technologies has been featured numerous times in 1998 in the Israel High-Tech & Investment Report. As a result of the investment Nomura became an 11% shareholder in the American company which operates a fully-owned subsidiary in Jerusalem. Harry Fox, an Internet pioneer is Versaware's major shareholder. Clal Venture Capital earlier this year invested \$1.0 million. The Belzberg family of Canada is also a major investor.

Versaware has developed techniques for electronically converting text and graphics and making them available by means of the Internet. Among the unique features developed by Versaware is an ability to update texts "on-the-fly". For educational and learned texts applications such as encyclopedias or textbooks where "updating" is important this capability provides the Versaware writer and user with immense advantages. Also, Versaware has made major strides in convincing leading publishers such as Simon & Schuster to electronically publish titles with the major cost effectiveness which its technology provides. Versaware technology has the ability to become a major participant as processor of novels for the so called "wireless laptops" market.

cation 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 199 estimated earnings is a supportable price level.

Elron Completes Acquisition

Elron Electronic Industries Ltd. (Nasdaq: ELRNF), a multinational high technology holding company, announced that its wholly owned subsidiary, Elron Software Inc., has closed the previously announced purchase of substantially all of the assets and liabilities of N.C.C-Network, Communications and Computer Systems Ltd. The purchase price was \$40 million in cash. N.C.C will operate through a new wholly owned subsidiary of Elron Software Inc., Elron Software N.C.C Ltd. Mr. Meir Alter, founder of N.C.C, will serve as President of Elron Software N.C.C Ltd. Elron Software is a provider of Internet/Network management software solutions that span the range from small-to-medium size networks, large enterprise-wide networks, to very large service provider networks. Following the acquisition, the company will operate through two stand-alone business units; the Internet products division and the system integration division

(formed by N.C.C), each of which will focus on the specific needs of its customer base. Elron Software has 375 employees and an installed base of 11,000 customers worldwide. The company's headquarters are in Cambridge, Massachusetts with additional offices in the United States in New York and San Diego and in Israel, in Tel-Aviv and Haifa. Elron Electronic Industries Ltd., is a multinational high technology holding company based in Israel. Through affiliates, Elron is engaged with a group of high technology operating companies in the field of medical diagnostic imaging, advanced defense electronics, communication, semiconductors, networking, software and information technology.

Granite Hacarmel Investments Ltd. Declares Dividends

Dr. Y. Gleitman, CEO, Ampal-American Israel Corporation, reported that its 21%-owned, affiliate, Granite Hacarmel. Investments Ltd., announced a distribution of dividends to its shareholders in the aggregate amount of NIS 500 Million (approx.\$119 million) on December 30, 1998

Starnet Consulting Inc. Acquires Click Online

A letter of intent was signed between Starnet Con-

sulting Inc. (Starnet) and Click Online Ltd. (Click), in Tel Aviv, for the acquisition of Click by Starnet. Click Online, an Israeli-based company, specializes in, among other things, the development, marketing and distribution of games on the Internet. As a result of the acquisition, Click will receive \$1.0 million in cash and 27.5 million shares.

Just the Facts, Please

Internet publishers should design their services to deliver headlines and to breaking news, and down-play analytical reporting, according to research by Jupiter Communications. Almost half of the 2,200 online news consumers surveyed got their news through search engines or directory Web sites, and spent about 10 minutes at a time reading. "This fact shows that many use online news as a source for quick headlines and breaking news, not for deep analysis," said Mark Mooradian, director of Jupiter's consumer content strategies as he opened a Jupiter-sponsored conference in Atlanta.

The report also found 61% of consumers read national and international news online, followed by business news (39%), sports (34%), entertainment-driven news (31%), local news (26%), and technology news (21%).

Compression Technology May Improve TVs

Peach Networks System, a new Israeli high-tech company owned in part by Elbit Ltd. (Nasdaq: ELBTF), has unveiled a revolutionary digital compression technology that will enable cable television subscribers to access the widest range yet of Internet and personal computer applications through their television sets.

The turnkey system, dubbed The Access Channel, combines patent-pending software at the "headend" with existing cable infrastructure to deliver compressed data and video streams to each subscriber. Beginning in 1999, cable operators will be able to use this breakthrough technology to offer a full range of Microsoft Windows 95/98 applications, as well as Internet content. "The dynamic nature of the communications landscape has made it increasingly difficult for cable system operators to keep current technologically and to stay ahead of competitors like DBS, DSL and LMDS," said Ofir Paz,

president and chief executive officer of Peach Networks. "We've devised a software-based solution at the headend, so that cable operators can solve both problems without incurring regular costs for hardware upgrades."

A Not-So-Sweet Side of Sugar

Rats that eat high levels of a natural sugar known as fructose seem to age faster than other rats -- and the same could be true for people who eat too much sweet junk food, Israeli researchers said. Fructose, found naturally in honey and fruit, is used widely in foods ranging from soft drinks to yogurt. But while its sweet taste is popular, the sugar could cause wrinkles and health problems, the researchers said. Dr. Moshe Werman and Boaz Levi of the Technion-Israel Institute of Technology fed large amounts of fructose to laboratory rats. Writing in the *Journal of Nutrition*, they said the fructose-fed rats showed changes in the collagen in their skin and bones. Collagen, a fibrous protein found in connective tissue, bone and cartilage, basically holds the body together. The loss of collagen causes sagging and deep wrinkles in older people. The process involved, Werman's team said, is known as "cross-linking". "Too much cross-linking reduces elasticity and makes the skin stiff and rigid, and these are the conditions that encourage wrinkled skin," he stated. Werman said in a statement. He also said that the same could be true of humans, although this has not been shown. "Americans are eating more and more processed foods such as carbonated drinks, baked goods, canned fruits, jams and dairy products that contain fructose," Werman said. Other studies have shown that high fructose intake can affect how the body handles glucose and increases insulin resistance -- which can both be important measures of the tendency toward diabetes. The rats Werman worked with were fed much more than the average adult person might eat in a day, which is standard in such experiments. The rats were fed 12.5 grams of fructose per kg (2.2 pounds) of weight every day for a year. To compare, a person weighing 154 pounds (70 kg) who drinks a liter of cola consumes about 60 grams of fructose.

Siemens and ECI Jointly Develop High-Speed Data Transfer

Siemens Semiconductors and ECI Telecom Ltd. (Nasdaq:ECILF) said they would cooperate in developing the chipset for the next generation of high-speed data transfer systems. The two companies are working on the design of an ADSL chipset, which will be sold as part of Siemens' POTSWIRE xDSL portfolio, the companies said in a statement. ADSL (Asymmetric Digital Subscriber Line) systems allow data transfer rates of more than 100 times the current 56Kbits or ISDN modems. In the partnership Siemens is developing the semiconductor platform while ECI is contributing its DSL based system expertise and the algorithms.

Indigo and Hewlett Packard Join Forces

Indigo NV (Nasdaq: INDGF) and Hewlett Packard (NYSE: HP) have formed a strategic technical alliance to explore future products and markets. Hewlett-Packard and Indigo will collaborate to combine their respective technologies in new markets. Indigo creates high-end digital color printing systems.

Koor EPS Lower

Koor Industries Ltd. (NYSE: KOR) reported Q3 EPS of \$1.04 vs \$2.37 in the prior year period, on revenues of \$800 mln. vs \$766 mln.

NICE Vision for Security

NICE-Systems Ltd. (Nasdaq:NICEY) has launched its NiceVision digital video and audio recording system in the United Kingdom. The product, for use in security and public safety, was launched in the United States in September. The first UK installation is for the Wycombe District Council, which is using the system to monitor shopping areas and car parks in the town center of High Wycombe. The product provides closed circuit television camera surveillance systems with multi-channel, high-motion digital recording and archiving capabilities.

Elscent Sells Nuclear Medicine to GE Medical Systems.

Elscent Ltd. (NYSE: ELT) has now concluded the sale of its nuclear medicine and magnetic resonance imaging businesses to GE Medical Systems,

a unit of General Electric, for \$100 mln. The terms of the sale included the continuation of their joint venture, ELGEMS, formed in 1997, which design and manufacture nuclear imaging products. Elscent is a 57%-owned subsidiary of Elbit Medical Imaging Ltd. (Nasdaq: EMITF), an Israeli maker of medical diagnostic systems and equipment.

Gilat Satellites to Raise \$200 Mln on Wall Street

Gilat Satellite Networks will issue 20-25% of its shares on Wall Street and raise \$200 million, at the beginning of 1999, the Dow Jones news service reports. According to the news service, the aim of the issue is to finance the costs of the merger with GE Spacenet. Gilat, which refused to confirm or deny the report, is traded at a value of \$600 million, so that the issue will be at a value of \$800 million. It is believed that the company intends to take advantage of its current share price, which was not impacted by the financial crisis which hit world markets. However, Gilat does not need the money to complete the deal, since, as will be recalled, that was done as a share swap, in which General Electric received 30% of the shares in Gilat in exchange for all the shares in GE Spacenet. What does give rise to a requirement for more money is the fact that, in contrast to Gilat, Spacenet's activity, namely providing broadband satellite communications services, is capital intensive. It leased satellite time from its parent company, GE Americom, which owns eleven high orbit satellites. In order to grow, apart from increasing expenditure on marketing, Gilat will also have to increase the amount of satellite time it leases, which requires more finance than can be provided from its working capital. Another reason for raising funds is that AT&T Tridom, acquired by Spacenet in 1997, deals in the provision of satellite services. Tridom utilises equipment from competing companies which Gilat wishes to convert to its own equipment. Gilat sees it advantageous to integrate the products used by Tridom and Spacenet, and to increase additional possibilities for providing services. Gilat became a public company in March 1993 when it raised \$28 million. A follow on offering took place in October 1995,

when it raised \$50 million. In May 1997, with the help of US investment bank Lehman Brothers, it raised \$75 million in an issue of convertible bonds redeemable in 2004.

HK Catalyst Affiliates with the Chasm Group

HK Catalyst (formerly HK Strategy & Finance), a leading high-tech advisory company headquartered in Israel, announced its partnership with The Chasm Group, the Silicon Valley-based premier strategy consulting firm. HK Catalyst will be the Chasm Group's local affiliate in the region, offering the firm's unique strategic planning services for technology-based companies and organizations. "For Israeli technology companies, located far from the world's largest markets, penetrating mainstream markets can seem insurmountable. HK Catalyst helps Israeli companies develop marketing strategies that really work in the global arena," said HK Catalyst CEO and founder Robin Hachmi-Hacke. The firm will implement The Chasm Group's proven consulting methods, creating tailored programs to suit each client's specific needs. Project participants work together with HK Catalyst to identify target markets quickly and develop consensus-based strategies. Since its inception in 1992, The Chasm Group has helped technology companies develop and implement corporate and market development strategies that create or sustain market leadership positions. The Chasm Group's methodologies are based in part on the ideas detailed in three best-selling books -- *Crossing the Chasm* (1991, HarperBusiness); *Inside the Tornado* (1995, HarperBusiness); and *The Gorilla Game* (1998, HarperBusiness) -- authored by Chasm Group Chairman Geoffrey Moore. Chasm Group clients include such blue-chip companies as Autodesk, Cisco, Hewlett-Packard, Microsoft, Oracle and Perkin-Elmer, as well as numerous venture-funded start-ups. "HK Catalyst and The Chasm Group share a common goal: enabling clients to gain competitive advantage and achieve sustained growth. To reach this goal, we work with senior management to develop a roadmap for success," said Moore. "HK Catalyst's understanding of global technology business, experience with the local

high-tech market, and skilled, international team make HK Catalyst a perfect fit for us." HK Catalyst has helped diverse clients such as VocalTec, Gilat Satellite Communications and Live Picture grow from early-stage into industry-leading companies. Since 1990, the firm has provided strategic and financial advisory services to technology companies, multinational corporations and global investors, completing more than 200 assignments for over 80 clients.

The Favorites of Israel's Provident Funds

Koor Industries Ltd. (KOR:NYSE) was the most widely held share by Israel provident funds at the end of the 3Q, a survey by Meitav Investments & Securities released showed. Provident funds held approx. \$125 million in Koor shares at the end of the quarter. IDB Group companies held second through fourth place, with IDB Development Ltd ranked second, Discount Investment Corp third and IDB Holdings Ltd fourth. Meitav, a brokerage house that tracks the mutual and provident fund industry, said the top four rankings were unchanged from the 2Q. But Bezeq Israel Telecom pushed out Bank Leumi for fifth place.

Bloom and Boom Years to Continue into the Next Century

1997 was a banner year as venture capital investors cashed in on massive profits as portfolio companies valuations ballooned as a result of winning Initial Public Offerings. ESC Medical and Galileo provided fireworks. Individual investors who bought it at new issue price also were big winners. It was a

if you are looking for an up-to-the hour quote on any of the Israeli companies on Wall Street just bookmark our webpage on the Internet
It is seen by visitors in 28 countries

<http://www.ishitech.co.il>

great year for industrial research and development as Intel unveiled its Pentium Processor with MMX technology, developed at Intel's Israeli research center. High-tech exports capped a 40% growth in 10 years and passed \$16 billion. Few dared to suggest that "the boom and bloom" would continue into 1998. Yet the year which just ended was full of surprises. Buyouts provided the high-tension excitement. The "deal of the year" was the purchase of the Israel-based company Mirabilis Ltd. that makes the widely used ICQ Internet chat service for \$287 million. The purchase price could grow another \$120 million depending on Mirabilis' operations over the next three years. Mirabilis developed ICQ technology, which informs Internet users when family, friends and business colleagues are on-line and enables them to exchange messages in real-time. More than 12 million people were using the technology. At the recent count the number of users had risen to 20 million. The three founders of Mirabilis were barely out of their teens and they proved that you can make it big from Israel's "Silicone Wadi". Shortly afterwards, MEMCO Software, a provider of information security software, proved that they had reached "star status" when they agreed to a merger with Platinum Technology, a major provider of IT infrastructure management software. The combined offerings of both companies is expected to provide advanced solutions for protecting enterprise networks, databases, and systems across multiple platforms. The transactions value was in excess of \$500 million. This past year the Internet became a global buzzword. For three years it had been a story but in 1998 it ceased to be a story and it became the one and only story. The Web turned into a prime-time vehicle for 100 million individuals worldwide. On one day in October when shares in America turned sharply lower, 18 million individuals logged on the NADASQ site which carries the Israel High-Tech & Investment Report as an on-line resource. The systems came under strain but did not fail. The exponential growth of e-commerce was felt and sales of goods and services over the Internet would top \$7.1 billion for 1998, more than double the previous year.

As the year ended Nomura International invested in Versaware Technologies, an American company with a wholly owned Jerusalem subsidiary specializing in electronic publications for the Internet. The two year old startup was accorded a valuation in excess of \$70 million. Virtual Communities Inc., also only two years old, is the creator of the popular Virtual Jerusalem website and has just launched the Virtual Holy Land website and though very young, is already being courted by American investors. These "portals" combine e-mail and search capabilities with a variety of news and entertainment services. At least a million dollars is invested in each site so as to make them the preferred points of user entry into the Internet.

On Wall Street, any new issue with a "Net" in its name is drawing feverish enthusiasm. Though prices are soaring beyond the borders of common sense and belief, the best of these will not only survive but return handsome profits to investors. The benchmark for investment is the promise of instant wealth which has replaced the time honored measure of price/earnings ratios.

In our May 1998 issue we predicted "Yet, we are firm in our conviction that economic logic will assert itself and that new financial realities, including a new rate of exchange will emerge from the current muddled atmosphere." In October Israel proved its fundamental economic strength during the hectic days of foreign currency in the wake of the economic problems in Asia and South America. In three days October 6-8, in hectic foreign currency trading on the international' foreign exchange markets the dollar plunged against the Japanese yen down to JY 111. It was down by a quarter since its peak of above JY 140 in August. In recent years Israel moved away from controls over foreign currency holdings and its capital markets were wide open to be buffeted by the selling of securities by foreign investors on the Tel-Aviv Stock Exchange. The subsequent repurchase of dollars, followed by speculative transactions involving the New Israeli Shekel (NIS), and to the unwinding of cheap foreign loans taken out by its own business community were powerful tests of Israel's ability to maintain stability.

However, neither was there a collapse of the exchange market nor was there any intervention by the Bank of Israel, the country's Central Bank.. A major test had been passed with some but not major damage.

Kesselman & Kesselman, a leading Israeli accounting firm reported the good news, that: "a new record level of venture capital investments in 72 Israeli companies totaling \$159 million, was achieved during the third quarter of 1998." In a recent market survey carried out by the highly respected international research organization --- International Data Corporation valued e-commerce on the Internet market in Israel at \$300 million for 1998. IDC's estimates that the local Internet market is likely to reach \$1 billion by the year 2002.

Will the world as we know it grind to a halt on January 1, 2000 as the Y2K bug makes simple tasks on computers impossible? The Year 2000 computer problem is a reality and among others Israel's Crystal Technologies is providing the answer for major corporate clients in the USA.. Actually, the world has known about Y2K ever since an independent consultant uncovered the code glitch in 1984. Just what's going to happen remains a matter of debate. Some trouble is surely ahead -- but not calamity. Businesses and governments are hurrying to make up for lost time and make their computer systems Y2K-compliant. It's a race against time and the clock is ticking.

Even a conservative view for 1999 and on to the millennium cannot dim the prospects of additional progress not just in Internet-related businesses but in the fields of biotechnology and medicine. These are just a few of the prospects as we wind down the 20th century and prepare for what Aldous Huxley aptly called " A Brave New World".

Scitex and CDI in Digital Printer Deal

SCITEX said it signed an agreement with CDI of Carmiel, Israel to jointly develop and market digital printers for compact discs. CDI will invest \$3 million over the next two years in the project, while Scitex will develop and manufacture the digital

printers, Scitex said in a statement. The printers will allow fast, high-quality and direct printing that will eliminate the need for intermediate processes, the statement said

VCON Telecom Debuts on Le Nouveau Marche

The Paris stock Exchange Le Nouveau Marche took another step forward in gaining local listings when Israeli based VCON Telecommunications Ltd. 1.8 million shares began trading. The offering was priced at FF 56 or \$10 a share. The issue was managed by SPEF Technology and Meerschaert-Rouselle. The issue was slightly delayed in reaching the market but when it was placed it created a healthy market capitalization of \$82 million for VCON.

When IHTIR spoke in November to visiting officials from Le Nouveau Marche they were delighted with the issue and were looking forward to attracting additional Israeli companies to the Paris Bourse. Six year old VCON is a spin off from Optibase to its shareholders. The company's activities concentrate on video compression for video on demand. The company's products include videoconferencing boards and software allowing personal computers to be used as videoconferencing systems.

Though the videoconferencing market was nearly non-existent in 1997 it is estimated to be about \$80 million in 1998. By the end of 2001 estimates for this market are in excess of \$1.0 billion. At present Intel has 50% of the market with VCON holding approximately 15%.

With the publication of this Volume XV, Issue 1 the Israeli High-Tech & Investment Report proudly marks the start of its 15th consecutive year of publication. We have labored hard to earn the reputation of being the most respected publication in our field.

We thank our subscribers for their support and promise to maintain our independent approach and to be the first in reporting on the most exciting area of Israeli activity....the high-tech sector.

Comverse Technology, Inc. Nasdaq: CMVT (Return to Article)

Address:

29 Habarzel Street,
Ramat Ha'hayal 69710
Israel.

Tel: (972) 3 - 645 2897

Industry:

Telecommunication equipment

Sector:

Technology

Employees:

Officers:

.....President

Itsik Danzinger, COO Comverse Network
Systems.

Profile

Comverse Technology designs, develops, manufactures and markets computer and telecommunication systems and software for communications and information processing applications. The company is divided into three product divisions: Comverse Network Systems (CNS), Comverse Information Systems (CIS) and Dale, Gesek, McWilliams & Sheridan Inc. (DGM&S). Comverse recently merged with its former rival Boston Technology, in order to strengthen CNS, which manufactures multimedia messaging and information processing systems to provide enhanced service platforms (ESP) to wireline and wireless telecom network operators.

ECI Telecom Ltd Nasdaq: ECILF

Address: (Return to Article)
30 Hasivim Street,
Petach Tikva 49133,
Israel.

Tel: (972) 3 - 926 6555

Industry:
Telecommunication equipment

Sector:
Technology

Employees:

Officers:
David Rubner, President and CEO
Doron Inbar, Senior VP and CFO

Profile

ECI Telecom designs, develops, manufactures and markets digital telecommunications and data transmission systems, enabling network operators to deliver cost-effective services. The company's systems provide capacity expansion, flexibility and management functions to better utilize existing and new telecommunications, data, video and integrated networks. ECI is focused on access network products; digital circuit multiplication solutions; synchronous transmission solutions; wide area network and Internet solutions; switched video networking; and integrated network solutions. The company's telecommunication and networking systems are deployed by telephone operating companies and private networks in 145 countries worldwide. In September 1998, the company announced an agreement to supply equipment to China's largest cellular operator, Guangdong Mobile Communications Company, and also that it has been chosen by Deutsche Telekom of Germany to supply its ADSL (Hi-FOCuS) solution to 28,000 subscribers. ECI has announced that it signed an agreement in principle to acquire Tadiran Telecommunications Ltd.

Net Income for the Fourth Quarter Up 19% on 15% Increase in Revenues

On February 4, 1999 ECI TELECOM LTD. announced consolidated results of operations for the fourth quarter and full year 1998. Revenues for the fourth quarter increased by 15% to \$214,806,000 compared with \$186,098,000 for the comparable period in 1997, and gross profits rose 13% from \$106,030,000 (57.0% of sales) to \$120,219,000 (56.0% of sales).

Operating income for the fourth quarter of 1998 was \$49,540,000 (23.1% of sales), an increase of 16% as compared to \$42,774,000 (23% of sales) for the fourth quarter of 1997. Net income for the fourth quarter of 1998 was \$46,751,000 (21.8% of sales), or \$0.61 per share (\$0.59 fully diluted), an increase of 19% as compared to \$39,390,000 (21.2% of sales), or \$0.51 per share (\$0.50 fully diluted), in the fourth quarter of last year.

Revenues for the full year 1998 increased by 19% to \$806,204,000 compared with \$677,741,000 for the comparable period in 1997. Gross profits rose 27% from \$359,424,000, last year to \$457,608,000 in 1998. Reported operating income for 1998 was \$166,989,000, up 20% over the \$138,700,000 reported for 1997. Net income for 1998 was \$156,162,000 or \$2.03 per share (\$1.97 fully diluted) compared to \$132,440,000 or \$1.73 per share (\$1.70 fully diluted) last year. During 1998, the ECI recorded a one-time write-off of in-process R&D of \$14,371,000. In 1997, the ECI recorded a one-time expense associated with the restructuring of a European subsidiary in the amount of \$2,109,000.

Elron Electronic Industries Ltd.
Nasdaq: ELRNF (Return to Article)

Address:

Advanced Technology Center,
 P.O. Box 1573
 Haifa 31015,
 Israel.

Tel: (972) 4 - 854 5000

Industry:

Finance - Consumer/Commercial

Sector:

Technology

Employees:

Officers:

Uzia Galil, Chairman and CEO
 Jacob Ben-ZVI Ph.D., Senior VP Business

Development

and President & CEO, Elron Software Inc.

Doron Birger, VP, Finance & Corporate Secretary.

Profile

Elron Electronic Industries Ltd. pioneered Israel's electronics industry and has since evolved into an industrial and technology holding company operating through its holdings in affiliated companies and strategic investments. The company participates in a variety of technology-driven sectors: electronics, computers, data communication, medical diagnostics and industrial imaging, automated production processes, semiconductor production and equipment, software and information technology.

Gilat Satellite Networks Ltd (Return to Article)
Nasdaq:GILTF

Profile

Gilat Satellite Networks Ltd designs, manufactures, markets and supports very small aperture terminal (VSAT) satellite earth stations and related hub equipment and software. Gilat products are incorporated into telecommunication networks that provide satellite-based communications between a central location and a large number of geographically dispersed sites. The company provides VSAT product lines to several markets including satellite data delivery (batch and interactive data communications for retail point of sale, inventory control, lottery, ATM remote training, and data broadcast of paging signals, newswire and real-time financial information); satellite telephony (single/dual-channel telephony for applications such as satellite payphones in remote areas, and multi-channel satellite telephony platform for on-demand voice, fax and data communications for use in underserved areas; and satellite-based Internet access. PETAH TIKVA, Israel--(BUSINESS WIRE)--Feb. 3, 1999--Gilat Satellite Networks Ltd. (Nasdaq: GILTF - news) today announced the pricing of a public offering of 4,745,000 of its ordinary shares at \$57.00 per share.

The offering consisted of 4,000,000 ordinary shares offered by the GILAT and 745,000 ordinary shares offered by certain selling shareholders. The gross proceeds to the GILAT and the selling shareholders will be approximately \$270,500,000.

The offering was managed by Merrill Lynch & Co., Goldman, Sachs & Co., CIBC Oppenheimer, Lehman Brothers and Salomon Smith Barney.