

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES  
February 1999 Vol. XV Issue No.2

JOSEPH MORGENSTERN, PUBLISHER

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

## Reaping Riches from Investing in Israeli Natural Resources

Over the years Israel has been portrayed as a country rich in human but poor in natural resources. Lack of oil resources in an area of the world which contains more than half of the world's reserves of oil was grim confirmation of the scarcity of natural resources. Some considered investing in the search for black gold as associated with prophetic ideas related to the mention of oil in the Old Testament. This was the rationale behind the many efforts to find oil near the Dead Sea.

In the first 20 years of the country's existence economic progress was made by the sheer efforts its citi-

zens, assisted by international support in the form of grants and gifts.

In 1968 the wily and charismatic then Finance Minister, Pinchas Sapir staged in Jerusalem what was appropriately named as the Millionaire's Conference. He invited the best known global names in industry, trade and finance. As a journalist, in the cigar smoke filled Finance Committee Room, I recognized some of these leaders which included Sigmund Warburg from England and Edmond Rothschild from Geneva. These indeed, were the captains of the global business community.

Finance Minister Sapir unveiled the idea of a corporation whose founders were each asked to invest \$100,000. The funds would be invested in projects aimed at expanding Israel's economy.

This conference marked the birth of the Israel Corporation. One of the investors at the time was the late Shoul Eisenberg. A self-made millionaire who escaped from pre-World War II Europe and settled in Japan. In 1968 he was already known as an international business tycoon who could put together projects

A \$100,000 investment made in 1968 has turned into a \$330 million tax free windfall

in tens and hundreds of millions of dollars. Sapir and Eisenberg found a common language. The Finance Minister cajoled Eisenberg to make his Israel his international business headquarters. To entice him Sapir was instrumental in passing what has been known as the Eisenberg Law whereby a 30 year tax holiday for Eisenberg, was promulgated.

In the 1980s the Eisenberg Group acquired control of the Israel Corp. Subsequently many of the original investors withdrew, leaving the chairmanship to Eisenberg.

By 1998 The Israel Corp. had investments in more than 100 businesses.

The jewel in the company's crown is its 43% holding in Israel Chemicals, a diversified manufacturer of

### In this Issue

Reaping Riches from Investing in Israeli Natural Resources  
Israel To Conduct Controlled Blasts

Some Hard Facts on Israeli Internet Usage

US-Israel Science Tech Commission Invests \$3.0 mil. in New Generation Internet Initiative

First Access "Hottest" Company of 1998

H&Q CEO Predicts Record Year for Public, Private Financing  
Can Energy in Seawaves Provide a Viable Source of Electricity?

Magal Buys 40% of Drug and Explosive Detection Company  
BIRD to Finance Development of Purifying Radioactive Contaminated Water

3Com Ventures, to Invest \$5 million in Orion Israeli-based Venture Capital Fund

Cinar to Acquire Edusoft

Productivity Threatened by Impeachment

Preliminary Results for the Year 1998.

TI to Acquire Butterfly VLSI for \$50 million

Comverse Joins Nasdaq-100

IHTIR's Choice of a Small Cap for 1999 Gilat Communications (GICOF:Nasdaq)

Investor Fickleness Drops Checkpoint

Has the Time Come for Silicom the Disappointing MicroCap?

[www.ishitech.co.il](http://www.ishitech.co.il)



The Dead Sea Works situated on the shore of the Dead Sea processes rare chemical compounds and fertilizers which focused on exploiting the natural reserves of rare chemical compounds found in the Dead Sea and the Negev Desert. The company is in the process of implementing a \$2.0 billion investment program.

Next month will mark the second anniversary of the death of Shoul Eisenberg. Since his death there has been much discord among the heirs who insisted on cashing in the family's Israeli investments. Shoul Eisenberg's son Erwin, who assumed the chairmanship of the Israel Corporation, had entered into negotiations for the sale of the 43% holding to the Canadian Potash Corporation of Saskatchewan which cast its eyes on the Dead Sea Works, the world's second largest source of potash. However, in an unexpected maneuver the Israeli Ofer Brothers, whose wealth is estimated at \$1.5 billion, signed a deal to purchase the Eisenberg 43% share in the Israel Corporation for \$330 million.

Assuming that this deal will be done it marks an incredibly high yield from an investment in Israeli natural resources. \$100,000 invested in 1968 is returning to its investors as \$330 million, free of tax. The Eisenberg Law has less than a year until its lapse and the timing of the sale was indeed propitious. Looking further ahead it is to be assumed that the Ofer brothers are investing with a view of reaping further capital gains. The former Finance Minister Yaakov Neeman, recently returned to his law practice, acting on behalf of the seller undoubtedly was able to convince the Ofer brothers of the very high intrinsic value represented by the Israel Corp.

at \$330 mil the shares of the Israel Corporation continue to be a good investment

### Israel To Conduct Controlled Blasts

Israel will conduct three controlled explosions in the Dead Sea as part of a U.S.-funded project designed to improve the monitoring of earthquakes and nuclear explosions in the region. The explosions, to be carried out at the end of April, about 330 feet below the Dead Sea's surface, will be picked up by seismic stations in the Mediterranean basin. "The next time there will be a nuclear explosion or seismic activity, we will be better able to identify it," said Gadi Shamir, a professor at the Israel Geophysical Institute which will conduct the explosions. He said Israel was interested in tracking earthquakes, while the Americans were concentrating on possible nuclear activity. The US is funding part of the project. "The tests are not expected to cause any harm to the environment," said Dr. Shmuel Brenner, deputy director of Israel's Ministry of Environment. In the first test, a 1,100-pound charge of TNT will be detonated, in the second will be a 4,400-pound charge and in the third test will be about 11,000 pounds. The tests will be conducted from a boat in the middle of the Dead Sea. Neighboring countries have all been notified

of the tests. The Dead Sea lies on the seismically active Syrian-African fault situated along the Israel-Jordan border. Officials do not believe the explosions will cause an earthquake. "The explosions will be like medium quarry explosions," Shamir said. "There may be some waves in the Dead Sea, but it will not be dangerous to the tourists on its shores."

## Israelis are Well Connected

### Some Hard Facts on Israeli Internet Usage

There are approximately 600,000 Internet users in Israel and a total of about 200,000 ISP (Internet Service Providers) accounts.

There are 1,500 businesses connected to the Internet via fixed connections and about 13,000 Israeli Web Sites.

Israeli Internet growth this past year has been 45%.

Mr. Daniel Rosenne, the Managing Director of the Ministry of Communications, at the Annual Internet Conference held in Israel

### US-Israel Science Commission Invests in New Generation Internet Initiative

Total investment is estimated at \$6 M split between USISTC and local industries. The US-Israeli Science and Technology Commission announced its support of a next generation internet initiative. Following an Executive Committee meeting in Israel, the USISTC announced that it will make available up to \$3M for joint projects between US and Israeli companies. Because USISTC projects are cost-shared with industry, the total amount that may be allocated for this initiative is \$6 million. In Israel, the USISTC, working under the auspices of the Israeli Industry and Commerce Ministry, will lead the project. The next generation internet is defined as initially 100 times faster, and subsequently 1000 times faster, than the existing WWW. In addition

to its speed, the new internet system will be instrumental in the development of various products in the information and communications field, through innovative technologies which are currently impossible to implement within the existing infrastructure. Gary R. Bachula, US Under-Secretary of Commerce for Technology, Cathy Campbell, Director of the USISTC, Al Kamhi, Director of the NGO Foundation, the non-governmental organization that the USISTC established in 1995 to implement its goals, Israeli USISTC members, Orna Berry, Chief Scientist of the Israeli Ministry of Commerce and Trade, Uziah Galil, President of Elron, Zeev Tadmor, Chairman of the Board of Directors of the Neeman Foundation and Yoram Zahavi, Head of the local USISTC met recently. They discussed issues such as former accomplishments of the USISTC and an announcement of a search for projects in the field of the next generation internet initiative.

Dr. Orna Berry added: "This is an important step in the strengthening of Israeli-US collaboration on topics of industry in general and hi-tech, in particular. We should make the most of this special opportunity in joint construction of a computer infrastructure which has the potential to impact the global communications and business markets, building upon Israel's relative advantages in the communications industry." The US-Israel Science and Technology Commission, established in 1994 by the President of the US, Bill Clinton and the late PM of Israel, Yitzhak Rabin, operates under the Bureau of the Chief Scientist of the Ministry of

Mr. Gary Bachula, Under-Secretary of Commerce noted: "We see Israel as a leading contributor to the field of information technology in general, and the internet in particular. Therefore, we find it appropriate to emphasize this important joint project, expected to contribute to the economies of both countries."

Industry and Commerce. The Commission has a budget of \$60 million, half of which originates from both governments and half funded by industries.

The Commission's primary aim is to promote and

support joint collaborations in the field of science and technology in order to create economic benefits for both countries.

The Commission has established six potentially commercial projects, to date. The USISTC's current activities are two projects of a scope of \$3 M. for the development of a substitute for methyl bromide, a project in fishery technology and a \$ 5.3M. project for solar energy utilization. In addition to joint ventures, the Commission supports joint activities whose purpose is to identify methods of economic and technological collaboration between both countries and to eliminate obstacles in cooperation efforts.

### First Access "Hottest" Company of 1998

The company was named as the "Most Promising Company of the Year for 1998" by Network Computing, a leading Israeli IT publication. This award comes just one month after the company garnered a finalist spot for Best of Show at Comdex, North America's largest IT exhibition. Past recipients of IT award the Network Computing were Memco Software, recently purchase by Platinum Technology Inc. [Nasdaq:PLAT] for a reported \$500 million and ICQ (Mirabalis Ltd.) whose purchase by AOL Inc. for \$300 million. The First Access Enterprise™ system enables PCs and network computers to automatically and securely authenticate a user without requiring any user action. Unlike existing authentication methods such as passwords, smart cards or tokens, the First Access system authenticates the user from a distance of a few feet without any keyboard typing, token insertion, card swipe, finger scanning or any other action.

### H&Q CEO Predicts Record Year for Public, Private Financing

Initial public offerings, secondary offerings and venture capital financing will reach record levels in 1999, Daniel H. Case III, Chairman and Chief Executive Officer of Hambrecht & Quist, announced to more than 3,400 corporate executives and institutional investors. Mr. Case predicted that underwriting will be more active in the first half of

1999 than in the last six months, because of the combination of pent-up demand from the 1998 market correction, which caused many companies to postpone offerings, and the current favorable market trends which are driving averages to new highs. "We see a robust year in public and private equity financing overall," he told attendees at the Hambrecht & Quist 17th annual Healthcare conference, "although smaller-capitalization companies in the healthcare industry will continue to have some difficulty financing their growth." The H&Q CEO said major structural change in public financing will be even more evident this year as companies and their underwriters increasingly target retail investors, particularly on-line investors, to provide greater balance, improved pricing and better after-market performance for their offerings. Turning to the healthcare sector, which performed poorly overall in 1998 despite strong scientific advances and a year of record new drug approvals in biotechnol-

Venture financing in the first three quarters of 1998 alone was a record \$11.3 billion.

ogy, Mr. Case noted that the disparity between scientific performance and market valuations, particularly for smaller companies, had created "substantial arbitrage-type opportunities, many of which will be discovered and acted on in 1999." He also told institutional and venture investors and executives of the more than 250 companies represented that rapid consolidation will continue throughout the industry and would include pharmaceutical, medical device, biotechnology and healthcare service companies. The H&Q Healthcare conference is the oldest and largest investment banking conference devoted to this industry.

In predicting a record year for public and private financing, Mr. Case noted that the volume of initial public offerings, excluding closed-end funds, fell to \$36.5 billion in 1998 from \$44 billion in 1997 and a record \$48.8 billion in 1996. The volume of secondary offerings was \$71.2 billion, just below the 1997 record of \$74.6 billion. Venture financing in the first three quarters of 1998 alone was a record \$11.3 billion. Mr. Case said the supply of Internet stock from IPOs, spinouts, secondary offerings and

sale of restricted stock by control persons and insiders would exceed \$10 billion in the 1999 first quarter after reaching \$3 billion in the 1998 third quarter. Hambrecht & Quist is a leading underwriter of public equity, and a leader in merger and acquisition advisory and private equity services for growth companies in the technology, healthcare, services and branded consumer sectors. H&Q has completed more than 380 equity offerings globally since 1995, raising more than \$27 billion for emerging growth companies. H&Q's principal offices are in San Francisco, New York and Boston with additional offices in Europe, Asia and southern California, and a strategic partnership in Israel.

### **Can Energy in Seawaves Become a Viable Source of Electricity?**

Inventor/entrepreneur Shmuel Ovadia says he has invented a way to turn Mediterranean seawaves into electricity. Ovadia, CEO of S.D.E. Energy & Desalination Ltd., says his U.S.-patented pneumatic wave energy converter exploits the intrinsic power and character of the sea to create an environmentally friendly, inexpensive energy alternatives "All you need the sea and waves," he said recently when exhibiting a prototype of his wave energy converter in Jaffa, just south of Tel-Aviv. It consists of two green metal buoys bobbing in the water. As the waves force the buoys up and down, they activate pistons using hydraulic oil that power a motor, driving an electric generator in a small shack behind the sea wall. The energy converter is said to be different from the more than 50 other systems developed worldwide because it exploits the wave's underlying force, not just its height. The prototype, occupying only about 16 feet of beach front, would be able to generate up to 40 kilowatts of electricity a day. However, Ovadia said he could build a plant that would create up to four megawatts a day, enough to light up a town of 40,000 households with a source of power that would cost less than \$0.02 per kilowatt -- much less than it costs to produce energy from coal, gas or oil. "We are speaking about a small system for areas in the Third World where there is no electricity. The idea is to help the Third World with a cheap, effi-

cient and easy way to set up an electricity source," he said. The system is said to offer an additional benefit by producing, a four megawatt system capable of desalinating up to 17,000 cubic feet of drinking water an hour. Few individuals in the scientific community back the project but neither do they dismiss it out of hand. Orna Berry, Israel's chief scientist, though critical of the project has backed it with \$100,000 in the form of a research and development grant from her Office of Chief Scientist of the Ministry of Industry and Trade. It has attracted interest in the US because various states have undertaken to develop alternative sources of energy. Ashdod, a port city in Israel has granted Ovadia a site to build a four megawatt station. Ovadia is considering floating shares in S.D.E. on a stock exchange to raise the \$3.5 million to \$4 million needed to get the Ashdod plant up and running.

### **Magal Buys 40% of Drug and Explosive Detection Company**

Magal Security Systems. (NASDAQ: MAGSF) announced that it acquired 40% of a start-up company, Snifex, Ltd., and has an option to acquire 15% more. During the past 3 years, with the support of the Chief Scientist of the Israeli Ministry of Industry, Snifex has developed a system that can detect explosive and drug traces without being directly in contact with the object. The system can detect traces of explosives/drugs, while the persons or object being examined are passing through a short tunnel; similar to the metal detection procedures used today in airports. The system can detect explosives and drugs hidden on human bodies as well as in hand carried bags. The Snifex system can be used in airports, train stations, embassies, government offices, and prisons. Management believes that the development will be completed and the system will be operational by the end of 1999.

Magal Security Systems, Ltd. is engaged in the development, manufacture and marketing of computerized security systems which automatically detect, locate and identify the nature of intrusions, Magal also manufactures and markets systems that

automatically detect, locate and identify explosive devices in baggage, packages and other parcels.

The company's principal products include a detection system called AISYS, and a video motion detection system called DTS. Magal's products currently are used in more than 60 countries to protect national borders and sensitive facilities from terrorism, theft and other threats.

### **ComCell's Multi-mode Data Technology**

Israel based Comsys Communication and Signal Processing Ltd. announced the debut of ComCell, the world's first multi-mode data technology that enables reliable, high-speed Internet, e-mail and remote access connections over cellular networks. Primarily a software-based solution that is easily implemented on mobile devices, ComCell provides 100 percent coverage for the United States without modifications to the existing cellular infrastructure. "ComCell's ability to reliably deliver data over existing networks is an unprecedented industry breakthrough, by overcoming a deadlock in the cellular market by providing a smooth migration from the analog to the digital world while maintaining full coverage," asserted Ron Cohen, president of Comsys. The technology is said to deliver reliable data connections with speeds up to 40kbps—nearly four times the speed of today's fastest cellular modems. Based on the V.90 and V.34 standards, ComCell is 100-percent compatible with Internet Service Providers (ISPs) and corporate servers around the globe. ComCell can be implemented on a range of mobile communication devices including smart phones, laptop computers and Palm PCs. ComCell utilizes the host processors found in laptops and Palm PCs as well as the Digital Signal Processors (DSPs) in smart phones to provide multi-mode data connectivity. By teaming with cellular equipment manufacturers, Comsys hopes to capitalize on the rapid growth in the mobile communications market. Dataquest, an information research company, projects shipments of mobile phones to increase from 100 million units in 1997 to 360 million units in 2002. Of those 360 million units, 15-20 percent (54-72 million units)

will be smart phones that handle both data and voice. Similarly, International Data Corporation (IDC) estimates the number of new hand-held devices, such as PDAs, HPCs and Palm PCs, to grow from 4.9 million units in 1998 to 13 million units by the year 2001. The number of PCMCIA cards with wireless connectivity is also expected to increase, with estimated unit sales reaching 1.5-2.5 million by 2002. Comsys since its foundation in 1994 aimed to become a world leader in technology that enables reliable, high-speed data connections. Comsys worked in conjunction with one of the world's leading modem producers to develop the first generation of software modems. Comsys is now focusing these expertise on the development of high-quality, cost-effective solutions for the emerging Data Over Cellular (DOC) market.

### **BIRD to Finance Development of Purifying Radioactive Contaminated Water**

The system is to be developed by Soreq Development Corporation of Israel, and Lockheed Martin BIRD Foundation, the Israel-US Binational Industrial and Research and Development Foundation, will support a project for developing a system for purifying water contaminated by radioactivity and heavy metals. The Soreq Development Corporation, (SDC) and Lockheed Martin will develop the system. It will be adapted for purifying contaminated effluents from nuclear power stations and industrial plants. The Metapure purification system, developed by SDC, provides the highest standard of purification of water contaminated by heavy metals including radioactive effluents. Its cost is significantly lower than that of other known purification systems, since it is based on filtering, using plants, and does not use chemical processes. SDC's purification process, based on the use of plants, was developed at the Agricultural Faculty of the Hebrew University of Jerusalem. After the plant is picked and dried, the dried leaves are compressed into a filter, through which contaminated water is passed. The plant absorbs the metals and pure water flows out of the filter. Dov Hershberg, BIRD's Executive Director said "The development is arousing much interest among large international

companies, which produce energy from nuclear reactors. It is currently at the transition stage from the trial to the commercial phase, which will enable water purification at a rate of 100 cubic meters per hour. BIRD Foundations decision to support SDCs project reflects BIRDs preferential backing for start up companies in the fields of life sciences, environment and material sciences” The volume of financing to be provided by BIRD will be \$0.5 - \$1 million. A total \$1.5-\$2 million will be invested in the project, expected to last for two years. SDC estimates the projects market potential at \$6 to \$8 billion. SDC is owned by Isorad, the commercial arm of the Soreq Nuclear Research Center, and Discount Investments Corporation. The company identifies technological needs required by the market, and sets up start up companies to develop the solution. The start-up focusing on the development of Metapure is jointly owned by the Hebrew University’s Yisum company, a partner in research and development. SDC has developed a prototype of the water purification system; in order to prove capability. Within its cooperation with Lockheed Martin, SDC will upgrade its water filtering systems. The Lockheed Martin-owned LMITCO company will integrate the filter into a purification system on a commercial scale, capable of treating large amounts of water. Both companies intend to go onto the market in the year 2001. Development in the US will be performed by LMITCO, a subsidiary of Lockheed Martin, which specializes in water purification and the development of environment technologies. LMITCO is based in Idaho, US, where there are several sites contaminated by nuclear pollution. The company is responsible for operating the US Government National Laboratory for Environmental Engineering, and as such is in charge of purifying the site from radioactive contamination.

### **Computer Piracy in Russia**

The following article has been provided by Aladdin Software. It has raised considerably interest in the computer security industry and we are reproducing

it here below. Russian Computer pirates are skilled, intelligent and sit in front of computer screens for hours or even days on end. But security systems firms say Russia’s economic crisis could turn these unassuming information technology experts into a threat to any firm in the world that uses a computer system. Growing layoffs and low salaries mean they could soon follow the path taken by many before them into Russia’s flourishing world of hacking, software theft and piracy. “Some time ago we lived through times when programmers were receiving large amounts of money for their work,” said Mikhail Salnikov, chief editor of Compulog magazine. “It’s hard these days to find honest work which pays money. Think of poor people in the city of Tula, students who have no prospects, then you can understand why they turn to computer crimes.” Aladdin Software Security, the Russian branch of Aladdin Knowledge Systems Ltd (Nasdaq:ALDNF), said that the problem seemed likely to grow. “By the end of this year only 50 percent of Russian software companies will survive. What will qualified personnel who have been thrown onto the streets do?” Aladdin asked. The company suggested that most will turn to software theft and piracy. A growing number of hackers have already found a lucrative market for their wares in Russia as licensed software sales have been hit by the economic crisis, which has led to a ruble devaluation, job losses and inflation. People simply cannot afford to buy licensed software, in the opinion of experts at a recent Moscow meeting on hacking and piracy. “They have put hacking on an industrial track,” Aladdin said, adding that huge amounts of money could be made from software piracy. Counterfeiters sell bogus software on the street and some personal computer sellers pre-install unauthorized software on the hard drive, while buyers assume they got the real thing. According to Aladdin the number of Russian Web sites on the Internet offering pirate software and hacking tools had risen this year. Only three such sites existed last year but in the last six months Aladdin has helped Internet providers find and close 15 sites run by pirates and code crackers.

Some 89 percent of all software used in Russia is pirated. But experts say a greater fear gripping the computer world is that Russia's computer specialists could turn to more sinister crimes to reap more profitable rewards. Aladdin groups hackers into three categories: crackers who want to see if they can get into programs, hooligans who leave viruses on programs and the most dangerous, those who want to find and use confidential information and perhaps commit fraud. Vladimir Levin, a computer expert from Russia's second city of St. Petersburg, used his skills for ill-gotten gains. He was caught stealing from Citibank in a fraud scheme and said he used bank customer passwords and codes to transfer funds from their accounts to accounts he controlled in Finland, the Netherlands, Germany, Israel and the United States. Total transfers exceeded \$3.7 million but Levin and his co-conspirators were able to withdraw only \$240,000 before they were caught. He was sentenced to 36 months in prison and ordered to pay back the money he admitted stealing.

### **3Com to Invest \$5 million in Orion**

Israeli-based Venture Capital Fund 3Com Corporation (Nasdaq:COMS) announced an agreement, through 3Com Ventures, to invest \$5 million in Israeli-based venture capital fund Orion Israel Fund L.P. The fund aims to raise up to \$110 million for investments focusing on Internet-related technologies, products and services. "Through our investment in Orion, we have the opportunity to team with other leading companies to provide consumers and businesses with access to the technologies that will drive the future of the Internet," said Eric Benhamou, 3Com Corporation's Chairman and CEO. 3Com's global business development strategy emphasizes investments in best-in-class converged networking technologies, including wireless data and high-speed access. The goal of the Orion Israel Fund is to actively seek out and identify Internet-related technology companies in Israel and provide them with the capital, ongoing assistance and strategic support to enable them to prosper. Support from major international technology players such as 3Com will enable these companies to focus key

technologies, products and services for the next generation of the Internet.

Israel 3Com has a strong track record of investments and acquisitions in Europe and Israel. Its 1992 acquisition of UK-based BICC Communications Ltd. has grown to be a central component of 3Com's products that serve small, medium and large enterprises. 3Com's acquisitions of Israel-based NiceCom Ltd. in 1994 provided key elements of 3Com's enterprise strategy. Other investments include Savan Communications, a broadband access silicon company based in Israel. 3Com recently established a Pan-European business development office located in Israel. "Recognizing that Israel is a global center of technology innovation, our investment in the Orion Fund enables 3Com to tap into the substantial R&D investment being made in high-growth, Israeli technology companies," stated Yair Sakov, director of Pan-European Business Development for 3Com Corporation.

The Orion Fund intends to invest in Israeli and/or Israeli-related companies in the fields of high technology, Internet related, software and hardware, applications and tools. 3Com Ventures, Inc. is a business development group that invests in emerging technology companies around the world. With this investment in Orion Israel Fund L.P., 3Com has taken equity positions in 22 companies since its inception in 1979. With more than 200 million customers worldwide, 3Com Corporation connects more people to information in more ways than any other networking company.

### **NiceLog 7.5 Product of the Year**

NICE Systems (Nasdaq:NICEY), a leading provider of digital voice recording systems, announced that NiceLog 7.5 has been named 1998 Product of the Year by Computer Telephony magazine. Calling NiceLog "not just your run-of-the-mill call logger," Computer Telephony praised the product's high input capacity, reliability, CT integration, storage and compression capabilities, and remote maintenance and support. NiceLog is NICE's core platform for meeting the voice recording needs of multiple markets including the financial, call cen-



ter, public safety and air traffic control (ATC) environments. It accommodates numerous requirements such as total recording, selective recording, recording on demand and quality management.

**Cinar to Acquire Edusoft**

Canadian film and television company Cinar Corp said it is the previously unnamed buyer of Edusoft Ltd., an Israeli multimedia educational software maker. Cinar said it signed a definitive agreement to buy all outstanding Edusoft shares for \$40.2 million, about \$8.50 per share. After deduction for an investment banking fee, Edusoft shareholders are expected to receive \$8.33 per share, Cinar said. The company said it expects the deal to close within three months.

**Productivity Threatened by Impeachment Proceedings**

Impeachment may threaten productivity Elron Software is offering an evaluation copy of its Internet Manager to measure, quantify, and, if necessary, block access to sites related to the Clinton impeachment trial. "The release of Ken Star's report led to a 95 percent increase in traffic to sites featuring the report," said Ivan O'Sullivan, President of Elron. "With the impeachment trial now available on the Web, organizations can utilize our software to evaluate if employees are wasting valuable company time."

third investment in biotechnology since its establishment six months ago. The last two investments were in CompuGene and D-Pharm, both of which Clal took over jointly with partners. Based in Petah Tikvah, NST identifies and produces products that help keep track of cell death in the body. Clal sees great potential in NST's clinical diagnostic products and medication developments.

**Comverse Joins Nasdaq-100**

Comverse Technology Inc. (Nasdaq: CMVT ), of Woodbury, New York, became a component of the



Nasdaq- 100 Index®, on January 13, 1999. Comverse Technology Inc., with a market capitalization of \$3.5 billion, designs, manufactures, markets and supports computer and telecommunications systems and software for multimedia communications and information processing applications by fixed and wireless telephone network operators, government agencies, call centers, financial institutions and other organizations

**Preliminary Results for the Year 1998.**

**% Change on year earlier**

GDP	Industrial Production	Consumer Prices	Trade Balance
<u>%</u> 2.0	<u>%</u> 2.50	<u>%</u> 8.60	<u>\$bln</u> -9.00

**Currency Units**

Foreign Reserves	per \$	per basket
<u>\$bln</u> 22.10	4.16	4.56

**Clal Increases Biotechnology Holdings**

Clal Technology Industries, in alliance with Technorov and the Investment Company of Bank Hapoalim, have invested \$2.5 million in the biotechnology company NST. This is Clal Tech's

The Nasdaq-100 Index, launched in January 1985, has risen more than 80 percent since the beginning of 1998, although past performance is not necessarily indicative of future performance.

The Nasdaq/Amex Market Group(SM), which operates The Nasdaq Stock Market and the American Stock Exchange®, is a subsidiary of the National Association of Securities Dealers, Inc. (NASD®), the largest securities-industry, self-regulatory organization in the United States. The union of Nasdaq® and Amex® creates the world's first financial market that brings together central auction specialist and multiple Market Maker systems.

In the January issue of IHTIR appeared an in-depth analysis of Comverse Technology. The shares which were then traded in the low \$70's have continued to appreciate to the low \$80's.

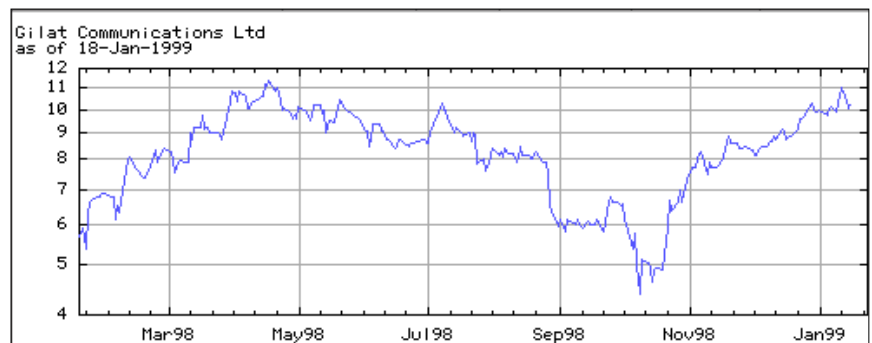
Viewers of the NASDAQ website have the opportunity of accessing the Israel High-Tech & Investment

### IHTIR's Choice of a Small Cap for 1999 Gilat Communications (GICOF:Nasdaq)

Gilat Communications Ltd. is the foremost provider of satellite-based communications services in Israel and a leading developer and provider of satellite-based interactive distance learning systems worldwide. The Gilat offers a wide range of satellite-based communications services in Israel, including domestic and international private data and voice communications networks, IDL and digital video broadcasting (DVB). The Gilat's IDL systems facilitate interactive academic courses or corporate training to and from remote sites. They allow many academic, training, governmental and commercial institutions to create and conduct fully integrated academic courses

Gilat Communications Ltd. was founded in 1990 as the services arm of the Gilat Group, alongside Gilat Satellite Networks Ltd. the equipment and systems development and manufacturing unit. The basis for its operation was the extensive long term design contracts awarded to Gilat by the emerging Israeli CATV industry. Since then, Gilat has made

great strides in development. After receiving licenses from the Israel Ministry of Communications to provide satellite services for both the domestic and international markets, today Gilat is the largest satellite service provider in the Middle East. Gilat's position is further enhanced by its network of strategic alliances and agreements worldwide with other industry leaders. Gilat Communications designs, develops and markets its proprietary developed systems Lernet and Trainet, the state of the art fully interactive distance learning and training systems. The two systems offer both hardware and software for creating, broadcasting, and conducting educational and training operations. The ease of use and the minimum of investment, training and resources helped making the Lernet recommended by bodies such as ITU, Unesco and the World Bank. Gilat draws upon a full range of resources and experience in order to provide the most comprehensive, integrated solutions for satellite data, voice and video communications requirements. Gilat's growing reputation for



developing and providing highly advanced, user friendly applications for the satellite communications industry in Israel, in addition to its well established record of excellent performance, has led to increasing sales growth outside of Israel and the region. This growing international presence

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>

creates new avenues for Gilat's business development as it continues to broaden its range of services and products in the local market as well. Both the domestic and international operations are supported by a highly trained, highly motivated team of communications, sales, service and management professionals working with the latest in satellite communications equipment and technologies.

Gilat's position is further enhanced through the licenses it has received from the Israel Ministry of Communications and through its network of strategic alliances and agreements worldwide with other industry leaders.

### **TI to Acquire Butterfly VLSI for \$50 mil.**

Texas Instruments (NYSE: TXN) announced it has entered into an agreement to acquire Butterfly VLSI, Ltd., a pioneer in the development of Radio Frequency RF wireless technology, targeting communications in a range of up to 100 meters. This move provides TI with added expertise to address the emerging short distance wireless market and continue to strengthen the company's digital signal processing leadership.

Butterfly, with sites in Tel Aviv, Israel, and Santa Clara, California, develops low cost chipsets that enable RF wireless communications in the 900 MHz and 2.4 GHz frequency bands. The company employs about 60 people, involved primarily in engineering, who will become part of TI and operate under the Texas Instruments name. Purchase price was approximately \$50 million.

Butterfly's expertise, coupled with TI's leadership in digital signal processing, analog and software development, will allow the company to provide seamless wireless connectivity to typical fixed or mobile peripheral devices. Some example applications include laptops, short distance connections between cellular phones, natural input devices, home automation, game peripherals or telephones all with cost-effective and interference-free transmission without wires.

For instance, TI's short distance wireless solutions will allow a user to take a photo with a digital camera that will automatically be sent as a postcard

through a cell phone, which connects to the Internet. With this technology, personal organizers and computers in the same room or home could synch up every few hours, with no action required.

This transaction signals an exciting future for Butterfly and its employees, said Gideon Barak, Butterfly's chief executive officer. Joining forces with TI will give Butterfly a powerful presence and ability to leverage its expertise in this new market.

Butterfly was established in 1992 and is primarily focused on research and development activities related to RF wireless technology. Their products target the home and small office environments and include Monarch and Apollo, a chipset for multi-handset cordless phone PC based systems, Admiral, a chipset for wireless human input devices and data terminals, and various wireless devices and controls. The company is privately held with a variety of investors. The transaction is expected to close in the first quarter.

Texas Instruments Incorporated headquartered in Dallas, Texas, is a global semiconductor company and the world's leading designer and supplier of digital signal processing solutions, the engines driving the digitization of electronics.

### **ECI Wins New Orders**

ECI Telecom Ltd. (Nasdaq: ECILF) announced that it has been chosen by Belgacom, Tele-Denmark and Hungarian-based Matav, as single supplier of BRI ISDN Network Terminator Units (NT1).

Under the contract, it is estimated that ECI Telecom will supply over 480,000 Network Terminator Units to connect residents and small businesses in Belgium, Denmark and Hungary to ISDN services. ECI Telecom's PRONTO solution (Network Terminators) was chosen for the three-year contract following a competitive bidding process involving 14 different vendors.

Providing digital communications technology for enhanced business and residential online communications, ECI Telecom's PRONTO systems enable direct, cost-effective ISDN connectivity of up to 128Kbit/s. The PRONTO series supports an array of advanced service capabilities, such as high-speed access to the Internet, reliable data transfer,

high-quality video conferencing and digital telephony, fast file transfer and electronic mail. ECI Telecom has already supplied its network terminator solutions in Germany, Italy and Israel and delivered over 550,000 units of network terminators in 1998. Substantial increase in quantities is expected for 1999. ECI Telecom's PRONTO systems are manufactured in cooperation with Uniskor, a Nisko-owned company.

**Investor Fickleness Drops Checkpoint**

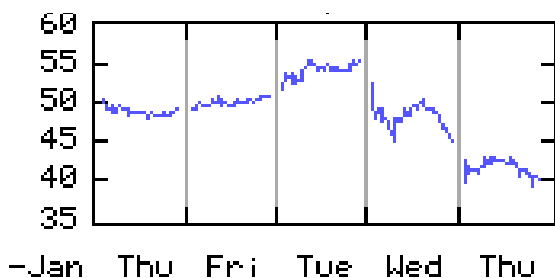
*Check Point Software Technologies Ltd. Reports Record Financial Results for Fourth Quarter and Year-End 1998,* read the company's announcement.

Indeed, revenues for the quarter were \$40,493,000, compared to \$30,595,000 for the same period in 1997, an increase of 32%. Net income for the quarter was \$18,612,000, or \$0.47 per share compared to net income of \$13,876,000, or \$0.36 per share in the same quarter in 1997, an increase of 34% in net income and 31% in net income per share.

Check Point produced strong operating results in the fourth quarter, with 44% growth in operating

From our vantage point the current weakness in the price of these shares is an opportunity to initiate or to add to holdings.

income over the same period last year. The company produced \$19 million in cash, despite lower financial income due to foreign exchange losses.



Check Point also achieved solid EPS growth, even with a 5% increase in shares outstanding. However, the consensus on Wall Street was also a forecast of

\$0.47. Being on target proved not to be enough and as some Wall Street analysts were downgrading the shares of this premier computer security producer, massive selling over a period of two trading sessions bumped the price to about \$40 for a loss of more than 25% in market valuation. In 1998 Steve Balingier, a Microsoft Vice-President, while on a visit to israel intimated that Microsoft was heading into the area of CheckPoint business. The shares then took a pounding from the \$30 range to about \$18 and recovered to a recent high of about \$54. For the fiscal year ended December 31, 1998, revenues were \$141,941,000 compared to \$86,352,000 for 1997, an increase of 64%. Net income for the year was \$69,877,000 or \$1.81 per share, compared to net income of \$39,518,000 or \$1.04 per share in 1997, an increase of 77% in net income and 74% in net income per share over the prior year.

Management feels comfortable with its assessment that in 1999 earnings and profits will exceed 30% per cent.

**Has the Time Come for Silicom, “the Disappointing MicroCap”?**

Silicom Ltd. (NASDAQ: SILCF) announced that a USA based leading manufacturer of mass storage

Net sales	1,731	1,638
Net income	236	86
Sh. earns. (basic):	\$0.06	\$0.02
* Sh. earns.:	\$0.06	\$0.02
<b>Years Ended:</b>		
Net sales	5,933	9,004
Net income	346	1,135
Sh. earns. (basic):	\$0.09	\$0.28
* Sh. earns.:	\$0.09	\$0.28

systems has determined to integrate the company's Ethernet PC Card products within its systems.

Rumours are that the unnamed customer is Compaq.

During the last two years Silicom has been supplying one of its multifunction PC Cards to the same customer. Over the past two years Silicom has recorded lower sales and recently its shares traded as low as \$1.125.

**Comverse Technology, Inc. (NASDAQ:CMVT)**

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. Much of its research and development is carried out in Israel.

Comverse's primary products include: multimedia enhanced services platforms marketed under the names Access NPÆ and TRILOGUEÆ Infinity(tm), which are currently used by more than 275 wireless and wireline telecommunications network operators to provide revenue-generating services such as call answering, unified messaging (voice, fax, and e-mail in a single mailbox), prepaid wireless services, and other personal communications services; multiple channel, multimedia digital monitoring systems marketed to law enforcement and intelligence agencies under the name AUDIODISK(tm); and multiple channel, multimedia digital recording, logging, and quality monitoring systems marketed to call centers and other organizations under the name ULTRA(tm).

**Gilat Communications Ltd. (NASDAQ:GICOF)  
Results for 1998**

Gilat Communications Ltd. (NASDAQ:GICOF - ) reported the financial results for the year ended December 31, 1998, which showed substantial growth in total revenues of 65 percent and growth in net income of 172 percent, over the year ended December 31, 1997.

Total revenues for the year ended December 31, 1998, increased to \$23.6 million, an increase of 65 percent from the \$14.3 million recorded in the same period last year. Revenues from sales of Interactive Distance Learning (IDL) products increased 68 percent to \$10.6 million in 1998 from \$6.3 million in 1997, while revenues from sales of satellite-based communication services increased 63 percent to \$13.0 million from \$8.0 million.

Net Income for the year ended December 31, 1998, was \$5.2 million (\$0.55 per share) compared with \$1.9 million (\$0.27 per share), representing a 172 percent increase.

Total revenues for the three months ended December 31, 1998, increased 65 percent to \$8.0 million from \$4.8 million in the same period of 1997. Revenues from sales of Interactive Distance Learning (IDL) products increased 72 percent to \$4.1 million in the fourth quarter of 1998 from \$2.4 million in the same quarter of 1997, while revenues from sales of satellite-based communication services increased 59 percent to \$3.9 million from \$2.4 million.

Net Income for the three months ended December 31, 1998, was \$2.14 million or (\$0.23 per share) compared with \$0.76 million (\$0.10 per share), representing a 182 percent increase.

At the beginning of 1999, the company's backlog of orders and contracts for services and IDL products totaled \$25 million, of which \$15 million in orders and contracts are due for delivery in 1999. All orders and contracts are entered into in the ordinary course of business and are subject to cancellation or amendment pursuant to the company's standard terms and conditions.

Commenting on the year end results, Mr. Shlomo Tirosh, Gilat's Chairman and CEO, said: "Gilat achieved another year of outstanding growth in revenues and earnings, while at the same time expanding to new markets and business areas. We are fast emerging as a leader in IDL and satellite-based communication services, and we are confident that we can continue to expand our presence in both business areas in the coming year."

Gilat is expanding its U.S. presence, opening a new office with full demonstration facilities in McLean, Virginia, and enlarging its marketing and technical staff. The company has also established a help desk, available 24 hours a day, 7 days a week, to serve its expanding customer base worldwide.

As part of its expansion activities, Gilat has undergone changes in its management team. Michael Tsuk, who until recently served as Chief Operating Officer, was appointed to lead and manage Gilat's U.S. activities.