

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
October 1998 Vol. XIV Issue No.9

JOSEPH MORGENSTERN, PUBLISHER

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Big Venture Funds Stand Ready to Pick Up the Momentum When Wall Street Stops

As one of the world's great hubs of telecommunications and internet technology, Israel is the site of a full calendar of conferences. Recently, we attended two of the Four Majors— namely, Ernst & Young with its local office of Kost Forer & Gabbay, and the Israel Venture Capital Association. Sandwiched between was the second annual Hambrecht & Quist Conference. The last of the Big Four Conferences is the Evergreen Robertson Stephens, which is scheduled for November. The cherry on the high-tech conference cake is Telecom Israel '98, which is an exhibition of the Israeli communications and information technology industries. Besides the leaders in the field, more than 100 selected start-up companies will be presenting their innovations and achievements. These startups are seeking individual and institutional investors or strategic partners.

Each of the conferences has different motifs but they have share a number of similarities in common traits. Among their similarities: they have an international flavor with guest speakers and participants from various parts of the world, and the average age of conference audience attendees has dropped significantly from past years, to the 30+ level. "David Efrati, veteran high-tech lawyer, one of the panel chairmen and a founder and honorary chairman of the Israel High-Tech Industries Association, openly worried that "the new generation did not know who he was". At one time it was the American visitors who predominated but now it is an impressive mix of

Australians, British, French, Japanese, Indians and other Europeans participants.

Two of the Big Five international accounting firms not only acted as sponsors but presented the results of parallel studies — high tech global, and high-tech Israel. It gave an opportunity to evaluate how strongly Israelis is positioned in terms of the numbers of engineers and the number of startups when compared to such high-tech Meccas as California, the home of the Silicon Valley, and Massachusetts with its plethora of high-tech enterprises along the fabled Route #128. The Ernst & Young Tel -Aviv offices maintain a staff of no fewer than 100 professional experts. The veteran highly respected Israeli firm Kesselman Consulting, allied with Coopers & Lybrand, presented up-to-date figures reflecting investments in Israel high-tech. Not unnoticed is the Israel that is approaching the millennium, with its impressive number of

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VIRTUAL JERUSALEM : THE VOICE OF ISRAEL & THE JEWISH WORLD

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Editorial Offices: P.O.Box 33633, Tel Aviv 61336, Israel Tel: 972-3-5235279 Fax: 972-3-5227799 E-mail: htr_1@netvision.net.il

foreign companies listed for trading on the American technology- laden NASDAQ market. Earlier this year the number of Israeli and Israeli related companies listed on NASDAQ exceeded 100.

Our own Israel High-Tech & Investment

Report appears on the NASDAQ website as an "on-line information resource.". One day in August the NASDAQ website had no fewer than 18 million visitors. Even if only a small percentage visited our web pages it provided these outsiders with a powerful source of information about the Israeli high-tech world. We met with the executives of EASDAQ, the European stock market for high-growth companies, and Nouveau Marche. The goal of these stock exchanges is to be one of the key players in global trading.

We look forward to establishing a presence for our Report on the websites of these and other stock markets. Trading on EASDAQ takes place through its European memnbers and is said "to offer seamless trading and settlement across Europe within a highly regulated, liquid market.". EASDAQ founders are drawn from the financial communities in Europe, Israel and the US.

With the August advent of falling share prices accompanied by the near- disappearance of the Initial Public Offer-

ing market on NASDAQ, it is likely that venture capital companies will play an ever-growing role though different than in the past, in

Greater investment opportunities are ahead for venture capital funds. Large sums are likely to be invested in later stages of a company's development. In fact this later stage investment may replace, for the foreseeable future, the IPO financing option.

financing Israeli startupstart-ups and more mature companies. Our own feeling is that valuations of high-tech companies,

for the purpose of investment, will remain level or decline. For venture capital firms this situation offers a new window of business opportunity. "Deals,", the expression used in the industry for financing transactions, according to conference speakers, are expected to be more reasonably priced. One venture capitalist suggested that this process had already begun. Recently deals ballooned in price as a result of a major infusion in the course of recent years of local venture capital. The sum invested was nearly \$2.0 billion.

ISRAEL MONEY TREE SURVEY

The survey indicates that at least \$276.2 million was invested by venture capital funds in Israeli high-tech companies during the the first half of 1998. This was an increase of 70% in relation to the first half of 1997.

The four leading industries which attracted the majority of investments in the first six months of 1998 were: software, - \$55.3 million + 151%; communications, - \$52.4 million + 417%; medical equipment, \$47.7 million +256%; and data communications, - \$35.6 million +309%.

According to a Kesselman & Kesselman study, whose the results listed above were compiled from from responses submitted by 40 Israeli venture capital firms and 12 American funds., A K&K partner summarized these figures and said "that the results indicate a maturing venture marketplace in Israel and a noticeable shift into later- stage venture- backed deals.

This past summer we heard of high-visibility announcements of mergers and acquisitions. This contributed to the illusion that entrepreneurs had uncovered the ultimate road to personal riches. After a summer marked by "big deal" announcements of the caliber of Mirabilis and Memco, with the onset of September the fall conference season began in earnest with Journey '98. Ernst & Young with its local office of Kost Forer & Gabbay found good names to co-sponsor its

“second annual venture capital high-tech entrepreneur journey.”

Among these were the Silicon Valley Bank; Broadview, the merger and acquisitions specialists, VentureOne, a venture capitalist firm; Wilson Sonsini Goodrich & Rosati, lawyers to high tech entrepreneurs; and Globes, Israeli ” business daily.

The nearly nine hundred attendees were treated to a program of overview of the venture capital industry. “Information technology is the single largest growing sector and looks to hold this position for the foreseeable future,” stated David Witherow of VentureOne. The internet and telecommunications markets are prime targets of Israeli entrepreneurs. “The money brought in through venture capital and as a result of the peace process is a major change in the high- tech field in the last decade,” said Benny Levin, founder of NICE Systems which has 50% of the American market in voice logging systems in the financial and air control sectors. NICE went public in 1996, made a secondary offering in 1997 and recorded a 74% increase in 1997 revenues 1997 to \$69.3 million. Finding a niche and moving into the large markets, US in the case of NICE, was part of the rapid growth achieved by Mr. Levin and six army buddies who served in Israel Defense Forces” military intelligence unit.

TIPS FOR THE ENTREPRENEUR ON GETTING STARTED

Israelis have a tendency to find great solutions without a problem. People look as quickly at new markets as you do, so make sure to speak to lots of people to validate an idea. In the early phases speak to the “Big Boys” and keep on rechecking the target market. Product management needs to be in the field and not in the home ground. Make a virtual company to get moving.

GAL ISRAELI, ON RAISING CAPITAL

When? In stages. The milestone financings should coincide with milestones when substantial added value is created for the company. How much? As much as is needed and a somewhat more but not too much so as to control dilution.

Who? Get the right investor who either understands the business or is prepared to learn the business, Will they be able to lead the firm and do they have knowledge and international connections?. Where? In the early stages close to the company”s home and later in the US and Europe..

PATENT TIPS

Dr. Ilan Cohn, Reinhold Cohn & Partners, Intellectual Property expert in Bio-Technology and Medical Equipment, at a conference related to the additional valuation for high-tech companies to be gained from registering patents, summarized some of the important considerations related to the nature of patents and the time factor. “In seeking patent protection in biotechnology it is possible to seek protection for DNA/RNA function, proteins, new natural substances, genetically engineered cells, novel micro-organisms, genetically produced animals, medicinal preparations, diagnostics and medical devices. Patents provide its owners a limited monopoly which is limited in time and scope. Prior to a patent being granted, the application must answer the tests of utility, novelty and the inventive step. The time required for obtaining a patent from the time of filing to its being granted varies — , In the US, : 1.5-4 years; Europe, 3-6 years; Japan, 4-10 years; and Israel, 2-7 years. Bio-Medicine and biotechnology are major growth areas in Israel. These areas are characterized by expensive and long periods of development. Uncertainties accompany these sectors as to at reaching the desired results

and subsequent approval by regulatory bodies. Other factors that may arise are the dependency on public opinion and ethical views. During the period of development, there the market place is continuously seeking less-expensive alternatives. Biomedicine and biotechnology, more than other areas of technology, are depended for proprietary rights protection.”

ELSCINT ANNOUNCES SALE OF KEY UNITS

Elscent Ltd. (NYSE:ELT), one of Israel's flagship high-tech flagship companies of the 1980s, has fallen victim to the ongoing merger and acquisition mania which this past summer has swept the Israeli business scene. Rumors that Elscint's board of directors were negotiating the sale of its two manufacturing components were confirmed on September 12 when Elscint announced that it had agreed to sell three divisions for approximately \$375 million. Elscint said it plans to sell its computer tomography division to Picker International, a subsidiary of General Electric, for about \$275 million. In addition, Elscint (ELT) said it will sell its nuclear medicine and magnetic resonance medical imaging businesses to GE Medical Systems for approximately \$100 million. Elscint shareholders had little to cheer about until the recent announcement which resulted in the shares of Elscint gaining \$3 3/8 to \$12.50 for a 37% gain. The New York Stock Exchange shares had been trading listlessly in the \$7 area in the past two years of sharply rising share prices on the NYSE. Prior to these announcements, Elscint's CEO Jonathan Aderet resigned and then unexpectedly resigned from the Board of Directors along with Dan Inbar, one of the founders of the nearly 30-year-old company.

ECI TELECOM & TADIRAN TELECOM TO MERGE

ECI Telecom Ltd. (NASDAQ: ECILF), and Tadiran Telecommunications Ltd. (NASDAQ: TTELF), announced that they have signed an agreement in principle under which ECI Telecom Ltd. and Tadiran Telecommunications Ltd. they will merge in a stock-for-stock transaction, which the parties hope to execute by the end of October 1998. Tadiran Ltd., Tadiran Telecommunications' parent, also signed the agreement in principle.

Haim Rosen, President and CEO of Tadiran Telecommunications Ltd., said: "I am convinced by the concrete strategic benefits of this merger. ECI Telecom's international marketing organization, currently selling to more than 140 countries, will enable substantial increased sales of Tadiran Telecommunications' products. Tadiran Telecommunications' 40% average annual growth for the past three years in international sales, is a clear indication of the success our products have experienced in penetrating service providers and business users worldwide."

The merger appears to be particularly well-suited as the products of each company are distinct and complementary. Analysts were generally enthusiastic about the merger, saying the companies had compatible technologies and little product overlap.

Under the terms of the agreement, Tadiran Telecommunications Ltd. shareholders will receive upon the consummation of the transaction 1.00 share of ECI Telecom Ltd. for each 1.79 shares of Tadiran Telecommunications Ltd., reflecting a premium of 17.5%.

The transaction is expected to find expression in 1999 earnings per share.

The combined entity will continue to be headquartered in Petah Tikva, Israel. The profor-

ma combined revenues for ECI Telecom and Tadiran Telecommunications for the twelve months ended June 30, 1998, were approximately \$1.15 billion.

ECI Telecom Ltd. (NASDAQ: ECILF) is Israel's premier provider of integrated network solutions. The company designs, develops, manufactures and markets digital telecommunications and data transmission systems. ECI Telecom's systems provide capacity expansion, flexibility and management functions to better utilize existing and new telecommunications, data and integrated networks.

Tadiran Telecommunications Ltd. (NASDAQ: TTELF) specializes in a variety of telecommunications fields, including: Transport and Access Systems, Wireless Local Loop, Digital Public Switching, Data Communications, Multiplexing Equipment, and Business Telecommunications Systems.

FDA ACCUSES TEVA/MARION OF MISLEADING CLAIMS

The FDA U.S. Food and Drug Administration accused Teva Marion Partners, a firm based in Kansas City, Missouri, -based firm, of making false statements about the power of its drug, Copaxone, in treating multiple sclerosis, a disease that afflicts three million people worldwide. They then agency ordered the firm to immediately halt promoting this drug, Copaxone, generically known as glatiramer acetate, as effective in "slowing, preventing or reversing...the progression of MS." The FDA said such claims were misleading. The company is a joint venture of pharmaceutical giant Hoechst Marion Roussel, a unit of Germany's Hoechst AG, and the Israeli firm Teva Pharmaceutical Industries. Teva Marion Partners said it is confident it can quickly resolve the FDA quickly U.S. Food and Drug

Administration's accusation.

The pharmaceutical company confirmed it had received a letter of warning on August 27 from the FDA about advertising and promotional materials for its drug Copaxone. "The issue is not the product's safety, effectiveness or its prescribed use, but concerns possible interpretations of some promotional materials. We will work with the FDA to make sure these issues are resolved," said Chief Executive Officer John Vandewalle.

"Copaxone will continue to be available by prescription for people with relapsing-remitting multiple sclerosis. As the only non-interferon therapy for relapsing-remitting multiple sclerosis, Copaxone plays an important role in this field of therapy and many doctors and patients have found it an effective therapy," Vandewalle said.

NICE REPORTS PRODUCT REFOCUS WILL LEAD TO SHORT-TERM REVENUE DECLINE

NICE Systems Ltd. (Nasdaq: NICEY), a leading global provider of CTI recording, reported on Sept. 24 that the company's third-quarter results are expected to fall short of analysts' estimates for the quarter. The revenue for the quarter is expected to be 10 to 15 per cent lower compared with the second quarter of 1998, however, revenue is still expected to be although higher than the third quarter of 1997.

The shortfall in sales is related to two main reasons: difficulties associated with the introduction of NICE's low-end and mid-range quality-measurement offering to the call-center market; and a slowdown in orders received from the financial trading market sector.

NICE introduced two quality- measurement solutions to the call- center market in the third quarter of 1998. The company's high-end solution was very well received by the market, resulting in increased orders. However, NICE's low-end to mid-range solution experienced difficulties during its introduction to the market, resulting in lower revenue in the third quarter.

"We have decided to act swiftly to modify our product offering for the low-end and mid-range market

and to base it on our well-received high-end solution, providing a better offering to the market. As a result, we anticipate a six-month delay in revenues for this product. NICE is planning to release the new and enhanced quality- measurement solution for the low-end to mid-range market at the end of 1998," said Benny Levin, Chairman and CEO of NICE Systems Ltd. "We anticipate that NICE will return to its previous growth rate in the beginning of 1999." In response to the announcement the following day the NICE shares traded at \$16.44 after falling by \$13.375.

RAD PROVIDES SOLUTIONS FOR SINGAPORE SUBWAY

Singapore's Mass Rapid Transit (SMRT) system is fast and efficient and is applying what it knows about transporting people to transmitting data and voice. With the help of RAD Data Communications and ECI Telecom, an SDH backbone supplier, the SMRT will have one of the most up-to-date communications systems imaginable.

Beyond connecting the system's 54 stations with each other and with the operations control center, the system will include a wide range of the latest in telecommunications technology.

For instance:

Regular voice services between all SMRT stations, and outside of their private network, to the PSTN. The system's stations will be connected by a "hotline" using an FXS interface. The surveillance provided by the video security cameras in multiple locations in each station will be controlled from a central site by an E&M voice card in RAD's Megaplex-2100 multiplexer. n x 64 kbps V.35 interface will be the basis for voice radio transmission between the stations.

Both RAD Data Communications and ECI Telecom are represented in Singapore by Plexus Technology. "We chose RAD equipment because the different product lines feature high capacity, high flexibility and built-in redundancy on all links," says Plexus Sales Manager Jason Tan. RAD and ECI built a pilot project in Israel in late July to demonstrate the system.

In August, RAD conducted a seminar in Singapore to explain the operation of the equipment. The actual installation began in September.

RAD Data Communications designs, manufactures and markets a broad range of high quality data communications and telecommunications product solutions for carriers, service providers and corporate networks. RAD is a member of the \$265 million RAD Group of companies, a world leader in networking and internetworking product solutions.

QUINTELES OPENS OFFICE IN ISRAEL

Quinteles Transnational Corp., a world leaders in providing consulting services to the pharmaceutical and bio-medical industries and to healthcare providers, is opening an Israeli office. Quineteles Israel will provide management services for clinical trials and advice on

regulatory procedures encountered in introducing new products in export markets. "Israel was chosen due to its advanced stage of medical technology. About 1,100 research projects are carried out annually, of which 150 are in the field of medical systems and the balance in pharmaceuticals," said Dr. Avi Livnat, general manager of the local office. "Israeli hospitals are internationally respected and the country is a leader in medicine and in the development of medicines," stated Dr. L. Ryders, manager of the clinical trials department of the international department of Quinteles, which employs 13,000 in 29 countries.

Last year it had revenues of \$815 million and a profit of \$55 million, a growth of 50%.

TECNOMATIX & ESC MEDICAL IN SHARE BUY-BACKS

Technomatix Technologies said it authorized its their managements to implement programs to repurchase up to 25% of the aggregate principal amount of the company's 5 1/4% convertible subordinated notes due 2004. The outstanding aggregate principal amount of the Notes is \$97.75 million. The company also announced that it had completed its previously announced plan to repurchase approximately 500,000 of its ordinary shares.

E.S.C. Medical Systems Ltd. said its board has approved a buy-back of up to one million outstanding common shares. The company said that as required by Israeli corporate law it intends to file a motion with the Israeli District Court requesting approval of the repurchase.

The company will also convene a shareholders' meeting to approve the repurchase program. Israel corporate law, in contrast to U.S. corporate law, requires prior court and shareholder approval for share repurchases.

SURPRISE IN EARNINGS

Comverse Tech Inc. reported second-quarter earnings-per-share 2Q EPS of \$0.55 vs \$0.37 on revenues of \$167.4 million, compared to \$0.37 EPS on vs \$133.0 million revenue last year. Analysts' mean estimates were \$0.52, according to First Call

NICE EXPANDS MARKETING IN BRITAIN

NICE Systems Ltd. said it was setting up a British marketing subsidiary based in London in response to the a strong growth in sales in the British that market.

"Sales in Britain represent a big portion of our sales so it was extremely important that we have an office there," a company spokeswoman said. She said UK sales amounted to 14% of Nice's total, making it the company's second-largest market after the United States.

ELBIT LTD WINS LOCKHEED CONTRACT

Elbit Ltd. said it had won two contracts from Lockheed Martin Corp. valued at \$11.1 million. Under the contracts Elbit will develop electronic units for F-16 aircraft and Centaur Launchers. Elbit said the first contract, for the development of a commercialised data entry electronics unit, was valued at \$6.9 million. It said it will be awarded to Elbit Systems' wholly owned subsidiary EFW Inc of Fort Worth Texas, which will develop 25 prototypes of the unit.

Elbit also received a contract from Lockheed Martin Astronautics for a follow-on order of electronic units for the Atlas Centaur Launchers, worth \$4.2 million. Under the contract Elbit said it will supply 480 units over a 24-month period.

CONTENDER FOR RECORD HIGH SALARY

Koor Industries Ltd. said that shareholders had approved a salary and bonus package for its top executives that had been revised after many shareholders complained about the original terms. A Koor spokesman said 66% of the shareholders approved the new terms. Claridge Israel, which is an investment company controlled by Canada's Charles Bronfman that controls Koor, did not vote to avoid a conflict of interest.

Under the terms of the compensation package, Koor CEO Jonathan Kolber will receive an annual gross salary equal to about \$605,000 at the current exchange rate and a bonus that could be worth up to \$413,000. The package will make Mr. Kolber's the highest remuneration in Israel.

VOCALTEC LAUNCHES PC-PHONE SOFTWARE

VocalTec Communications Ltd., the Israeli Internet telephony company, launched Internet Phone Lite, a new software application for PC-to-phone calling. The product can be distributed for free or at a low cost by telephone companies and Internet service providers to customers. The phone can be customized with the carrier's name or logo along with a promotional message, VocalTec said. The online phone will work with VocalTec's servers.

ADC/ TELEDATA AGREE ON BUYOUT TERMS

ADC Telecom. and Teledata Communications announced that ADC has agreed to pay \$15.75 per share or approximately \$200 million in cash for all of Teledata's outstanding shares of stock and to convert outstanding Teledata stock options into ADC common stock options. A definitive agreement has been executed and the transaction is expected to close

by the end of 1998, subject to certain conditions. At the closing of the transaction, ADC expects to take a one-time charge for purchased R&D expense of which the amount has not yet been determined.

ARROW ANTI-MISSILE MISSILE TEST A SUCCESS

An Arrow-2 anti-missile missile was recently launched from the seaside Palmachim base against a virtual target. Israel announced that its Arrow-2 successfully destroyed a simulated target in the first comprehensive test of the anti-missile missile's system. Two-thirds of the estimated \$1.6 billion cost of the Arrow project is being financed by the United States.

BTG IN ARTHRITIS DRUG PROJECT WITH U.S. STARTUP

Biotechnology General (BTG) and a US start-up company called MVP are cooperating for the development of an ethical drug for the treatment of arthritis. The US-Israeli binational BIRD fund will provide \$1 million in support of the project. Development of the drug started five years ago and is expected to continue another five years. The drug is currently at the end of the animal trials stage. The companies estimated that the total financial investment in development, manufacture and marketing over the ten years of development will amount to \$20-\$30 million. They added that the drug's overall commercial potential is an annual \$500 million.

BTG will be responsible for production of enzymes through a genetic engineering process, bringing development to the clinical trials stage and drug manufacture. Marketing will be done by the company's U.S. arm. The company is expected to receive royalties once marketing begins.

ECI TELECOM BOOKS ASIA TELECOM CONTRACT

ECI Telecom Ltd. (NASDAQ/NM symbol: ECILF) announced the receipt of a contract for US \$6.5 million from a South East Asian telecommunications service provider in an undisclosed Southeast Asian country, for the supply of its ASLMX (Access Loop Multiplexers) and pair gain solutions.

ECI Telecom's pair gain solutions were chosen in order to rapidly connect thousands of new subscribers to telephone, fax and data services, thereby alleviating some of the country's subscriber backlog.

Under the terms of the contract, ECI Telecom will provide its ASLMX (Access Loop Multiplexer) systems and pair gain PCM+4 and PCM11 solutions.

The receipt of this new order follows the successful completion of two projects supplied by ECI Telecom last year to the same service provider, which included the deployment of ASLMX and PCM11 systems.

Featured in the new contract, ECI Telecom's PCM+4 multiplies the line carrying capacity of the subscriber loop by a factor of 4, supporting 4 x 64Kbit/s full channels using MDSL (Medium Bit Rate Digital Subscriber Line) technology developed by ECI Telecom. The full PCM 64 Kbit/s bandwidth results in superior quality of high speed transmission enabling enhanced speech, fax and data services. ECI Telecom's PCM11 provides up to eleven independent telephone lines (11 x 64Kbit/s) over a single twisted copper pair through the use of HDSL (High Bit rate Digital Subscriber Line) technology.

The new contract will also feature ECI Telecom's ASLMX system which carries Voice

(64Kbit/s), ISDN and data services through the use of HDSL technology. Deployment of the ASLMX system, will enable the provision of advanced digital services combined with high quality analog services.

All solutions are supported by ECI Telecom's advanced management system that facilitates the operation and maintenance of the equipment.

ECI Telecom's field proven ASLMX systems and pair gain solutions are widely deployed in the Asia Pacific region and throughout the world.

A provider of integrated network solutions, ECI Telecom designs, develops, manufactures and markets digital telecommunications and data transmission systems, enabling network operators to deliver cost-effective services. ECI Telecom's systems provide capacity expansion, flexibility and management functions to more effectively utilize existing networks for voice, data, wide area and integrated networks.

GILAT BUYS GE CAPITAL SPACENET

Gilat Satellite Networks Ltd. of Israel and General Electric Co.'s (NYSE:GE) GE American Communications (GE Americom) announced that Gilat will acquire GE Capital Spacenet Services Inc. from GE Americom. Under the terms of the deal, GE Americom will receive five million newly -issued Gilat shares, equal to about 30 percent of Gilat's outstanding shares, and will become Gilat's largest shareholder. GE Americom will have two of the seven seats on Gilat's board of directors. "This deal is expected to be non-dilutive in 1999 and accretive in 2000," the companies said in a statement. "We believe that the

strong alliance between GE Americom and Gilat, coupled with the existing service infrastructure in Spacenet, will position the combined company to prosper from emerging broadband Internet applications and services.” The companies said the merger combines Gilat’s development and hardware abilities with Spacenet’s software and network operating capabilities.

The new firm would focus purely on Very Small Aperture Terminal (VSAT) satellite earth stations and related hub equipment and software, used in retail credit card verification systems.

The new entity, to be called Spacenet Inc., will continue to support all of GE Spacenet’s product lines, making Gilat one of GE Americom’s largest customers. Spacenet products, stationery and literature will display the GE logo together with the Gilat logo for the next three years.

The deal is subject to the approval of Gilat shareholders and governmental authorities, including the U.S. Department of Justice, and the U.S. Federal Communications Commission for transfer of control of certain permits and licenses.

“Gilat has been Spacenet’s primary product provider since Spacenet’s inception,” GE Americom said in a statement. “We have chosen Gilat as our partner based on its strong product development, and superior quality and manufacturing capabilities.” GE Spacenet is a global communications networks and services provider.

Gilat Satellite Networks Ltd. designs, develops, manufactures, markets and supports VSAT satellite earth stations.

E.S.C. WARNS OF LOWER THRID-QUARTER REVENUE

E.S.C. MedicalSystems LTDtd. announced that it expected revenues for the 3Q third quarter of 1998 to be approximately 15% lower than the \$63 million reported in the 2Q second quarter of 1998. As a result, E.S.C. also expected to report EPS per-share earnings on an operating basis in the range of \$0.20 to \$0.25 for the 1998 third q2quarter. 3Q. The company attributes the 3Q third-quarter revenue shortfall to a general slowdown in activity during the summer months, mainly in Europe, as well as lower sales volumes in South America. In addition, the uncertainty surrounding elections in Germany and Brazil has delayed the decision making of E.S.C.’s customers, thus impacting sales for the quarter. The shares of ESC plummeted by more than \$15 following its forecast that 3Q of lower third-quarter revenue. would be 15% lower than the \$63 mln reported in the 2Q. The company’s projection added that its diluted third-quarter EPS in the 3Q would be between \$0.20 and \$0.25 was, about half of earlier Wall Street expectations. Three brokerages lowered their 1998 and 1999 earnings forecasts for the company.

MEDIS-EL BUYS TECHNOLOGY

MEDIS EL Ltd said that it has bought for an undisclosed amount new advanced technology that can prolong the life of small fuel cells to up to 400 hours. Medis El said in a statement that it would devote this technology to make the fuel cells for cellular phones, computers and paging devices.

The company bought the technology from two Israeli scientists in return for a 30% stake in Medis’s planned unit that would be devoted to making the fuel cells.

BTG OBTAINS PATENT

Bio-Technology General Corp. (NASDAQ:BTGC) announced that it has received notice from the US Patent and Trademark Office of the issuance of a patent relating to BTG's Factorex™ genetically engineered factor Xa inhibitor agent. BTG is currently engaged in pre-clinical studies with Factorex to evaluate its potential utility as a novel anti-coagulant. The company intends to proceed to clinical studies with the product in 1999. The issued patent relates to the DNA encoding BTG's Factorex and to expression of Factorex polypeptide. Three additional U.S. patent applications relating to Factorex have been allowed and are expected to issue over the coming months. Bio-Technology General Corp, a leading biopharmaceutical company , develops, manufactures and markets genetically engineered and other products for human health care. It carries out its research and development at its Rehovot , Israel fully owned subsidiary. BTG's products are marketed in up to 30 countries worldwide. In the United States, Oxandrin® (oxandrolone, USP), and Delatestryl® (testosterone enanthate), are marketed by BTG, and Mircette™ (oral contraceptive) is marketed by BTG's licensee, Organon, Inc. Its BioLon™ (hyaluronic acid) will be launched in the United States this year by BTG's licensee, Akorn, Inc. BTG's product sales and earnings per share for the first six months of 1998 were \$32.7 million and \$0.16. respectively.

Virtual Jerusalem : The Voice of Israel & of the Jewish world

Recently Managing Editor Suzanne Cotton

Levy was interviewed by the Voice of Israel about Virtual Jerusalem's (VJ) inauguration of the Eli Cohen website. "Eli Cohen's brothers Maurice and Avraham approached us and told us about their many-years fruitless effort to obtaining the remains of the body of their brother Eli Cohen who was hanged and buried in Damascus in 1964 after being convicted for spying for Israel. With the backing of a New York City philanthropist a 90 page fully interactive website was created. Maurice Cohen revealed for the first time that he acted as Mossad Agent and was in active contact with his brother in Damascus (www.elicohen.com) A month ago the website was opened to viewers and since then 20,000 individuals signed a petition to be handed to Syrian President Hafaz Asad, after 1000,000 signatures are obtained.

Virtual Communities, Inc., a Delaware corporation and together with its subsidiary, Virtual Jerusalem, Ltd. an Israeli corporation, operate on-line virtual communities on the World Wide Web and provide Internet hosting, marketing and advertising services. The company currently operates one on-line virtual community, Virtual Jerusalem and provides a variety of Internet hosting, marketing and advertising services for over 150 clients including Nabisco Brands, Date Securities, Econophone, Tower Air, the Israeli franchisee of Hertz Rental Car and Godiva Chocolatier.

The VJ Community, located on the Web at www.virtualjerusalem.com, provides extensive Jewish and Israel-related content. The VJ Community site is designed to attract viewers seeking Jewish and Israel-related information and as a vehicle for advertisers and merchandisers targeting the Jewish market through the Web. According to I/PRO, an independent internet auditing firm, the VJ Community recorded more than 1,600,000 page views and

close to a half a million visits during the month of December 1997. The company believes, based on its internal measurement of traffic, that it currently averages approximately 3,000,000 page views a month. The VJ Community is one of the most frequently visited websites for Jewish and Israel-related content on the Web. The VJ Community contains more than 300 sites which provide information and content, of which an estimated 130 are proprietary sites with the remaining sites being produced and/or are hosted by the Company and a proprietary index of more than 6,000 additional related websites on the Web.

The company intends to use the VJ Community business model as the model for developing and operating such other virtual communities and has targeted a Holy Land theme to non-Jews interested in Israel as the next virtual community it plans to establish.

VJ derives its revenues from advertisement fees paid by third parties placing their advertisements on the VJ Community and from fees paid by clients to develop and maintain their website on the VJ Community. It is also implementing a "membership" program whereby it will charge an annual membership fee to persons in return for "members" receiving selected services and other benefits made available only to members.

SCIENCE CORNER

New Class of Molecular Magnets May Advance Microelectronics

Molecular magnets are being developed because they represent the ultimate in miniaturization for the microelectronics industry, which is looking for ways to create smaller

and smaller devices. In particular, such magnets are intended to allow as much computer memory as possible to be packed into a limited space.

Hard-disk memory is usually built up of a multitude of magnetic switches, in which a change between the "on" and "off" positions is performed by altering the switch's magnetic polarity. An ideal magnetic switch must be operated by a relatively weak magnetic force, so that its polarity can be altered with relative ease. Yet at the same time it must be sufficiently stable so as to preserve its polarity long-term.

Numerous molecular switches are currently being developed, but scientists run into a problem when they place them next to one another. Magnetic forces work over a relatively long range, so when the minuscule magnets are packaged tightly, interference results. Thus, when the polarity of one of these magnets is switched, the orientation of neighboring magnets changes as well. Such interference makes it impossible to store information reliably over a long period of time.

Weizmann Institute scientists have created a new class of magnetic materials made of clusters of inorganic molecules. These molecular magnets, described in the September 24 issue of Nature, display an unusual combination of properties that open up new research possibilities and may lead to a broad range of future applications in the microelectronics industry. The molecules of nickel dichloride that make up the new magnets are much smaller in size than the metal-organic compounds used previously to create most molecular magnets. Another distinguishing feature of the new molecules is their shape. Some have a cage-like structure that resembles fullerenes (the soccer-ball like molecules named after the architect R. Buckminster Fuller).