

ISRAEL HIGH-TECH & INVESTMENT REPORT

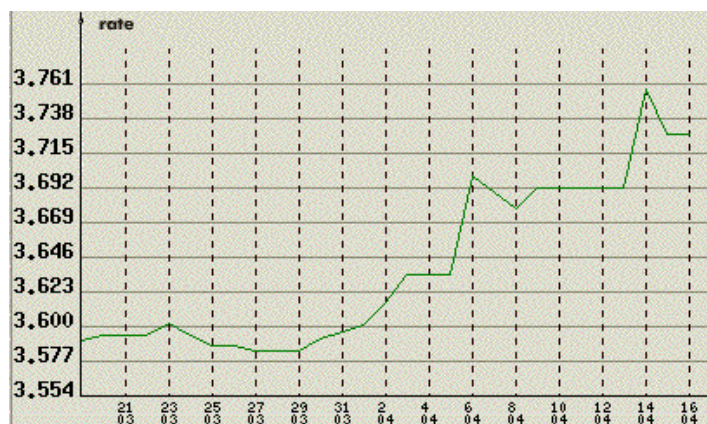
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JOSEPH MORGENSTERN, PUBLISHER
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The Shekel Slipsides...what next?

The 5% slipsiding of the Israeli shekel against the US dollar in the first two weeks of April left many wondering whether the Israeli currency is only reeling or rattling or whether it is tottering on the edge of a precipice prior to substantial devaluation. The comments from Israel's leadership and business community were far from reassuring. The Governor of the Bank of Israel, who deserves credit for lowering the country's rate of inflation to single



digit levels by imposing an aggressively high rate of interest, commented that in free economies fluctuations in exchange rate are a common phenomena and the public and the business community might as well get used to it. When the shekel finally headed lower, after more than two years of stability, exporters did not welcome the weakening of the shekel, though it is expected to add to profits.

Israelis who were initially delighted to note that they will be allowed "to invest by buying apartments in London, New York or Paris" were surprised to hear that plans were on hand to introduce income tax regulations, aimed at taxing overseas capital gains. Also, the exemption from

tax on gains from Tel Aviv Stock Exchange transactions was also rumored to be abolished by early 1999.

Old traditions are not easily uprooted and we do not believe that the Government will have the will to carry out politically unpopular new taxation regulations. 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. The double-digit growth of the Israeli economy of the early 1990s is currently stalled and to kickstart the sputtering economy we assume that the astute Governor of the Bank of Israel will continue to lower interest rates. These still high rates will sink to single digit levels from the current 12% plus rates.

After a reassuringly low 0.1% rate of inflation in Q1 of 1998 it is unlikely that the public, concerned about holding on to jobs, will go on a spending spree and rekindle inflationary expectations. However, as the the interest rate differential favoring shekel investments to dollar, sterling, or

In this Issue

The Shekel Slipsides....what next?
New Chip Built with Cutting Edge Technology from R&D Center
Military Exports Hit by Asia's Woes but Opportunities Continue
The Analyse is Located and Detained
Israelis Go Web Crazy
Comverse Spreads its Wings in France
Foreign Banks Study Investment Opportunities
Point of Sale is Reaping the Rewards of Innovation
Orkit, GaSonics, First Access, Radguard, Sensotech, SciDel, ECI Telecom, MedisEI, Baan Nucleus Seed Fund, Schlumberger to Market Aliroo's Encryption PrivaSuite, Gilat Satellite Raises Funds for Global Village Telecom
The price of Tecnomatix Shares Plunges
ESC Medical Record Results in Q1

German mark investments will narrow so will the shekel's attractiveness decrease and a further slipsliding pattern will develop. The good news is that some of Israel's leading economists believe this will be a healthy development as they have held the shekel to be artificially overvalued. We unequivocally believe that the value of the overly strong Israeli shekel will further decline and we are conservatively projecting that by fall 1998 the shekel's rate of exchange will be at NIS 4.05, or more, to the US dollar.

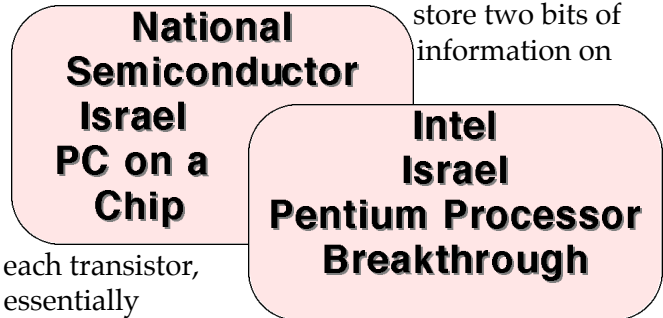
A Background Briefing of the Shekel's Movements

The comprehensive plan for the liberalization of foreign currency control including the convertibility of the Israeli shekel to other currencies has been partially implemented over the past few years. However in 1997 Prime Minister Benjamin Netanyahu instructed the Finance Minister and the Governor of the Bank of Israel to accelerate the process. Earlier this year the Prime Minister targeted April 30, the 50th Anniversary of the founding of the State as the date for the final implementation of the program. In response to the Finance Minister's statement that it was unlikely to meet the target date for announcing the liberalization program its details were leaked to the Israeli press. There was nothing radically new in the published details, yet the expectation that Israelis would be allowed to keep foreign currency in bank accounts and to use these moneys or other currencies, to purchase property and pay rents in US dollars; to purchase property outside of Israel and maintain bank accounts outside of Israel resulted in near panic and a rush on the dollar.

Suggestions of radical changes in the tax structure; the possible imposition of a world tax and the requirement that all Israelis file tax returns, whether employed or retired created an atmosphere where individuals and corporate management took the position that the rate of exchange, which had barely moved since the beginning of 1998 could only lead to a strengthening of the dollar. In a period of less than two weeks, peaking at NIS 3.76 on April 14 the shekel exchange rate led to a 5.0% strengthening of the US dollar.

Using Cutting Edge Technology Leads to the Birth of a New Chip

In October 1997 Intel announced the introduction of the 64 megabit flash memory chip shattering a long-held principle in the technology industry called Moore's Law. Moore enunciated Moore's Law more than 30 years ago, saying the power and complexity of the silicon chip will double every 18 months with proportionate decreases in cost. Over the past nine years Intel had done exactly that. The new flash memory chip is able to store two bits of information on



each transistor, essentially doubling the data storage capacity of each memory cell and with this innovation Intel stated that it is moving beyond Moore's law. Eight months earlier Intel announced its new Pentium processor with MMX technology. The development of this processor which extended new capabilities for multimedia applications took place at the Intel Development Center in Israel. National Semiconductor's announcement "that it will put a personal computer system on a single chip by the middle of 1999" startled computer insiders. Analysts proclaimed that NSM's new chip could drive computer prices to less than \$400 and undercut Intel in a market of sub-\$1000 computers. "Integrating more and more functionality into smaller and smaller space is the story of electronics from the vacuum tube to the transistor to the integrated circuit. We can now stitch everything together onto a square of silicon less than half an inch wide," stated Brian Halla, NSM's CEO. The chip will give consumers smaller, quieter machines, and the notebook market, where the low power drain of the super-integrated chip will significantly extend battery life for portable users. The chips will be manufactured initially at National's brand new wafer fab in South Portland, Maine, on 0.25-micron process technology that can be further scaled down to 0.18 micron.

The plant has a capacity of 30,000 wafers a month, which translates to tens of millions of chips per year. National has assigned the responsibility for coordinating its first PC on a chip to its design center in Herziliya, Israel, which for years has designed many of the peripheral chips that surround the processor on a typical PC motherboard. The center will draw on a company-wide team of design, architecture, test, software, cores, and marketing personnel contributing some 800 man-months of work.

In the world of breakthrough chip developments which are defying Moore's Law, two major companies, Intel and National Semiconductor's, both on the Fortune 500 list, are revolutionizing computer technology. Both companies are reaping the benefits from their respective research and development centers which are located in Israel and are only half an hour's drive from each other. The electronics engineer and software programmers are carving out a reputation for Israel as the Mecca of the world's most advanced developers of computer chips.

Asia's Economic Woes Affect Military Exports but Opportunities Continue

According to internal documents prepared by Israel's Defense Ministry Israeli military exports to Southeast Asia have reached \$300 million annually. Firms which export military goods to Southeast Asia include Israel Aircraft Industries (\$86.5 million during the first nine months of 1997), its subsidiary Elta (\$65.4 million), Tadiran Communications (\$24.8 million), Rafael (\$22.2 million), Israel Military Industries (\$12.7 million) and Elbit Systems (\$2.4 million). The bulk of the exports go to Singapore. However, recently, cancellations of contracts have been received as Asian countries delay their defense programs. One such case is the cancellation of a deal whereby Israel was to upgrade the F-5 aircraft of an Asian nation. South Korea and the Philippines are among the nations who are not expected to write new contracts over the foreseeable future. Though the situation appears quite bleak at the present time the Defense Ministry notes that there may be additional orders for upgrades of existing hardware, a service at which Israeli industries excel, in place of orders for new systems. The

crisis may open up a window of opportunity for Israel's industries as new orders may come in from Singapore whose fear of unstable economic and political conditions in Indonesia and Malaysia may result in accelerating its defense purchases.

The Analyser is Located, Detained and Inducted into IDF

Prime Minister Benjamin Netanyahu termed the 18 year old as "damn good," but "very dangerous, too."

It is the first time in history that an Israeli teenager had been accused and detained for an alleged cyber-assault on America's Pentagon computer. Ehud Tenenbaum, 18, known as the "Analyser," is accused of hacking into computers at the U.S. Pentagon and the Israeli Knesset. The arrest followed weeks of intensive investigations concentrating on what was described as the most organised attack ever on the Pentagon's computer system.

The head of the police fraud division said that Tenenbaum was identified after his photograph was distributed over the Internet in the United States. He emphasized that Tenenbaum's motives were apparently not criminal. The police are investigating whether the teenager had hacked into Israeli military sites. Tenenbaum's lawyer said his client was not a spy and hacked only for thrills. "In the past we used to boast about the girls we had," the lawyer said. "Nowadays, kids boast about their ability to hack into computer systems." Tenenbaum stated that his intention was to indicate the lack of adequate protection for the Pentagon and other sensitive sites.

Israelis upon reaching the age of 18 are inducted into the army for three years of compulsory service. Tenenbaum, shortly after his exposure, was allowed to keep his date for his call up into the Israel Defense Forces. The new inductee, the army noted, was not assigned to the army's crack computer unit.

Israelis Go Web Crazy

A leading computer consultant estimated that there were in Israel 250,000 individuals online and that the number was growing each month by seven per cent. At the recently held International

Internet World 98, leading Israeli and international companies exhibited. Tens of thousands of visitors arrived to see the exhibits and attend professional lectures.

The use of the web for Internet purchases, is growing though the number taking part in net commerce, as yet, has not been determined. In America Online and Internet usage in the home is reaching what researchers are calling critical mass, according to a new report published by International Data Corp. The 1997 World Wide Web Survey of Home and Business Users found at year end 1996 only about 13 percent of all U.S. households were online. That figure is closer to 20 percent, and will grow to 23 percent by the end of the year. Nearly 60 percent of all online households access their online service at least once a day. "We predict continued PC penetration, fueled partially by the sub-\$1000 systems, (see editorial on page 1) the increased use of WebTV-style devices, and the likely introduction of digital set-top boxes in a small percentage of U.S. homes," said the program manager for IDC's Consumer Internet program.

Comverse Tech in Deal with SFR

A division of Comverse Technology Inc. (NASDAQ: CMVT), and the world's leading supplier of enhanced services platforms, announced it has been selected by Societe Francaise du Radiotelephone (SFR) for nationwide deployment of voice/text messaging systems throughout SFR's digital wireless

Global System for Mobile Communications (GSM) network in France. Terms were not disclosed. Comverse has completed an initial phase of installations in the SFR network, with systems currently providing call answering and short text message service. Nationwide deployments are scheduled during 1998, to support messaging services throughout SFR's growing GSM network, which currently serves more than 2 million subscribers.

The Comverse-enabled enhanced wireless services allow SFR's GSM subscribers to receive messages in a voice mailbox. Subscribers are notified when messages are received. The short message service center allows the display of brief alphanumeric text messages on the wireless handset.

Israel's 50th Anniversary

To our subscribers

The CD ROM version of Funk & Wagnalls encyclopedia, is included as a gift to you as part of our celebration of Israel's 50th Anniversary and by courtesy of our friends at Versaware.

As would be expected, Israeli publishers have produced many outstanding Hebrew language encyclopedias. English language encyclopedias have been the exception and until recently the one and only English language encyclopedia, produced and printed in Jerusalem is the Encyclopaedia Judaica.

Recently, the Funk & Wagnalls, unabridged encyclopedia, America's most popular encyclopedia was electronically published in Jerusalem using Versaware proprietary technology, developed by Versaware Inc. at its development unit in Jerusalem. Versaware periodically updates Funk & Wagnalls contents. The CD ROM version, suitable for Windows 95/NT environment can be easily updated from the Internet from Versaware's website with conventional 28K modems. The CD ROM version of F&W, now being marketed globally, exposes the full richness of multi-media and due to Versaware's technology will also be available as a DVD product.

Joseph Morgenstern, publisher

Foreign Banks Study Investment Possibilities

The liberalization package by the government and Bank of Israel which will lead to a fully convertible shekel is attracting foreign banks to Israel with a view to investment.

Included among the banks who have expressed interest are: London-based Coutts Bank, US-based Chase Manhattan Bank and Citibank, and Banque National de Paris. The only foreign bank to

have so far opened its doors for business here is ANZ from the Australia and New Zealand Banking Group.

In November, Bank Leumi and Coutts signed an agreement under which both banks will cooperate

in the field of private banking. Coutts, a subsidiary of National Westminster Bank (NatWest Group), is the largest private banking organization in the world, with 40 offices in 16 countries and assets totaling \$50 billion.

Cybercast of the White House Easter Egg Hunt

The traditional White House Easter Egg Hunt was broadcast on the Internet using technology developed by Israeli company Geo Interactive. The cybercast enabled 300,000 surfers to view the event which was documented by ten television cameras which broadcast their images on the Internet. The cybercast was made available on the White House Internet site. Geo Interactive is traded on London's AIM exchange. The company posted its first sales in September 1997, and its last financial statement reported sales of \$5 million in 1997.

Point of Sale is Reaping the Rewards of Innovation

Two years ago in our May 1996 IHTIR issue we described Point of Sale "as an emerging Israeli growth company that has climbed the leadership rung in the development and marketing of innovative software which has replaced the one time "pleasant ring of the now nearly defunct cash register" with an "electronic cash register". The heart of the software of the PoS management package uses a loosely coupled client-server architecture with applications in the back and front offices. These support store activities and generate reports and analyses for monitoring and store management. The advantage of the design is that it creates a flexible operating system previously not possible with the software and hardware used by the retail industry.

The company's systems are not patented, but with approximately two lifetimes of man hours spent in development, the company feels it has an edge over its competitors.

Since we initiated coverage we updated the company's fortunes which included in 1997 the signing of a milestone contract with the prestigious British Tesco supermarket chain. For PoS the three year \$7 million contract with options for another \$3 million in sales was a

major achievement. During a recent visit to the company, executives Brian Cooper and Yonatan Stutzen confirmed that PoS' core system is truly international as it is used on all five continents with installations exceeding 400 chains, 8000 stores and 80,000 checkout points. The marketing group is now targeting the attractive American market with the focus on introducing PoS in American convenience stores. The White Hen Pantry chain has signed on in the past year. CyberShopper is PoS' major Online shopping system client.

The company is beginning diversify into new markets wings including televised home shopping.

In 1997 PoS' sales, including products and installations, set a new record at NIS 39.5 million compared to NIS 22.7 million in 1996. Net profits soared from NIS 1.1 million in 1996 to NIS 6.9 million in 1997.

The company has been public since November 1994, when it sold 25% of its share capital for \$3.6 million and registered its shares on the Tel Aviv Stock Exchange. There are 4.2 million shares outstanding. The company's market valuation expressed in US dollars has risen dramatically from \$14.4 million when it went public to a recent \$75 million.

New products and geographic expansion for its core products and a possible application for a listing on the American NASDAQ market are among the future positive prospects. As to sales and profits the company appears to be poised for the same type of percentage gains in sales and profits as recorded in 1997.

Hambrecht & Quist Launches VC Fund

Eucalyptus Ventures has announced that it has completed raising \$34 million. The venture fund intends to raise a total of \$50m. all earmarked for investment in Israeli high-tech companies.

The founding investors include a large multi-national company, US-based institutional investors and private investors. Eucalyptus was established as a partnership between the US-based investment house Hambrecht & Quist, together with the local investment firm Tamir Fishman, Mankovski and

Bruce Crocker. The company's management is situated in Israel and the Silicon Valley.

Deutsche Telekom Used Orckit ADSL Systems at CeBIT

At multiple sites throughout the CeBIT '98 exhibition (Hanover, Germany), Deutsche Telekom AG (NYSE:) demonstrated live interactive on-line access using Israeli Orckit Communications' (Nasdaq: ORCTF) FastInternet DSLAM system.

At the exhibition, Orckit's FastInternet System was demonstrated working over regular telephone lines (POTS) and over ISDN lines. Orckit Communications is a leading company in the field of Digital Subscriber Line solutions, which enable telephone companies and Internet Service Providers to optimise the bandwidth utilisation of the copper wire in the Local Loop.

Science Corner

TAU Researchers Identify Deafness Gene

A gene that causes gradual deafness has been identified by Tel Aviv University researcher who studied an extended Israeli Jewish family of Libyan origin carrying the defect. The findings were published in a recent issue of Science. The dominant autosomal gene DFNA15, which causes victims to begin losing their hearing around the age of 18 and become partly or totally deaf by the age of 40, was isolated by a team led by Dr. Karen Avraham of the human genetics faculty of TAU's Sackler School of Medicine. Having just one parent with the defective gene is sufficient to cause the disease. The team, which worked with Drs. Moshe Frydman of Sheba Hospital and Anat Bloomenfeld of Hadassah-University Hospital in Jerusalem, managed to identify and isolate the gene in only a year. The task is painstaking, because the chromosomal area involved can contain hundreds of genes, each of which has to be examined in a time-consuming process. Isolating genes related to deafness is made even more difficult because deaf people tend to marry others with the same disability, and deafness can be caused either by genetic disorders or injury. The defect was traced back to a member of the

family who was born in Libya in 1843. His descendants moved from North Africa to the Middle East. Many finally settled in Israel, and a number of members live today in the US and Belgium. Of the 80 known family members, half inherited the defective gene. In 12 of them, advanced neuro-sensory hearing loss was discovered in audiological tests; men and women were equally affected. The 12, plus 11 others over the age of 40 who have normal hearing, served as the basis for the TAU research.

Elbit Wins a Major Overseas Contract

Israeli electronics firm Elbit Systems has won an contract to supply digital mapping systems for fighter aircraft in a deal that the company says could lead to tens of millions of dollars of new business.

Elbit will supply 40 mapping systems to the air force of an unnamed foreign country, with an option for 50 more. The first 40 will be fitted in one type of aircraft and the remainder will be installed in another model.

The system provides a full-color topographic display, incorporating data on targets, threats and other mission details. Similar systems are installed in Israel Air Force helicopters, Swiss search and rescue choppers and the U.S. army's A-3 Bradley armored fighting vehicle, due to enter operational service in the year 2000. They are also to be fitted in the American V-22 aircraft due to be supplied to the U.S Marines and Special Forces.

Elbit won the new fighter plane order after a lengthy period of testing during in competition with British and French manufacturers.

GaSonics to Establish Development Center

GaSonics International, which makes equipment for semiconductor manufacturing announced that it will open an R&D and customer support facility in Rehovot, Israel, as part of its strategic plan to expand global operations.

The San Jose, California-based company is expected to invest some \$10 million here over the next few years. The center will start with software development and is then to expand into hardware. The company also said it expected to

start manufacturing here within two years.

"Increasing demand for innovative process solutions was a major factor in the decision to boost our presence and establish a direct R&D effort in Israel" stated a GaSonic executive.

"GaSonic will leverage the region's existing semiconductor infrastructure and tap its innovative and stable engineering workforce to help propel new, state-of-the-art product and platform development activities," he said.

In the past few years, GaSonic has been involved in successful joint development projects with various Israeli companies.

First Access Wins CeBIT Prize

First Access won the "Best of Show" security software prize at the annual CeBIT technology exhibition in Hannover, which concluded this week.

The Haifa-based start-up, established last year, won the prize for its contactless smart card solution, Enterprise Contactless Authentication, which allows computers to automatically authenticate a user from a distance of a few meters. Thus, when the user leaves his desk for a break, entry to the computer is blocked. Radguard, another Israeli company in the security software competition sponsored by Byte magazine, won second place for its second generation virtual private network solution, the cIPro-VPN, which provides high performance encryption and authentication.

Sensotech is Seeking Capital

Sensotech, a start-up established in 1995, is to make a \$5 million private placement in the US and Europe via the Dovrat-Shrem investment house. The Petah-Tikva-based company develops and markets systems for door safety automation in transportation based on sensor technology.

The company has signed strategic partnerships with four major companies - General Motors; the Canadian company Vapor, which manufactures bus and train doors in North America; the French Faiveley, the world's leading train door manufacturer; and the Israeli elevator company, Isralift.

SciDel Raises \$4.84m.

SciDel Ltd., a digital video start-up, completed a private placement of \$4.84 million, which will be used to expand its US subsidiary and marketing in Europe, according to CEO Kobi Bendel.

Among the investors were Gemini Israel and existing investors Scitex, Clal Electronics, the Star Fund and Bendel.

SciDel, established in 1995 as a spin-off of Scitex, has developed a computer program that allows the placement of "virtual advertisement" on selected parts of television screens.

At sporting broadcasts, for example, one can have ads placed around the area that can only be seen by television viewers. This enables broadcasters to match advertisements with specific viewer audiences, such as those in different countries, and to change ads during games.

SciDel recently signed cooperation agreements with companies in Europe and South America.

Jobnet gets 100,000 Visitors

The job search Internet site Jobnet, run by the Association of Americans and Canadians in Israel, has published a total of 1,500 job offers and has had some 100,000 visitors since it was established nine months ago. The site, at <http://www.jobnet.co.il>, is designed to help new immigrants find work in Israel.

Ya'acov Richman, who manages the project, said that manpower agencies around the country work with Jobnet to update the job offers, very few of which are more than 30 days old. About 50 percent of the hits on the site are from Israel. Jobnet appears in English and Hebrew and has a dictionary of professional terms.

ECI Telecom Hits a Home Run

ECI Telecom Inc. (Nasdaq: ECILF) announced that its Hi-TV system has been used by MCI Communications (Nasdaq:MCIC) to carry a groundbreaking High-Definition Television broad-cast of the 1998 Opening Day baseball game between the Texas Rangers and the Chicago White Sox, live from the baseball stadium in Arlington, Texas.

The HDTV signal of the game, produced by LIN Productions in cooperation with Irving-based

HDVision, was carried by MCI's broadband ATM network using ECI's Hi-TV system as the ATM network interface device. The signal was carried from the stadium to WHD-TV, a high-definition test station in Washington D.C. ECI Telecom's Hi-TV system is the industry's first customer-located ATM service multiplexer for dial-up wide area networking of studio quality TV.

Microsoft Woos Israel

Microsoft has agreed to help fund local computer projects and signed a declaration for cooperation with the Government of Israel. The giant American firm was represented by its second in command Steve Ballmer, executive vice president for sales and support and one of the company's dominant figures. who announced that Microsoft would donate software for a project to give computer access to various branches of the Government. Prime Minister Netanyahu stated that the project would make citizens' contacts with the Government more efficient.

Another aspect of the project is to allot an E-mail address to every Israeli.

Microsoft Corp. has pledged to become a first time ever investor with \$7.5 million in a new Israeli venture capital fund, Orion, which will focus on Internet start-up companies. It was noted that this represented Microsoft's first-ever venture capital investment. Until now, Microsoft has confined itself to direct investments by outright purchase of high-tech companies. Aura, the parent company of the new venture capital fund, will invest in Israeli companies engaged mainly in Internet-related technology and multimedia companies.

Bellevue of Switzerland Examines Biotechnology Investments

Representatives of Swiss company Bellevue recently visited Israel seeking investment opportunities in biotechnology and in the medical sector. The group manages three investment funds in the medical field totalling two billion Swiss francs, of which 1.2 billion is invested in biotechnology, 500 million in medical equipment and the balance in other related fields.

Dutch Software Group Seeks to Invest

The Dutch software Baan group is to set up a \$20 million venture capital fund for investing in Israeli start-up companies. Dr. Moshe Haelyon, Baan's representative in Israel, said an agreement had recently been signed with an unnamed local venture capital fund which will participate in the investment.

The new investment fund will be called Baan Nucleus Seed Fund, and it will focus on Israeli companies developing programs that include organisational business management applications, especially in Internet environment. Haelyon stated that Baan had already commenced the process of examining and screening companies in which it will wish to invest via the new fund. Baan, domiciled in the Netherlands, is one of the world's ten biggest software firms whose 1998 revenues will amount to a billion dollars. Founder Ian Baan said that the company wishes to invest in Israel, which he regards as "the world's third most important Silicone Valley, after California and Boston". "The technology here", he says, "is excellent, and its price is still low and is attractive".

Schlumberger and Aliroo Launch PrivaSuite E-mail Encryption

Schlumberger and Aliroo Ltd. have announced the availability of PrivaSuite, an easy-to-use encryption application that ensures secure e-mail transmissions. The user-friendly software, which can encrypt any type of document in any application and language, uses smart cards and readers from Schlumberger to ensure complete electronic correspondence and document privacy. PrivaSuite allows for exchange of secure e-mail through encryption technology integrating smart card capability. A Schlumberger Multiflex™ smart card serves as a secure storage device for private keys used for the encryption and decryption of private e-mail. Included in PrivaSuite, PrivaFile can encrypt and compress any file or any segment of any file. PrivaFile is useful in file transfers and in digital archiving.

The PrivaSuite package is offered using either the Schlumberger Reflex™ 20 (PCMCIA reader) or desktop Reflex 60 reader. "PrivaSuite is an

attractive product for individuals or companies looking for easy-entry into data security," commented Tom Lebsack, information security and multi-media business segment director for Schlumberger Smart Cards and Terminals. "The interface is easy to learn and requires no complicated infrastructure." "Integration of PrivaSuite with the leading smart card technology provided by Schlumberger will significantly broaden the PrivaSuite installed base," commented president and CEO of Aliroo.

PrivaSuite is a one-diskette encryption software product for Windows™ 3.0, Windows '95 and Windows NT that uses a 40-bit international or 56-bit DES encryption engine to provide the maximum legal encryption strength possible in accordance with government regulations, and can be integrated with other stronger engines on demand.

Aliroo Ltd. is a software system house dedicated to document security. The company develops, produces and markets products for privacy, security and copyright protection in documents, covering e-mail, Internet file transfer, groupware, faxes and archiving. Aliroo's products, which can be mastered in minutes, are designed for the mass market and non-technical user

ABOUT SCHLUMBERGER

Schlumberger Smart Cards & Terminals offers a flexible portfolio of smart card-based solutions for businesses.

Gilat Raises Capital for Subsidiary

Gilat Satellite Networks Ltd. (Nasdaq:GILTF) announced the signing of an agreement concerning the private placement for its subsidiary Global Village Telecom (GVT). Funds will be used for the deployment of rural telephony networks in developing countries, based on Gilat's DialAway™ VSAT technology. GVT intends to offer its services to a market containing a total population of more than 3 billion with an average of 3.5 telephone lines per

100 inhabitants, according to the International Telecommunications Union 1995 Report. Gilat Satellite Networks Ltd. designs, develops, manufactures, markets and supports Very Small

Aperture Terminal (VSAT) satellite earth stations and related hub equipment and software. Gilat products are incorporated into telecommunications networks that provide satellite-based communications between a central location and a large number of geographically

dispersed sites.

Dear Mr. Morgenstern,
As you may know, back in 1993 I co-founded U.S. Investors, Ltd., a small venture capital fund that makes investments in high tech start-ups overseas. We invested in Aliroo about four and a half years ago. We have been waiting patiently for its genius to be discovered. Now, at long last Schlumberger, a \$10 billion company, has appointed Aliroo as its technology partner for software encryption. The point of the story is that patience is one of the harder virtues to maintain these days.
Harlan Jacobs
Genesis Fund

It gives me great pleasure to describe the Aliroo and Schlumberger cooperation. As publisher of the Israel High-Tech & Investment Report I reported an interview with Aliroo's founder Yitzhak Pomerantz in 1996. The article detailed Aliroo's technology, its product and vision to become a vital player in the increasingly important encryption industry. Subsequently I arranged a \$250,000 private placement for Aliroo. I am delighted that only two years later Aliroo has taken this wonderful forward leap.
Joseph Morgenstern
Publisher, Israel High-Tech & Investment Report

CheckPoint Software Enters into Merger

Check Point Software said that it has signed a definitive merger agreement with MetaInfo Inc. for 683,200 shares of common stock in exchange for all outstanding shares of Seattle-based MetaInfo, which develops address management software. It is expected that the merger will strengthen Check Point's policy-based management software operation. Check Point Software Technologies, Efrat Future Technology, and Cellcom Israel were chosen by Dun and Bradstreet (D&B) as the "best performers" in 1997, according to its list of Israel's largest enterprises recently published. Check Point was also in the news when Microsoft's Executive Vice President Steve Ballmer used the occasion of his recent visit to Israel to sound a warning that Microsoft intend to compete with Check Point highly successful firewall product and technology. The company's firewalls are generally accepted as the

best protection software for corporate networks from outside intrusion, Technomatrix Technologies (\$25-13/16 down \$8-13/16) read the electronic board after the company announced that it expects 1Q earnings of about \$0.14 to \$0.18 per share and revenues of about \$14 million, below analysts' expectations. According to the First Call, which reports on Wall Street analysts' estimates of earnings, consensus estimate was that the company was expected to earn \$0.28 per share in the 1Q.

Lanoptics Announces New Program

NetXchange Communications, a subsidiary of LanOptics Ltd. (Nasdaq:LNOFF) and a leading provider of Internet telephony software and infrastructure, has announced the Certified Traffic Termination Partners Program to support and expand its worldwide network of service providers.

Call back providers, telephony companies, alternative carriers and Internet service providers (ISPs) have been using NetXchange's Internet Xchange for Fax (IFX) software to send faxes over the Internet for more than one year. Through the Partners Program, Internet Telephony Service Providers (ITSPs) can offer their subscribers global IP fax delivery, via NetXchange Certified Partners. Partners certified by NetXchange would have demonstrated that they possess sufficient physical and technical resources to provide a reliable point of presence (POP) for IP fax termination and delivery. By qualifying and approving partners, NetXchange will enable program participants to gain access to existing ITSP networks worldwide. ITSPs using NetXchange products will also benefit from a choice of Certified Partners offering them reliable, global Fax over Internet Protocol (FoIP) delivery and other value-added services for termination of faxes over the public switched telephone network (PSTN).

Silicom Disappoints

Silicom Ltd. (Nasdaq:SILCF) reported disappointing 1Q 1998 revenues of \$1.44 million compared to \$ 2.65 million in the first quarter of 1997. Net income for the first three months of

1998 was \$ 49,000 or 1 cent per share compared to \$ 308,000 or 7 cents per share for the comparable period last year. Prior to the CeBIT trade show in Hannover, Germany, the company announced the release of two innovative new products - the Fast EthernetModem56 and the WinModem56 CardBus PC Cards. Modem and Local Area Networking equipment manufacturers and the company's distributors have shown interest in these advanced technology products but the company has not announced any initial contracts. Silicom Ltd. supplies modular, miniature connectivity products which combine hardware and software to enable portable computers (including notebook, laptop and hand held) to interface with Local Area Networks and Wide Area Networks.

ESC Medical Systems Announces Post-Merger Results for Q1

ESC Medical Systems Ltd. (Nasdaq: ESCMF) announced record results for the first quarter ended March 31, 1998.

For the first quarter of 1998, net sales grew to \$59.5 million from \$39.4 million for the same quarter last year. The numbers for the first quarter of 1997 are restated and include Laser Industries results.

Net income in the 1998 first quarter increased to \$12.7 million, or \$0.46 per share, compared with \$8.3 million, or \$0.31 per share reported in the first quarter of 1997, excluding merger expenses. The 1998 first quarter results exclude a one-time charge of \$29.0 million associated with the Laser Industries acquisition. Including non-recurring merger expenses, net loss for the 1998 first quarter was \$16.2 million, or \$0.62 per share.

Dr. Shimon Eckhouse, President, commented, "We are pleased with another quarter of record sales and earnings. ESC's acquisition of Laser Industries, which was successfully completed this quarter, has significantly enhanced our revenues, profits and position in the market. Sales of the combined company in the first quarter of 1998 almost doubled compared with ESC's fourth quarter sales of \$34.5 million. With sales close to \$60.0 million in the 1998 first quarter, ESC has completed a critical step in its strategic development."