

Annual Report 1999

real-time
video streaming



e-learning

business tv

corporate communications

video-on-demand

streaming media



Optibase Ltd. is a global leader in broadband digital video streaming solutions. Its powerful product offerings include innovative media transmission servers, conversion and encoding solutions and end-point solutions. Optibase's solutions enable the preparation and streaming of digital content over corporate LANs and WANs for a wide variety of applications, such as e-learning, corporate communications, business TV, video archiving and more. These streaming solutions utilize different protocols, including IP and ATM. Large system integrators and strategic partners use Optibase's solutions for mission-critical applications where quality of video and quality of service is paramount. Chiefs among them are video-on-demand services, financial services, and monitoring.

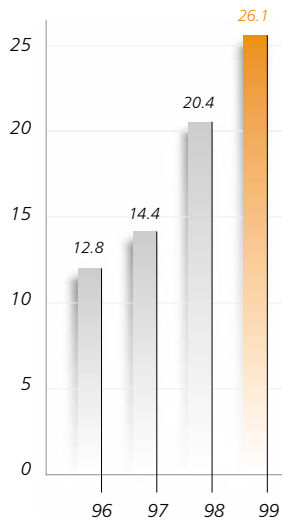
Optibase's well-established network of strategic partners includes market leaders such as Cisco Systems, Gilat Satellite Networks, Concurrent Computer Corporation, Marconi Communications (Fore Systems), Harmonic Inc., Gilat Communications, SeaChange International, Hughes Olivetti Telecom, Oracle Corp., SGI, nCube, IBM, PictureTel and others.

Headquartered in Herzeliya, Optibase has subsidiaries and offices in the US, UK, and Japan. Optibase employs more than 130 professionals worldwide.

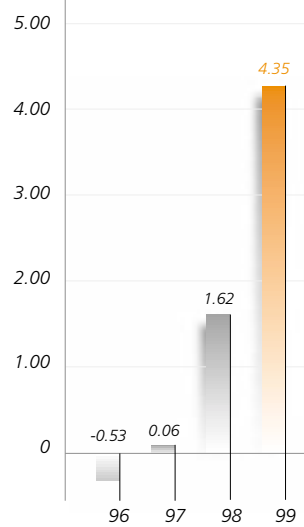
Optibase's shares are traded on the Nasdaq securities exchange under the symbol OBAS.

ABOUT OPTIBASE

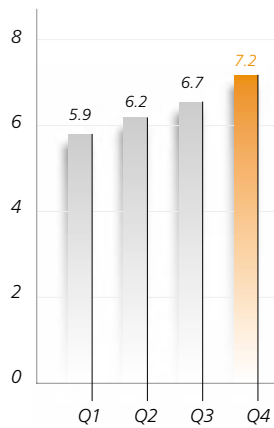
Annual Revenue Growth
(In millions)



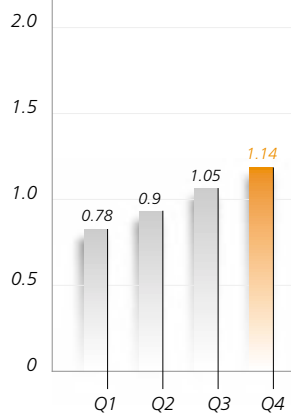
Annual Net Income Growth
(In millions)



Quarterly Revenue Growth
(In millions)
Year 1999



Quarterly Net Income Growth
(In millions)
*Excluding one time gain
Year 1999

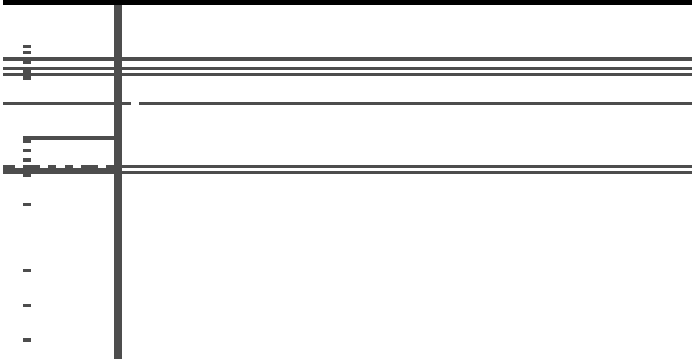


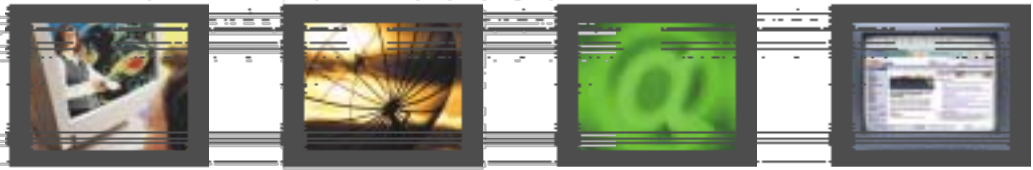
FINANCIAL HIGHLIGHTS

99



The awakening need





The whole world is becoming one big network. A lot faster than we think.

First it was just where you worked. Or went to school.

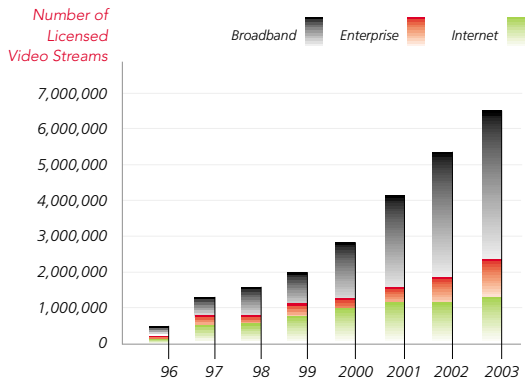
Today, networks are expanding out of conventional enterprise markets. The Internet is available nearly anywhere and everywhere. And with the development and deployment of wireless technologies, public networks are at our doorsteps... with literally no strings attached.

Bandwidth is increasing, video, voice and data are converging and technology standards are evolving – driving the need to deliver high-quality content for corporate application enterprise users and consumers with broadband access.

From Interactive TV, through on-demand entertainment and education, to streaming live events. The next growth phase of the broadband Internet will enable this content to meet the Internet... via streaming of rich media over the Internet.

Streaming Video by Market

Growth of Streaming Video by Market (US Market, Excludes Broadcast Entertainment)



Frost & Sullivan 1999

The future holds much promise, and this is where Optibase comes in.

Optibase's technology enables high-quality video streaming over broadband networks. In real-time.

This means content is received as a real-time stream. There is no need to wait for heavy digital video files to complete their voyage over the network.

Streaming technologies have changed the way we experience rich media over broadband networks. And will change the way we use the broadband Internet in the future.

Optibase is committed to leveraging a decade of experience in innovating media streaming technologies over networks to deliver on the promise of end-to-end media streaming solutions for the broadband Internet of tomorrow.

for streaming media

DEAR SHAREHOLDERS,

1999 was an extraordinary year for Optibase. Our initial public offering in April was a success. In spite of adverse market trends, we raised \$15 million in the IPO. This was followed by a secondary offering in March 2000 for \$67 million. The capital infusion will help our company gain the flexibility and versatility to grow and expand to a position of reinforced strength and stability. This fueled a great leap forward in our development as a leading global provider of solutions for rich media streaming applications, and supports our ability to forge strategic partnerships with some of the world's leading networking, broadcasting and digital video companies. Into the new millennium, we are leveraging a decade of proven experience to lay the groundwork for media streaming solutions for the next generation of broadband networks, with increased flexibility to adapt emerging business models.

We succeeded in meeting our business and financial objectives, particularly in our net profit. Revenues increased by 28%, from \$20.4 million to \$26.1 million. Gross profit increased 27%, from \$11.7 million to \$14.9 million. Operating income increased 84%, from \$1.8 million in 1998 to \$3.3 million in 1999. Net income also increased substantially, from \$1.6 million in 1998 to \$4.35 million in 1999, or \$0.26 per diluted share in 1998 to \$0.53 per diluted share in 1999, a 104% increase. Net income in 1999 contains a \$0.5 million one-time gain, compared to a one-time expense of \$0.2 million in 1998.

A Promising Market

In the dynamic world of networking, media streaming plays a pivotal role. The first market to reap the benefits of this technology is the enterprise market, where fast private networks allow the distribution of high-quality video to the desktop – for applications such as e-learning, business TV and corporate communications. Our breadth of products enable network clients to view this video as a live multicast transmission or on-demand, utilizing third party video servers. Additional applications for our products include ad-insertion for cable TV operators, digital archiving for news bureaus, and related areas. Common to all these applications is the need to achieve top-quality video, within the constraints and changing parameters of existing networks. Our products meet this challenge.

The introduction of backbone solutions, last mile solutions and caching solutions paves the way for delivery of broadband content over the Internet. We are expanding our focus to address the growing consumer-oriented, web based services markets, such as video enhanced e-commerce, interactive TV and cellular-oriented video services, by developing media transmission servers which will provide end-to-end, constraints-free streaming of video over the broadband Internet.

Paving the Road to MPEG-4

Optibase enjoys an excellent reputation as a leader in the world of MPEG, including MPEG-4, the emerging standard for streaming multimedia over broadband and narrowband networks. Currently, Optibase chairs the IM-1 sub-committee of the ISO Moving Picture Experts Group (MPEG) initiation for MPEG-4 standardization. In addition, our R&D team is working to add MPEG-4 features to our leading streaming platform, the MPEG ComMotion Pro, to meet the needs of video applications for Internet-based applications. We believe that the convergence of the computer, television and film industries is at the doorstep. With our MPEG-4 solutions, Optibase will be well positioned to take advantage of this, and offer standard, compliant core media streaming platforms for multiple applications.

Global Partnerships for Market Leadership

During 1999, Optibase forged several strategic OEM and distribution partnerships and was chosen as the technology of choice by leading networking industry leaders. Optibase signed an agreement with Cisco Systems to integrate our digital video products with their IP/TV™ 3400 Broadcast Servers. The result is a complete and powerful solution for efficient streaming of high-quality video over the enterprise LAN.

Our alliance with Concurrent Computer Corporation has helped to accelerate the creation and deployment of a total interactive Video-On-Demand (VOD) solution. Also, our recent agreement with SeaChange International to supply our MPEG MovieMaker line of products is another important step in this expanding market.



Ran Eisenberg
CEO and Chairman
of the Board



2000

An agreement with Gilat Satellite Networks Ltd. has led to the integration of Optibase's digital video technology into Gilat's VSAT products, enabling Gilat to transmit high quality video as part of its IP-based products. This is a key step towards streaming media to VSAT users' desktops and an exciting development for our company in the expanding satellite market.

Developing Leading-edge technologies with Global Technology Leaders

In 1999, the European Commission awarded the development of the "VideoGateway", which is at the heart of Optibase's new generation product family, to a European Consortium led by Optibase. Consortium members include Deutsche Telekom, Aerospatiale Matra, CSELT, the R&D Center of the Telecom Italia Group, Teracom and the University of Athens. We are proud to play such an important role in shaping the next generation of servers for media over broadband Internet.

Optibase was also invited to join the NexTV project in 1999, for the development of MPEG-4 based platforms for interactive TV services. We are participating with France Telecom, Deutsche Telekom, KPN, Telecom Italia, Philips, Sun Microsystems and others.

The Promise of Media Streaming over the Broadband Internet

Optibase is taking a proactive position in the rapidly evolving area of media streaming solutions for the broadband Internet, and is hard at work developing its next generation end-to-end solution for the broadband Internet. These solutions will be based upon an expansion of our technologies to employ MPEG-4, as well as new technologies, and are being designed to enable networks to automatically manage the delivery of media over packet-based networks for devices such as PCs, cell phones and PDAs.

In December, Optibase was invited to join ICAP (Internet Content Adaptation Protocol) - a diverse team of Internet-focused companies, led by Akamai. ICAP is charged with the mission to create a standard-based protocol for a new class of value added services. Through ICAP, we will be able to expose and test our technologies and solutions toward enabling end-to-end, constraint free streaming of rich media over the Internet.

A Product Portfolio that Delivers Achievement and Value

Our product offerings include innovative, media transmission servers, conversion and encoding solutions, end-point solutions and integrator tools. For the market evolution toward broadband Internet, we introduced the MPEG ComMotion Pro, a scaleable, Web-based network solution for live multicast, unicast and broadcast applications, as well as uploading of MPEG-based media onto video servers. The product attracted much attention, and the full commercial release in the first quarter of 2000 has been very successful.


In recognition of our comprehensive product line Optibase was selected by Frost & Sullivan, a leading international consulting group that monitors the information technologies industry, to receive their Product Line Strategy Award in 1999. We were proud to stand among our colleagues and accept recognition for our commitment to developing comprehensive solutions that serve the diverse and multiple needs of our customers and partners.

The Promise of the Future

As we look ahead and plan for the new millenium, we see that the horizons in our industry are expanding. Business models are changing rapidly, spawned by exciting technological developments. Optibase enjoys a strong position in a market that values creativity and vision.

We have also expanded our horizons across the globe, with the opening of a representative office in Japan, and are planning to open an office in Mainland China. Close to home, our new corporate offices in Israel allow all our departments to work together more comfortably.

For the achievements and inspiring growth we have experienced over the year, we must express our appreciation to our dedicated staff. Our employees are behind all our accomplishments, and will deliver on the promise of our future. On behalf of the entire Board of Directors, I would also like to thank our shareholders and partners for their continued support and confidence.



Ran Eisenberg
CEO and Chairman of the Board

ABN AMRO Bank, with headquarters in the Netherlands, operates in over 70 countries and territories, linking over 65,000 employees across the globe. Offering the best financial services to customers means being online – all the time. Traders need news feeds and security analysis data on their desktops, in real time. When ABN AMRO's trading facilities selected Cisco Systems' video networks solution alongside Optibase's VideoPlex XPress end-point solution to provide real-time video overlay on desktops, they knew they were getting top quality video streaming technology. Marc Berting, Product Specialist Systems Engineering at ABN AMRO: "We chose Optibase's VideoPlex XPress hardware decoder because the video quality was superior."

A decade of superior solutions has spawned technologies that are innovative and creative – technologies that are propelling the company forward to developing new solutions for the broadband networks of the future.

Streaming across the





enterprise

"The combination of Optibase's digital video technology and Cisco's IP/TV™ is the optimal solution for customers who wish to deliver high quality video to power users."

Andy Hall,
EMEA Video Account Manager,
Cisco Systems



CISCO SYSTEMS



For years, a leading healthcare information service in the United States has distributed TV programming to physician's offices via CD-ROM or videocassettes. To streamline operations and manage their far-reaching network more efficiently, this healthcare information service selected Spacenet Inc.'s SkyBlaster satellite network, alongside Optibase's VideoPlex XPress end-point solution to be deployed in its interactive, broadband satellite communications network covering over 9,000 healthcare facility sites in the US. Spacenet Inc. is a wholly owned subsidiary of Gilat Satellite networks.

With Optibase's multicasting capabilities deployed in its satellite network, video files can be viewed anytime on television sets at the healthcare facility sites. With the network's enhanced programming features, specialized content can be targeted toward specific audiences. Optibase's flexible feature set also is enabling the expansion of the network to reach over 20,000 installations.

This healthcare information service needed widespread coverage and advanced media streaming features. That is exactly what Optibase solutions deliver.

Expertise in developing solutions for vertical markets is fueling Optibase forward to developing unique solutions for the next generation of broadband Internet applications.



For Large broadband



"Optibase's solutions fulfil the requirements of large broadband interactive networks by providing high-quality video and easy integration."

Shelly Revkin,
President, Spacenet Inc.

networks



In demanding





environments



Optibase collaborates with Concurrent Computer Corporation on a digital debrief system used by the Boeing Company's Aerospace Support Business deployed in the United Kingdom's WAH—64 Apache Longbow Helicopter Training program. Concurrent's VoD system is being combined with Optibase's Transmissions Servers, MPEG ComMotion & MPEG MovieMaker. The integrated system enables simultaneous recording and playback of simulator crews, accommodating multiple streams that are all independent and interactive.

In one of the most demanding applications possible, Optibase's robust solutions delivered the performance required by a mission-critical defense application.

Optibase's media streaming solutions are used in a wide range of interactive VoD applications such as E-learning, corporate communications business TV and more. Optibase is leveraging this experience to develop innovative media streaming solutions for the broadband Internet networks of tomorrow.

"Cooperation on the Boeing project has demonstrated that Concurrent's MediaHawk™ can be integrated with Optibase's technology in a demanding environment."

Steve Nussrallah,
*President & CEO,
Concurrent Computer Corporation*

