



## **Electronics Line 3000 Announces Third Quarter 2007 Results**

Petach Tikvah, Israel (August 7, 2007) – Electronics Line 3000, a global leader in electronic security with remote management solutions, has remained profitable from ongoing operations throughout the third quarter, ended September 30, 2007 (the “Reported Quarter”) as a direct result of a restructuring plan and tighter expense control.

### **General**

We hereby submit the Directors' Report for the nine and three months period ended September 30, 2007, the comparable nine and three months period ended September 30, 2006 and the year ended December 31, 2006.

### **Corporate Description and Business Environment**

The Company engages in the design, development, production, marketing and sale of electronic security with remote management solutions and complementary products for the mass residential and small commercial markets. These solutions can be monitored and enable remote management of the premises for security, automation, and video applications.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

### **General Results Review**

The Company's revenues in the Reported quarter amounted to \$8.1 million, compared to revenues of \$8.75 million during the comparable quarter last year. Revenues in the period ending September 30, 2007 ("the Reported Period") amounted to \$26 million compared to revenues of \$33.2 million during the comparable period last year and revenues of \$42.4 million for the year ended December 31, 2006. The Company is going through a transition phase from a producer of traditional security products to a total solutions provider, and during such transition phases, a decrease in revenues is to be expected.

Gross margins in the Reported quarter amounted to 39% compared to gross margins of 40% in the comparable quarter last year. The gross profit in the Reported Quarter amounted to \$3.1 million (\$10.3 million during the Reported Period) compared to \$3.5 million in the comparable quarter of the previous year (\$13.3 million during the comparable period last year) and to \$16.9 million for the fiscal year of 2006.



Gross margins for the reported quarter decreased by 1% as a direct result of the decrease in sales and the relatively high level of fixed expenses.

During the transition phase, the Company has continued to make all efforts focusing on profitable products, targeting high-margin customers and controlling raw material costs.

Research and development costs and know-how, including some costs which were capitalized during the Reported Quarter, amounted to \$721,000 (\$2.0 million in the Reported Period) compared to \$681,000 in the comparable quarter of last year (\$1.9 million in the same period last year) and \$2.6 million for the year 2006. The increase in the reported quarters is mainly derived from an increase of expensed capitalized cost and salary increase.

Sales and marketing expenses amounted to \$2.0 million during the Reported Quarter (\$6.4 million in the Reported Period), and for the comparable quarter of 2006 (\$6.2 million in the same period last year) and to \$8.3 million for 2006. The Company has been continuously developing and expanding its marketing and sales capabilities with a focus on targeting strategic customers.

General and administrative expenses amounted to \$542,000 during the Reported Quarter (\$2.0 million in the Reported Period), compared to \$702,000 for the comparable quarter last year (\$2.6 million in the same period last year, excluding the \$900,000 expense of the compromise agreement with Metis) and to \$3.3 million for 2006. The decrease in the reported quarters mainly derives from a decrease in management fees and professional fees.

The Company's operating profit during the Reported Quarter was \$56,000 (\$519,000 in the Reported Period) compared to an operating profit of \$294,000 in the comparable quarter of last year (\$2.3 million in the Reported period last year) and to \$2.7 million for 2006.

Net financial and other expenses amounted to \$301,000 during the Reported Quarter (\$562,000 in the Reported Period), compared to \$213,000 for the comparable quarter of last year (\$458,000 in the Reported Period) and to \$661,000 during 2006. The control and management of currency exposure risks with a new hedging strategy significantly decreased the Company's exposure to changes in currency exchange rates. Nevertheless, the strength of the NIS against the US Dollar caused the Company's financial expenses to increase by \$100,000.

Loss before income taxes during the Reported Quarter was \$245,000 (a \$43,000 loss in the Reported Period), compared to a profit of \$81,000 for the comparable quarter of last year (\$1.8 million in the comparable Reported Period) and to \$2.0 million for 2006.



Tax benefits were \$94,000 during the Reported Quarter (\$59,000 in the Reported Period), compared to \$42,000 for the comparable quarter of last year (taxes on income of \$ 578,000 in the comparable Reported Period) and to \$630,000 expenses for 2006.

The Company ended the Reported Quarter with a net loss of \$151,000, (\$16,000 net profit in the Reported Period) compared to a \$123,000 net profit for the comparable quarter of last year (a \$1.2 million net profit in the same Reported Period) and to a \$1.4 million net profit for 2006.

### **The Company's Financial Position**

The Company's cash and cash equivalents as of September 30, 2007 (hereinafter: "the Reported Date") and on December 31, 2006 were \$2.9 million.

The Company's trade receivables on the Reported Date were \$8.4 million, compared to \$9.8 million on December 31, 2006.

The Company's prepaid expenses, other accounts receivable, advanced payments to suppliers and income tax receivables on the Reported Date were \$1.5 million, compared to \$994,000 on December 31, 2006. The increase resulted mainly from the increase in advances to suppliers and prepaid expenses.

The Company's inventories on the Reported Date were \$8.3 million, compared to \$7.0 million on December 31, 2006. The increase in inventory was due to extended lead times of certain products which has caused the Company to keep a higher level of inventory.

The net investment in non-current assets, less amortization, on the Reported Date amounted to \$11.8 million, and \$11.4 million investment on December 31, 2006, , comprising of the following:

- Net investment in property, plant and equipment, less amortization, was \$5.3 million on the Reported Date, compared to \$5.4 million on December 31, 2006.
- Net investment in research and development for products that have been proven to be technologically feasible but have not yet been released, less amortization, was \$5.9 million on the Reported Date, compared to \$5.5 million on December 31, 2006.
- Deferred taxes were \$569,000 as of the Reported Date, compared to \$364,000 on December 31, 2006.
- Security deposits were \$114,000 as of the Reported Date, compared to \$110,000 on December 31, 2006.



The short-term credit balance from banks and others on the Reported Date, amounted to \$7.2 million, compared to \$2.9 million on December 31, 2006.

The Company's trade payables as of the Reported Date were \$3.4 million, compared to \$4.7 million on December 31, 2006.

Other current liabilities, accrued expenses and income tax payable were \$2.5 million on the Reported Date, compared to \$3.3 million on December 31, 2006. This decrease derives from the partial payment of an outstanding debt with respect to the previous year's compromise agreement with Metis.

Long-term loans were \$2.2 million on the Reported Date, compared to \$4 million on December 31, 2006. The decrease represents repayment of the loans.

### **Financial Ratios**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Current Ratio	1.6	1.9
Ratio Quick	1.0	1.3

### **Cash Flow**

During the Reported Quarter, net cash used in operating activities was \$174,000 (\$1.3 million used in operating activities in the Reported Period), compared to \$449,000 used in operating activities during the comparable quarter last year (\$3.17 million provided by operating activities during the same Reported Period last year) and \$2.8 million during 2006. Most of the decrease in cash provided by operating activities derives from the increase in inventories, decrease in trade payables and partial payment of an outstanding debt with respect to the previous year's compromise agreement with Metis as mentioned above.

During the Reported Quarter, the Company directed \$394,000 toward investment activities, (\$1.0 million during the Reported Period) compared to \$313,000 during the comparable quarter of last year (\$849,000 during the same Reported Period), and to \$1.1 million during all of 2006. Most of the increase comes from acquisition of molds for the Company's new product line.



During the Reported Quarter, cash provided by financing activities was \$1.1 million (\$2.4 million provided during the Reported Period), compared to \$496,000 used in during the comparable quarter of last year (\$7.3 million used in during the same Reported Period) and to \$7.1 million used in financing activities during fiscal year 2006.

### **Financing Sources**

Shareholders' equity as of September 30, 2007 was \$17.0 million, a ratio of 51.6% to the total balance sheet, compared to \$16.7 million and 52.1%, respectively, as of December 31, 2006.

On September 30, 2007, short and long term credit from banks and other creditors designated for financing working capital and investments in fixed assets and rental property was \$15.4 million, compared to a credit balance of \$14.9 million on December 31, 2006.

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Amir Hayek  
President & CEO

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Bob Marbut  
Chairman of the Board

Petach Tikva, November 7, 2007

**ELECTRONICS LINE 3000 LTD.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER 30, 2007**  
**U. S. DOLLARS IN THOUSANDS**  
**UNAUDITED**

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## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	September 30,		December 31,
	2007	2006	2006
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	2,947	3,210	2,906
Trade receivables	8,359	9,061	9,789
Income tax receivable	210	5	174
Prepaid expenses	727	299	348
Advances to suppliers	320	41	126
Other accounts receivable	264	270	346
Inventories	8,278	6,828	7,020
<u>Total</u> current assets	<u>21,105</u>	<u>19,714</u>	<u>20,709</u>
NON CURRENT ASSETS:			
Property, plant and equipment:			
Cost	14,239	13,812	13,833
Less - accumulated depreciation	8,982	8,192	8,389
	5,257	5,620	5,444
Intangible assets, net	5,877	5,372	5,519
Deferred taxes	569	694	364
Security deposits	114	110	110
<u>Total</u> non current assets	<u>11,817</u>	<u>11,796</u>	<u>11,437</u>
<u>Total</u> assets	<u>32,922</u>	<u>31,510</u>	<u>32,146</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks	7,069	1,852	2,639
Loans from shareholders	140	290	278
Trade payables	3,410	4,740	4,661
Accrued expenses	253	345	569
Income tax payable	132	182	54
Other current liabilities	2,155	3,039	2,683
<u>Total</u> current liabilities	<u>13,159</u>	<u>10,448</u>	<u>10,884</u>
LONG-TERM LIABILITIES:			
Loans from banks and others	2,187	4,300	4,000
Accrued severance pay, net	590	540	530
<u>Total</u> long-term liabilities	<u>2,777</u>	<u>4,840</u>	<u>4,530</u>
EQUITY:			
Share capital	10,933	10,895	10,895
Additional paid-in capital	6,511	6,322	6,396
Foreign currency translation reserve	2,222	1,871	2,137
Accumulated deficit	(2,680)	(2,866)	(2,696)
<u>Total</u> equity	<u>16,986</u>	<u>16,222</u>	<u>16,732</u>
<u>Total</u> liabilities and equity	<u>32,922</u>	<u>31,510</u>	<u>32,146</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

November 7, 2007

Date of approval of the  
financial statementsBob Marbut  
Chairman of the BoardAmir Hayek  
President and CEOShirly Gavrieli  
VP Finance

**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands, except per share data

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
Revenues	26,000	33,223	8,051	8,750	42,386
Cost of revenues	15,658	19,915	4,940	5,255	25,437
Gross profit	10,342	13,308	3,111	3,495	16,949
Operating costs and expenses:					
Research and development	1,393	1,298	508	454	1,753
Selling and marketing	6,442	6,198	2,005	2,045	8,269
General and administrative	1,988	2,643	542	702	3,333
Compromise agreement with Metis	-	900	-	-	900
Total operating costs and expenses	9,823	11,039	3,055	3,201	14,255
Operating profit	519	2,269	56	294	2,694
Financial income	182	364	51	39	300
Financial expenses	(747)	(824)	(352)	(252)	(963)
Other income, net	3	2	-	-	2
Profit (loss) before taxes on income	(43)	1,811	(245)	81	2,033
Taxes on income (tax benefit)	(59)	578	(94)	(42)	630
Net profit (loss)	16	1,233	(151)	123	1,403
Net earnings (loss) per share (basic and diluted)	0.00	0.12	(0.01)	0.01	0.14

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. dollars in thousands

<b>Nine months ended September 30, 2007 (unaudited)</b>						
	<b>Share capital</b>	<b>Additional paid-in capital</b>	<b>Foreign currency translation reserve</b>	<b>Accumulated deficit</b>	<b>Total equity</b>	<b>Total recognized income</b>
Balance at the beginning of the period (audited)	10,895	6,396	2,137	(2,696)	16,732	
Exercise of options	38	45	-	-	83	
Cost of share-based payments	-	70	-	-	70	
Foreign currency translation differences	-	-	85	-	85	85
Net profit	-	-	-	16	16	16
						<u>101</u>
Balance at the end of the period	<u>10,933</u>	<u>6,511</u>	<u>2,222</u>	<u>(2,680)</u>	<u>16,986</u>	
<b>Nine months ended September 30, 2006 (unaudited)</b>						
	<b>Share capital</b>	<b>Additional paid-in capital</b>	<b>Foreign currency translation reserve</b>	<b>Accumulated deficit</b>	<b>Total equity</b>	<b>Total recognized income</b>
Balance at the beginning of the period (audited)	10,895	6,126	1,87	(4,099)	14,793	
Cost of share-based payments	-	196	-	-	196	
Net profit	-	-	-	1,233	1,233	1,233
						<u>1,233</u>
Balance at the end of the period	<u>10,895</u>	<u>6,322</u>	<u>1,87</u>	<u>(2,866)</u>	<u>16,222</u>	
<b>Three months ended September 30, 2007 (unaudited)</b>						
	<b>Share capital</b>	<b>Additional paid-in capital</b>	<b>Foreign currency translation reserve</b>	<b>Accumulated deficit</b>	<b>Total equity</b>	<b>Total recognized loss</b>
Balance at the beginning of the period	10,933	6,511	2,188	(2,529)	17,103	
Foreign currency translation differences	-	-	34	-	34	34
Loss	-	-	-	(151)	(151)	(151)
						<u>(117)</u>
Balance at the end of the period	<u>10,933</u>	<u>6,511</u>	<u>2,222</u>	<u>(2,680)</u>	<u>16,986</u>	
<b>Three months ended September 30, 2006 (unaudited)</b>						
	<b>Share capital</b>	<b>Additional paid-in capital</b>	<b>Foreign currency translation reserve</b>	<b>Accumulated deficit</b>	<b>Total equity</b>	<b>Total recognized income</b>
Balance at the beginning of the period	10,895	6,237	1,87	(2,989)	16,014	
Cost of share-based payments	-	85	-	-	85	
Net profit	-	-	-	123	123	123
						<u>123</u>
Balance at the end of the period	<u>10,895</u>	<u>6,322</u>	<u>1,87</u>	<u>(2,866)</u>	<u>16,222</u>	

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. dollars in thousands

	Year ended December 31, 2006 (audited)					Total recognized income
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total equity	
Balance at the beginning of the year	10,895	6,126	1,871	(4,099)	14,793	
Cost of share-based payments	-	270	-	-	270	
Foreign currency translation differences	-	-	266	-	266	266
Net profit	-	-	-	1,403	1,403	1,403
Balance at the end of the year	<u>10,895</u>	<u>6,396</u>	<u>2,137</u>	<u>(2,696)</u>	<u>16,732</u>	<u>1,669</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
<u>Cash flows from operating activities:</u>					
Profit (loss) before taxes on income	(43)	1,811	(245)	81	2,033
Adjustments for:					
Depreciation and amortization	856	1,291	266	363	1,581
Loss (gain) on sale of property, plant and equipment	1	(2)	-	-	(1)
Increase in accrued severance pay	60	67	2	31	57
Cost of share-based payments	70	196	-	85	270
Financial expenses, net	565	460	301	213	663
<u>Operating cash flows before working capital changes:</u>	<u>1,509</u>	<u>3,823</u>	<u>324</u>	<u>773</u>	<u>4,603</u>
Decrease (increase) in trade receivables	1,514	(82)	1,451	1,506	(559)
Decrease (increase) in prepaid expenses and other accounts receivable	(489)	525	(284)	175	328
Decrease (increase) in inventories	(1,164)	(6)	504	(768)	20
Increase in security deposits	(4)	(3)	(4)	-	(3)
Decrease in trade payables	(1,302)	(870)	(1,841)	(745)	(1,078)
Increase (decrease) in accrued expenses	(321)	(162)	(64)	(203)	42
Increase (decrease) in other current liabilities	(596)	7	(8)	(1,021)	(533)
	<u>(2,362)</u>	<u>(591)</u>	<u>(246)</u>	<u>(1,056)</u>	<u>(1,783)</u>
<u>Cash provided by operations:</u>	<u>(853)</u>	<u>3,232</u>	<u>78</u>	<u>(283)</u>	<u>2,820</u>
Interest received	25	106	12	23	270
Interest paid	(392)	(400)	(188)	(147)	(514)
Income taxes received	5	347	-	2	331
Income taxes paid	(109)	(115)	(76)	(44)	(134)
Net cash provided by (used in) operating activities	<u>(1,324)</u>	<u>3,170</u>	<u>(174)</u>	<u>(449)</u>	<u>2,773</u>
<u>Cash flows from investing activities:</u>					
Acquisition of intangible assets	(627)	(634)	(202)	(227)	(854)
Acquisition of property, plant and equipment	(422)	(266)	(192)	(106)	(293)
Proceeds from sale of equipment	24	51	-	20	51
Net cash used in investing activities	<u>(1,025)</u>	<u>(849)</u>	<u>(394)</u>	<u>(313)</u>	<u>(1,096)</u>
<u>Cash flows from financing activities:</u>					
Proceeds from exercise of options	83	-	-	-	-
Increase (decrease) in short-term bank credit, net	3,333	(6,049)	1,388	(196)	(5,609)
Repayment of loan from shareholders	(150)	(750)	-	-	(750)
Receipt of long-term loans from banks and others	98	-	98	-	-
Repayment of long-term loans from banks	(1,000)	(500)	(400)	(300)	(700)
Net cash provided by (used in) financing activities	<u>2,364</u>	<u>(7,299)</u>	<u>1,086</u>	<u>(496)</u>	<u>(7,059)</u>
<u>Effect of exchange differences on cash and cash equivalents of foreign operation</u>	<u>26</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>100</u>
Increase (decrease) in cash and cash equivalents	41	(4,978)	529	(1,258)	(5,282)
Cash and cash equivalents at beginning of period	2,906	8,188	2,418	4,468	8,188
Cash and cash equivalents at end of period	<u>2,947</u>	<u>3,210</u>	<u>2,947</u>	<u>3,210</u>	<u>2,906</u>
<u>Significant non-cash transactions:</u>					
Conversion of short-term bank credit to long-term bank loans	-	-	-	-	6,000

The accompanying notes are an integral part of the interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1:- GENERAL**

- a. These interim consolidated financial statements have been prepared in a condensed format as of September 30, 2007 and for the nine and three months then ended. These financial statements should be read in conjunction with the Company's annual consolidated financial statements and accompanying notes as of December 31, 2006 ("the annual financial statements").
- b. Following are data about the representative exchange rate of the U.S. dollar in relation to the New Israeli Shekel ("NIS"), Euro and the GBP:

<u>As of</u>	<u>Exchange rate of NIS 1</u>	<u>Exchange rate of €1</u>	<u>Exchange rate of £ 1</u>
		\$	
September 30, 2007	0.25	1.42	2.03
September 30, 2006	0.232	1.27	1.87
December 31, 2006	0.237	1.32	1.96
<b><u>Change during the period ended</u></b>	<b><u>%</u></b>	<b><u>%</u></b>	<b><u>%</u></b>
September 2007 (nine months)	5.5	7.6	3.6
September 2006 (nine months)	6.9	7.3	8.1
December 2006 (12 months)	9.2	11.7	13.6

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The significant accounting policies and methods of computations applied in the preparation of the interim financial statements are consistent with those applied in the annual financial statements.
- b. Future changes in accounting policies:

IAS 1 (Revised), "Presentation of Financial Statements":

IAS 1 (Revised) requires entities to present a separate statement of comprehensive income disclosing, other than the net income as stated in the income statement, all the items carried in the reported period directly to equity that do not derive from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as foreign currency translation adjustments of foreign operations, reclassification of fair value to available-for-sale financial assets, adjustments to revaluation reserve of fixed assets and such, while properly allocated between the Company and the minority interests.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Alternatively, the items of other comprehensive income may be disclosed along with the items of the income statement in one single statement entitled statement of comprehensive income. Only the items carried to equity deriving from transactions with the shareholders in their capacity as shareholders (such as capital issuances, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, while properly allocated between the Company and the minority interests.

IAS 1 (Revised) also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of a change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods commencing on January 1, 2009 with early adoption permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

**NOTE 3: - GEOGRAPHICAL SEGMENTS**

a. General:

The Group operates in one business segment of electronic security with remote management solutions and complementary products.

The Group companies operate in two principal geographical segments according to IAS 14: Europe and the United States.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 3: - GEOGRAPHICAL SEGMENTS (Cont.)**

b. Information about geographical segments:

	<u>Europe</u>	<u>U.S.</u>	<u>Other countries</u>	<u>Adjustments</u>	<u>Total - consolidated</u>
	<u>U.S. dollars in thousands</u>				
<b>Nine months ended September 30, 2007 (unaudited)</b>					
Segment revenues	<u>18,620</u>	<u>6,384</u>	<u>2,951</u>	<u>(1,955)</u>	<u>26,000</u>
Segment results	<u>2,687</u>	<u>245</u>	<u>149</u>	<u>(2,562)</u>	<u>519</u>
<b>Nine months ended September 30, 2006 (unaudited)</b>					
Segment revenues	<u>24,626</u>	<u>6,605</u>	<u>3,970</u>	<u>(1,978)</u>	<u>33,223</u>
Segment results	<u>5,741</u>	<u>(210)</u>	<u>894</u>	<u>*) (4,156)</u>	<u>2,269</u>
<b>Three months ended September 30, 2007 (unaudited)</b>					
Segment revenues	<u>5,982</u>	<u>2,127</u>	<u>422</u>	<u>(480)</u>	<u>8,051</u>
Segment results	<u>527</u>	<u>258</u>	<u>(59)</u>	<u>(670)</u>	<u>56</u>
<b>Three months ended September 30, 2006 (unaudited)</b>					
Segment revenues	<u>6,274</u>	<u>1,966</u>	<u>1,317</u>	<u>(807)</u>	<u>8,750</u>
Segment results	<u>1,094</u>	<u>(21)</u>	<u>194</u>	<u>*) (973)</u>	<u>294</u>
<b>Year ended December 31, 2006 (audited)</b>					
Segment revenues	<u>30,012</u>	<u>9,368</u>	<u>5,994</u>	<u>(2,988)</u>	<u>42,386</u>
Segment results	<u>6,383</u>	<u>87</u>	<u>1,185</u>	<u>*) (4,961)</u>	<u>2,694</u>

\*) Including expenses not allocated to segments.

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