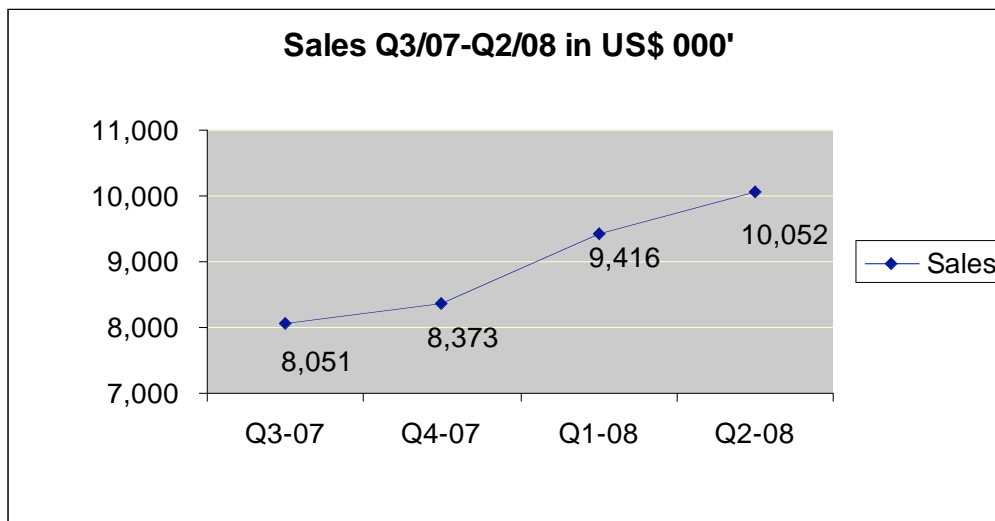




## **Electronics Line 3000 Announces Results for the First Half of Year 2008**

Petach Tikvah, Israel (August 6, 2008) – Electronics Line 3000, a global leader in electronic security with remote management solutions, achieved growth of 16% in revenues compared to the comparable quarter of last year and 20% compared to the last quarter of 2007, and has successfully remained profitable from ongoing operations.

The following chart represents sales growth from the third quarter of 2007 to the reported period of 2008.



### **General**

We hereby submit the Directors' Report for the three month ended June 30, 2008 (the "Reported Quarter"), the comparable three months ended June 30, 2007 and for the year ended December 31, 2007.

### **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 US\$ 10.1 million, compared to revenues of US\$ 8.7 million during the comparable quarter of last year and to US\$ 34.4 million for the year ended December 31, 2007.

During the Reported Quarter, gross margins were 39% compare to 40% during the comparable quarter of last year. The gross profit in the Reported Quarter amounted to US\$ 3.9 million compared to US\$ 3.5 million in the comparable quarter of the previous year and to US\$ 13.3 million for the fiscal year of 2007.

Significant changes in exchange rates, 16% devaluation of the US Dollar against the New Israeli Shekel (average value of 3.52 NIS per \$ during the first six months of 2008, compared to 4.15 NIS per \$ for the comparable half of 2007) , resulted in an erosion and created much pressure on expenses in general and on the gross margin in particular. Despite this, the Company has been placing great efforts on maintaining the gross margin at its current level by taking the following actions:

- Focusing on profitable products
- Targeting high margin customers
- Controlling raw material costs
- Basing labor requirements on operational demands

Research and development costs and know-how, amounted to US\$ 967,000 compare to US\$ 433,000 in the comparable quarter of last year and US\$ 2.0 million for the whole year of 2007. The increase in expenses is due to two main reasons: firstly, the strengthening of the R&D team with new, highly qualified staff, which will allow the Company to continue developing new solutions and remain at the forefront of the market, quickly reacting to emerging market demands. Secondly, a new Company policy, announced during the final quarter of 2007, to no longer capitalize R&D expenses. Q1 2008 was the first quarter in which these costs were expensed directly to the R&D expenses account.

Sales and marketing expenses amounted to US\$ 2.1 million during the Reported Quarter, compared to US\$ 2.4 million for the comparable quarter of last year and to US\$ 8.7 million for 2007. The Company continues to develop and expand its marketing and sales capabilities with a focus on targeting strategic customers.

General and administrative expenses amounted to US\$ 793,000 during the Reported Quarter, compared to US\$ 695,000 for the comparable quarter last year and to US\$ 2.6 million for 2007.

The Company's operating profit amounted to US\$ 82,000 during the Reported Quarter, compared to an operating profit of US\$ 24,000 in the comparable quarter of last year and to a US\$ 6.1 million loss (US\$48,000 excluding the US\$6.1 million impairment of intangible assets) for 2007. This level of operating profit is mainly due to the significant devaluation of the US Dollar against the NIS, the expansion of the R&D team and funds invested in R&D that were partially capitalized in the past and

expensed during the Reported Quarter and due to expenses related to the Company's participation in the industry's main European trade-show, IFSEC, in the UK.

Financing and other expenses, net amounted to US\$ 275,000 during the Reported Quarter, compared to US\$ 48,000 for the comparable quarter of last year and to US\$ 960,000 during 2007. The increase in expenses is mainly due to the strengthening of the New Israeli Shekel against the US Dollar and increased interest on loans.

Part of these costs, as well as payments in NIS to local suppliers, have been hedged against the US Dollar from the middle of the Reported Quarter. Nevertheless the influence of the strengthening of all currencies against the US Dollar negatively influenced operating profit.

Loss before taxes on income amounted to US\$ 193,000 during the Reported Quarter, compared to a US\$ 24,000 loss for the comparable quarter of last year and to a US\$ 7.5 million loss for 2007 (US\$ 1.4 million loss excluding the US\$ 6.1 million expense for impairment of intangible assets).

Tax expenses amounted to US\$ 19,000 during the Reported Quarter, compared to US\$ 44,000 for the comparable quarter of last year and to US\$ 194,000 tax benefits for 2007.

The Company ended the Reported Quarter with a net loss of US\$ 212,000, compared to a US\$ 68,000 loss for the comparable quarter of last year and to a US\$ 7.3 million loss (US\$1.1 million loss excluding the US\$6.1 million expense for impairment of intangible assets) for 2007.

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

The Company's cash and cash equivalents as of June 30, 2008 (hereinafter: "the Reported Date") were US\$ 3.8 million, compared to US\$ 3.1 million on December 31, 2007.

The Company's trade receivables on the Reported Date were US\$ 8.0 million, compared to US\$ 8.3 million on December 31, 2007.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reported Date were US\$ 1.2 million, compared to US\$1.3 million on December 31, 2007. The decrease is mainly due to the decrease in prepaid expenses.

The Company's inventories on the Reported Date were US\$ 7.0 million compared to US\$ 8.6 million on December 31, 2007.

Net investment in non-current assets, less amortization, on the Reported Date amounted to US\$ 5.5 million, and a US\$5.8 million investment on December 31, 2007, comprising of the following:

- Net investment in property, plant and equipment less amortization was US\$ 4.7 million on the Reported Date, compared to US\$ 5.0 million on December 31, 2007.
- Deferred taxes were US\$ 784,000 as of the Reported Date, compared to US\$ 788,000 on December 31, 2007.
- Security deposits were US\$ 85,000 as of the Reported Date, with the same investment on December 31, 2007.

The short term credit balance from banks and others on the Reported Date, amounted to US\$ 9.3 million, compared to US\$ 9.8 million on December 31, 2007.

The Company's trade payables as of the Reported Date were US\$ 3.5 million, compared to US\$ 4.1 million on December 31, 2007.

Other current liabilities, accrued expenses and income tax payable were US\$ 2.8 million on the Reported Date, the same liabilities existed on December 31, 2007.

Long term loans were US\$ 94,000 on the Reported Date compared to US\$ 85,000 on December 31, 2007.

### **Financial Ratios**

|               | <b>June 30, 2008</b> | <b>December 31, 2007</b> |
|---------------|----------------------|--------------------------|
| Current Ratio | 1.3                  | 1.3                      |
| Quick Ratio   | 0.8                  | 0.8                      |

### **Cash Flow**

During the Reported Quarter, net cash provided by operating activities was US\$ 1.3 million compared to US \$771,000 provided by operating activities during the comparable quarter of last year and US \$974,000 used during the entire year of 2007. Most of the increase in cash provided by operating activities derives from the decrease in inventories, a decrease in current liabilities and a decrease in trade receivables.

During the Reported Quarter, the Company directed US\$ 22,000 towards investment activities, compared to US\$ 401,000 during the comparable quarter last year and to US\$ 1.5 million during the entire year of 2007.

During the Reported Quarter, cash used in financing activities amounted to US\$ 1.2 million, compared to US\$ 744,000 during the comparable quarter last year and to US\$ 2.7 million that were provided in financing activities during the fiscal year of 2007.

## **Financing Sources**

Shareholders' equity as of June 30, 2008 amounted to US\$ 9.2 million, a ratio of 35.9% to the total balance sheet, compared to US\$ 9.7 million and 35.6%, respectively, as of December 31, 2007.

On June 30, 2008, short and long terms credit from banks and other creditors designated for financing working capital and investments in fixed assets and rental property was US\$ 15.6 million, compared to a credit balance of US\$ 16.9 million on December 31, 2007.

---

Amir Hayek  
President & CEO

---

Bob Marbut  
Chairman of the Board

Petach Tikva, August 6, 2008

**ELECTRONICS LINE 3000 LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2008**

**U. S. DOLLARS IN THOUSANDS**

**UNAUDITED**

**INDEX**

|   | <u>Page</u>  |
|---|--------------|
| <b>Consolidated Balance Sheets</b>                                  | <b>2</b>     |
| <b>Consolidated Statements of Operations</b>                        | <b>3</b>     |
| <b>Consolidated Statements of Changes in Equity</b>                 | <b>4 - 5</b> |
| <b>Consolidated Statements of Cash Flows</b>                        | <b>6</b>     |
| <b>Notes to Interim Condensed Consolidated Financial Statements</b> | <b>7 - 9</b> |

-----

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

|   | June 30,      |               | December 31,  |
|---|---------------|---------------|---------------|
|   | 2008          | 2007          | 2007          |
|   | Unaudited     |               | Audited       |
| <b>ASSETS</b>                           |               |               |               |
| <b>CURRENT ASSETS:</b>                  |               |               |               |
| Cash and cash equivalents               | 3,790         | 2,418         | 3,128         |
| Trade receivables                       | 7,977         | 9,777         | 8,295         |
| Income tax receivable                   | 262           | 194           | 225           |
| Prepaid expenses                        | 261           | 347           | 416           |
| Advances to suppliers                   | 263           | 214           | 187           |
| Other accounts receivable               | 452           | 465           | 440           |
| Inventories                             | 7,006         | 8,745         | 8,611         |
| <b>Total current assets</b>             | <b>20,011</b> | <b>22,160</b> | <b>21,302</b> |
| <b>NON-CURRENT ASSETS:</b>              |               |               |               |
| Property, plant and equipment:          |               |               |               |
| Cost                                    | 14,495        | 14,017        | 14,397        |
| Less - accumulated depreciation         | 9,833         | 8,777         | 9,441         |
|   | 4,662         | 5,240         | 4,956         |
| Intangible assets, net                  | -             | 5,765         | -             |
| Deferred taxes                          | 784           | 379           | 788           |
| Security deposits                       | 85            | 110           | 85            |
| <b>Total non-current assets</b>         | <b>5,531</b>  | <b>11,494</b> | <b>5,829</b>  |
| <b>Total assets</b>                     | <b>25,542</b> | <b>33,654</b> | <b>27,131</b> |
| <b>LIABILITIES AND EQUITY</b>           |               |               |               |
| <b>CURRENT LIABILITIES:</b>             |               |               |               |
| Short-term credit from banks and others | 9,262         | 4,785         | 9,832         |
| Trade payables                          | 3,470         | 5,231         | 4,102         |
| Accrued expenses                        | 526           | 345           | 283           |
| Income tax payable                      | 244           | 96            | 201           |
| Other current liabilities               | 2,006         | 2,106         | 2,350         |
| <b>Total current liabilities</b>        | <b>15,508</b> | <b>12,563</b> | <b>16,768</b> |
| <b>LONG-TERM LIABILITIES:</b>           |               |               |               |
| Bank loans                              | 94            | 3,400         | 85            |
| Accrued severance pay, net              | 771           | 588           | 612           |
| <b>Total long-term liabilities</b>      | <b>865</b>    | <b>3,988</b>  | <b>697</b>    |
| <b>EQUITY:</b>                          |               |               |               |
| Share capital                           | 10,933        | 10,933        | 10,933        |
| Additional paid-in capital              | 6,559         | 6,511         | 6,535         |
| Foreign currency translation reserve    | 2,173         | 2,188         | 2,191         |
| Hedges reserves                         | (6)           | -             | -             |
| Accumulated deficit                     | (10,490)      | (2,529)       | (9,993)       |
| <b>Total equity</b>                     | <b>9,169</b>  | <b>17,103</b> | <b>9,666</b>  |
| <b>Total liabilities and equity</b>     | <b>25,542</b> | <b>33,654</b> | <b>27,131</b> |

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

August 6, 2008

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

|  | Six months ended<br>June 30, |              | Three months ended<br>June 30, |               | Year ended<br>December 31, |
|--|------------------------------|--------------|--------------------------------|---------------|----------------------------|
|  | 2008                         | 2007         | 2008                           | 2007          | 2007                       |
|  | Unaudited                    |              |                                |               | Audited                    |
| Revenues   | 19,468                       | 17,949       | 10,052                         | 8,683         | 34,373                     |
| Cost of revenues                                     | 11,858                       | 10,718       | 6,157                          | 5,175         | 21,041                     |
| Gross profit   | 7,610                        | 7,231        | 3,895                          | 3,508         | 13,332                     |
| Operating costs and expenses:                        |                              |              |                                |               |                            |
| Research and development                             | 1,881                        | 885          | 967                            | 433           | 1,981                      |
| Selling and marketing                                | 4,001                        | 4,437        | 2,053                          | 2,356         | 8,656                      |
| General and administrative                           | 1,581                        | 1,446        | 793                            | 695           | 2,648                      |
| Impairment of intangible<br>assets                   | -                            | -            | -                              | -             | 6,130                      |
| <u>Total operating costs and<br/>expenses</u>        | <u>7,463</u>                 | <u>6,768</u> | <u>3,813</u>                   | <u>3,484</u>  | <u>19,415</u>              |
| Operating profit (loss)                              | 147                          | 463          | 82                             | 24            | (6,083)                    |
| Financial income                                     | 24                           | 131          | 10                             | 121           | 123                        |
| Financial expenses                                   | (581)                        | (395)        | (285)                          | (169)         | (1,083)                    |
| Other income (expenses), net                         | 2                            | 3            | -                              | -             | (448)                      |
| Profit (loss) before taxes on<br>income              | (408)                        | 202          | (193)                          | (24)          | (7,491)                    |
| Taxes on income (tax benefit)                        | 89                           | 35           | 19                             | 44            | (194)                      |
| Net profit (loss)                                    | <u>(497)</u>                 | <u>167</u>   | <u>(212)</u>                   | <u>(68)</u>   | <u>(7,297)</u>             |
| Net earnings (loss) per share<br>(basic and diluted) | <u>(0.05)</u>                | <u>0.02</u>  | <u>(0.02)</u>                  | <u>(0.01)</u> | <u>(0.72)</u>              |

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. dollars in thousands

|   | Six months ended June 30, 2008 (unaudited) |                                  |   |                    |                        |                 | Total<br>recognized<br>income<br>(expenses) |
|---|--|----------------------------------|---|--------------------|------------------------|-----------------|---|
|   | Share<br>capital                           | Additional<br>paid-in<br>capital | Foreign<br>currency<br>translation<br>reserve | Hedges<br>reserves | Accumulated<br>deficit | Total<br>equity |   |
| Balance as of January 1, 2008<br>(audited)  | 10,933                                     | 6,535                            | 2,191   | -                  | (9,993)                | 9,666           | -   |
| Net loss on cash flow hedges                | -  | -                                | -   | (6)                | -                      | (6)             | (6)   |
| Cost of share-based payments                | -  | 24                               | -   | -                  | -                      | 24              | -   |
| Foreign currency translation<br>differences | -  | -                                | (18)  | -                  | -                      | (18)            | (18)  |
| Loss  | -  | -                                | -   | -                  | (497)                  | (497)           | (497)                                       |
|   |  |                                  |   |                    |                        |                 | (521)                                       |
| Balance as of June 30, 2008                 | <u>10,933</u>                              | <u>6,559</u>                     | <u>2,173</u>                                  | <u>(6)</u>         | <u>(10,490)</u>        | <u>9,169</u>    |   |

|   | Six months ended June 30, 2007 (unaudited) |                                  |   |                        |                 |     | Total<br>recognized<br>income |
|---|--|----------------------------------|---|------------------------|-----------------|-----|-------------------------------|
|   | Share<br>capital                           | Additional<br>paid-in<br>capital | Foreign<br>currency<br>translation<br>reserve | Accumulated<br>deficit | Total<br>equity |     |                               |
| Balance as of January 1, 2007 (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<br>differences | -  | -                                | 51  | -                      | 51              | 51  |                               |
| Net profit                                  | -  | -                                | -   | 167                    | 167             | 167 |                               |
|   |  |                                  |   |                        |                 | 218 |                               |
| Balance as of June 30, 2007                 | <u>10,933</u>                              | <u>6,511</u>                     | <u>2,188</u>                                  | <u>(2,529)</u>         | <u>17,103</u>   |     |                               |

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. dollars in thousands

|  | Three months ended June 30, 2008 (unaudited) |                            |                                      |                |                     |              |                           |
|--|--|----------------------------|--------------------------------------|----------------|---------------------|--------------|---------------------------|
|  | Share capital                                | Additional paid-in capital | Foreign currency translation reserve | Hedge reserves | Accumulated deficit | Total equity | Total recognized expenses |
| Balance as of April, 1 2008              | 10,933                                       | 6,541                      | 2,167                                | 23             | (10,278)            | 9,386        | -                         |
| Net loss on cash flow hedges             | -  | -                          | -                                    | (29)           | -                   | (29)         | (29)                      |
| Cost of share-based payments             | -  | 18                         | -                                    | -              | -                   | 18           | -                         |
| Foreign currency translation differences | -  | -                          | 6                                    | -              | -                   | 6            | 6                         |
| Loss                                     | -  | -                          | -                                    | -              | (212)               | (212)        | (212)                     |
| Balance as of June 30, 2008              | <u>10,933</u>                                | <u>6,559</u>               | <u>2,173</u>                         | <u>(6)</u>     | <u>(10,490)</u>     | <u>9,169</u> | <u>(235)</u>              |

|  | Three months ended June 30, 2007 (unaudited) |                            |                                      |                     |               | Total recognized income (expenses) |
|--|--|----------------------------|--------------------------------------|---------------------|---------------|------------------------------------|
|  | Share capital                                | Additional paid-in capital | Foreign currency translation reserve | Accumulated deficit | Total equity  |                                    |
| Balance as of January 1, 2007            | 10,933                                       | 6,493                      | 2,128                                | (2,461)             | 17,093        | -                                  |
| Cost of share-based payments             | -  | 18                         | -                                    | -                   | 18            | -                                  |
| Foreign currency translation differences | -  | -                          | 60                                   | -                   | 60            | 60                                 |
| Loss                                     | -  | -                          | -                                    | (68)                | (68)          | (68)                               |
| Balance as of June 30, 2007              | <u>10,933</u>                                | <u>6,511</u>               | <u>2,188</u>                         | <u>(2,529)</u>      | <u>17,103</u> | <u>(8)</u>                         |

|  | Year ended December 31, 2007 (audited) |                            |                                      |                     |              | Total recognized income (expenses) |
|--|--|----------------------------|--------------------------------------|---------------------|--------------|------------------------------------|
|  | Share capital                          | Additional paid-in capital | Foreign currency translation reserve | Accumulated deficit | Total equity |                                    |
| Balance as of January 1, 2007            | 10,895                                 | 6,396                      | 2,137                                | (2,696)             | 16,732       |                                    |
| Exercise of options                      | 38                                     | 45                         | -                                    | -                   | 83           |                                    |
| Cost of share-based payments             | -                                      | 94                         | -                                    | -                   | 94           |                                    |
| Foreign currency translation differences | -                                      | -                          | 54                                   | -                   | 54           | 54                                 |
| Loss                                     | -                                      | -                          | -                                    | (7,297)             | (7,297)      | (7,297)                            |
| Balance as of December 31, 2007          | <u>10,933</u>                          | <u>6,535</u>               | <u>2,191</u>                         | <u>(9,993)</u>      | <u>9,666</u> | <u>(7,243)</u>                     |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

|   | Six months ended<br>June 30, |         | Three months ended<br>June 30, |         | Year ended<br>December 31, |
|---|------------------------------|---------|--------------------------------|---------|----------------------------|
|   | 2008                         | 2007    | 2008                           | 2007    | 2007                       |
|   | <u>Unaudited</u>             |         |                                |         | <u>Audited</u>             |
| <u>Cash flows from operating activities:</u>  |                              |         |                                |         |                            |
| Profit (loss) before taxes on income  | (408)                        | 202     | (193)                          | (24)    | (7,491)                    |
| Adjustments for:  |                              |         |                                |         |                            |
| Depreciation and amortization   | 446                          | 590     | 221                            | 293     | 6,130                      |
| Impairment of intangible assets   | -                            | -       | -                              | -       | 1,343                      |
| Loss (gain) on sale of property, plant and equipment                                    | (2)                          | 1       | -                              | -       | 1                          |
| Increase (decrease) in accrued severance pay  | 159                          | 58      | 33                             | (2)     | 82                         |
| Cost of share-based payments  | 24                           | 70      | 18                             | 18      | 94                         |
| Financial expenses, net   | 557                          | 264     | 275                            | 48      | 960                        |
| Operating cash flows before working capital changes                                     | 775                          | 1,185   | 353                            | 333     | 1,119                      |
| Decrease (increase) in trade receivables  | 292                          | 63      | (286)                          | 825     | 1,547                      |
| Decrease (increase) in prepaid expenses and other accounts receivable                   | 60                           | (205)   | 429                            | (18)    | (221)                      |
| Decrease (increase) in inventories  | 1,587                        | (1,668) | 640                            | (1,185) | (1,530)                    |
| Decrease (increase) in security deposits  | -                            | -       | -                              | -       | 25                         |
| Increase (decrease) in trade payables   | (632)                        | 539     | (87)                           | 621     | (592)                      |
| Increase (decrease) in accrued expenses   | 243                          | (227)   | 168                            | 134     | (289)                      |
| Increase (decrease) in other current liabilities  | (302)                        | (618)   | 200                            | 154     | (379)                      |
|   | 1,248                        | (2,116) | 1,064                          | 531     | (1,439)                    |
| Cash provided by (used in) operations   | 2,024                        | (931)   | 1,418                          | 864     | (320)                      |
| Interest received   | 25                           | 13      | 23                             | 3       | 29                         |
| Interest paid   | (223)                        | (204)   | (131)                          | (79)    | (548)                      |
| Income taxes received   | -                            | 5       | -                              | -       | 5                          |
| Income taxes paid   | (78)                         | (33)    | (51)                           | (17)    | (139)                      |
| Net cash provided by (used in) operating activities                                     | 1,748                        | (1,150) | 1,259                          | 771     | (973)                      |
| <u>Cash flows from investing activities:</u>  |                              |         |                                |         |                            |
| Acquisition of intangible assets  | -                            | (425)   | -                              | (247)   | (880)                      |
| Acquisition of property, plant and equipment  | (165)                        | (230)   | (22)                           | (154)   | (609)                      |
| Proceeds from sale of equipment   | 15                           | 24      | -                              | -       | 24                         |
| Net cash used in investing activities   | (150)                        | (631)   | (22)                           | (401)   | (1,465)                    |
| <u>Cash flows from financing activities:</u>  |                              |         |                                |         |                            |
| Proceeds from exercise of options   | -                            | 83      | -                              | -       | 83                         |
| Increase (decrease) in short-term bank credit, net                                      | (328)                        | 1,945   | (1,042)                        | (494)   | (66)                       |
| Repayment of loan from shareholders   | -                            | (150)   | -                              | (150)   | (150)                      |
| Receipt of long-term loans from banks and others  | -                            | -       | -                              | -       | 4,077                      |
| Repayment of long-term loans from banks   | (600)                        | (600)   | (200)                          | (100)   | (1,300)                    |
| Net cash provided by (used in) financing activities                                     | (928)                        | 1,278   | (1,242)                        | (744)   | 2,644                      |
| <u>Effect of exchange differences on cash and cash equivalents of foreign operation</u> | (8)                          | 15      | 1                              | 18      | 16                         |
| Increase (decrease) in cash and cash equivalents  | 662                          | (488)   | (4)                            | (356)   | 222                        |
| Cash and cash equivalents at beginning of period  | 3,128                        | 2,906   | 3,794                          | 2,774   | 2,906                      |
| Cash and cash equivalents at end of period  | 3,790                        | 2,418   | 3,790                          | 2,418   | 3,128                      |

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

## NOTE 1:- GENERAL

- a. These interim condensed consolidated financial statements have been prepared in a condensed format as of June 30, 2008 and for the six months 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, 2007 ("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<br/>of 1 NIS</u> | <u>Exchange rate<br/>of 1 €<br/>\$</u> | <u>Exchange rate<br/>of 1 GBD</u> |
|---------------------------------------|-----------------------------------|--|-----------------------------------|
| June 30, 2008                         | 0.30                              | 1.58                                   | 1.99                              |
| June 30, 2007                         | 0.24                              | 1.35                                   | 2.00                              |
| December 31, 2007                     | 0.26                              | 1.47                                   | 2.04                              |
| <u>Change during the period ended</u> | <u>%</u>                          | <u>%</u>                               | <u>%</u>                          |
| June 2008 (six months)                | 15.3                              | 7.5                                    | (2.5)                             |
| June 2007 (six months)                | (0.8)                             | 2.3                                    | 2.0                               |
| June 2008 (three months)              | 7.1                               | 0                                      | 0                                 |
| June 2007 (three months)              | (2.1)                             | 1.5                                    | 2.0                               |
| December 2007 (12 months)             | 9.7                               | 11.4                                   | 4.1                               |

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim condensed consolidated financial statements for the six months and three months ended June 30, 2008 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, except for b. below.
- b. Derivative financial instruments and hedging:

The Group uses derivative financial instruments such as forward currency contracts and options to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of forward currency contracts is calculated and options by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in profit or loss.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

**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.

b. Information about geographical segments:

|   | <u>Europe</u>                    | <u>U.S.</u>  | <u>Other<br/>countries</u> | <u>Adjustments</u> | <u>Total -<br/>consolidated</u> |
|---|----------------------------------|--------------|----------------------------|--------------------|---------------------------------|
|   | <u>U.S. dollars in thousands</u> |              |                            |                    |                                 |
| <b>Six months ended June 30,<br/>2008 (unaudited)</b> |                                  |              |                            |                    |                                 |
| Segment revenues                                      | <u>15,398</u>                    | <u>3,222</u> | <u>2,045</u>               | <u>(1,197)</u>     | <u>19,468</u>                   |
| Segment results                                       | <u>3,092</u>                     | <u>(335)</u> | <u>371</u>                 | <u>*) (2,981)</u>  | <u>147</u>                      |
| <b>Six months ended June 30,<br/>2007 (unaudited)</b> |                                  |              |                            |                    |                                 |
| Segment revenues                                      | <u>12,638</u>                    | <u>4,257</u> | <u>2,529</u>               | <u>(1,475)</u>     | <u>17,949</u>                   |
| Segment results                                       | <u>2,160</u>                     | <u>(13)</u>  | <u>208</u>                 | <u>*) (1,892)</u>  | <u>463</u>                      |

\*) Includes expenses not allocated to segments.

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

|                                     | <u>Europe</u>                    | <u>U.S.</u>  | <u>Other<br/>countries</u> | <u>Adjustments</u> | <u>Total -<br/>consolidated</u> |
|-------------------------------------|----------------------------------|--------------|----------------------------|--------------------|---------------------------------|
|                                     | <u>U.S. dollars in thousands</u> |              |                            |                    |                                 |
| <b>Three months ended</b>           |                                  |              |                            |                    |                                 |
| <b>June 30, 2008 (unaudited)</b>    |                                  |              |                            |                    |                                 |
| Segment revenues                    | <u>8,027</u>                     | <u>1,582</u> | <u>1,098</u>               | <u>(655)</u>       | <u>10,052</u>                   |
| Segment results                     | <u>1,607</u>                     | <u>(98)</u>  | <u>207</u>                 | <u>*) (1,634)</u>  | <u>82</u>                       |
| <b>Three months ended</b>           |                                  |              |                            |                    |                                 |
| <b>June 30, 2007 (unaudited)</b>    |                                  |              |                            |                    |                                 |
| Segment revenues                    | <u>6,408</u>                     | <u>2,137</u> | <u>838</u>                 | <u>(700)</u>       | <u>8,683</u>                    |
| Segment results                     | <u>899</u>                       | <u>(41)</u>  | <u>77</u>                  | <u>*) (911)</u>    | <u>24</u>                       |
| <b>Year ended December 31, 2007</b> |                                  |              |                            |                    |                                 |
| <b>(audited)</b>                    |                                  |              |                            |                    |                                 |
| Segment revenues                    | <u>24,373</u>                    | <u>8,154</u> | <u>4,489</u>               | <u>(2,643)</u>     | <u>34,373</u>                   |
| Segment results                     | <u>3,569</u>                     | <u>(29)</u>  | <u>186</u>                 | <u>*) (9,809)</u>  | <u>(6,083)</u>                  |

\*) Including expenses not allocated to segments.

-----

**Electronics Line 3000 Ltd.**  
**Petach Tikva (Israel)**  
(The “Company”)

**2nd Interim Report**  
**January – June 2007**

**Risk Report**

**Risks related to the Company**

*Dependence on Sub-contractors*

The Company depends on sub-contractors who perform research and development services, quality assurance testing and prepare production files on its behalf. In the event that the relationship with any of the sub-contractors is terminated, the Company may incur a delay in developing new products and in producing and supplying its products until such time as the Company is able to locate and establish a relationship with alternative sub-contractor(s) or alternatively, perform such work in-house. Additional time would be needed before such new sub-contractor(s) or internal personnel could render effective development services and prepare production files previously provided by the original sub-contractor(s). This time delay could affect the Company’s ability to launch new products or introduce new versions of products in a timely manner which could adversely affect the Company’s market share. In addition, any arrangement with a new sub-contractor or a decision to perform any such work in-house may increase the Company’s costs and affect its gross margins.

*The Dependence on Integrators, Service Providers, Distributors and Installers of Systems*

Currently, the Company does not typically sell its solutions to end users. The Company’s traditional customers are integrators, service providers, distributors and installers of systems. Therefore, the Company is dependent, and has little control over, the customers who are, in fact, third-party installers of the Company’s products. The Company has virtually no contact with end users of the product. The customers are responsible for the most part, for the sale, installation and technical support of the Company’s products in relations to the end user. Due to this extended channel of distribution, the business results of the Company could be significantly harmed through changes in the business conditions of the customers which are beyond the ability of the Company to control. Installation and/or service problems could arise that might affect the sale of products to end users and because the Company does not perform the installation or service of its products at the end user facility, it might be difficult for the Company to positively impact or resolve such issues between the customer and the end user. Furthermore, the Company may not be able to preserve its current relationships or to develop new relationships with different customers. Any such change in its relationships with customers is liable to significantly harm the business affairs of the Company, affect the Company’s sales, its financial condition and business results.

### *Dependence on Key Customers*

The Company's sales to its largest four customers accounted for approximately 27% of its total revenues in the First Half of 2008 and approximately 24.9% of its total revenues during 2007. The Company does not have long-term purchase contracts with its customers, and sales arrangements with some of these customers do not have minimum purchase requirements. The Company cannot assure that these major customers or any other customer will continue to purchase its products at all or in the same volumes or on the same terms as they have in the past. Their failure to do so may significantly reduce the Company's revenues.

### *Delay or Discontinuation of the Supply of Raw Materials*

Currently, the Company receives sales forecasts from the majority of its customers. Based on these sales forecasts and incoming orders, the Company purchases raw materials needed for production. The Company generally maintains a sufficient inventory of long-lead time items in order to meet its production schedule. The Company does purchase several components from a sole source supplier. This makes the Company dependent on a single supplier. In the event the sole source supplier ceases to supply the Company or materially raises its price, or the Company incurs substantial delay in delivery, the Company may need to seek a new supplier for these components. The search process can be time consuming, costly, and could potentially delay production until the new suppliers components are tested and approved.

There may be a delay in supply of, or a shortage of, raw materials or component(s) that could impede or delay the production of the Company's products, particularly with respect to raw materials supplied by a sole source supplier. The Company may be unable to quickly locate alternative sources for needed components at reasonable prices and at the time needed to meet the Company's production cycle. In the event of i) a delay in supply, or ii) shortage of raw materials, customers may cancel their orders or turn to the Company's competitors to fill their orders. In addition, in the event the Company is compelled to find new sources of supply, this could cause delay in shipments of its products, which could increase its costs in order to meet the Company's commitments to its customers.

The Company may choose to maintain inventories of certain components that exceed what is necessary for the short term in order to have a small buffer stock to compensate for shortages or cessation in the supply of components. In such event, the Company will incur additional costs to maintain this excess inventory, which could affect its gross margins.

### *Changes in Exchange Rates*

At certain points in time, the financial statements can be exposed to fluctuations created due to the fact that some of the financial balances are linked to different currencies other than the U.S. dollar as opposed to the financial statements of the Company, which are denominated in U.S. dollars. In the event of depreciation in the U.S. dollar vis-à-vis other currencies, the Company will incur additional financial expenses, which would have a negative impact on the Company's operations and its financial condition. The Company endeavors to mitigate its exposure to such currency fluctuations by entering into transactions in different currencies with customers and suppliers.

In addition, the Company is exposed to exchange rate fluctuations between the U.S. dollar and other currencies, which may negatively affect its earnings. A substantial majority of the Company's revenues

are denominated in U.S. dollars; however, a significant portion of the expenses associated with the Company's Israeli operations, including personnel, are incurred in NIS. The Company cannot predict any future trends in the exchange rates of the NIS against the U.S. dollar. In addition, exchange rate fluctuations in currency exchange rates in countries other than Israel where the Company operates may also negatively affect the Company's earnings. These currencies currently include the Euro and the British Pound.

The Company has established certain hedging policies to protect itself against the impact of currency fluctuations going forward.

### *Intellectual Property*

Critical to the Company's future is the Company's ability to protect its proprietary technology. The Company relies on a combination of patent, copyright, trademark and trade secret laws in order to protect its intellectual property rights. The Company currently has been issued four patents and has filed an additional provisional patent.

The process of seeking patent protection can be long, expensive and sometimes unsuccessful. Therefore, the Company has chosen to file for protection of its intellectual property in certain selected markets, although not in all markets in which the Company sells its products. There can be no assurance that the Company's pending or future patent applications will result in patents being issued or that the Company's existing patents or any future patents which may be granted will provide meaningful protection or commercial advantages to the Company. A patent only provides partial protection to intellectual property, as much depends on the climate of enforcement within the country granting the patent. In addition, any issued patent may be challenged, invalidated or legally (or illegally) circumvented by third parties, and the Company cannot be certain that its patents will be upheld as valid, be enforceable or prevent the development of competitive products. Moreover, the Company sells and markets its products in some countries; e.g., China, with potentially weak enforcement of intellectual property rights. If competitors are able to develop, manufacture and sell products that directly compete with the Company's products, the Company's sales and gross margins could be adversely affected.

In addition, competitors could purchase one of the Company's systems and attempt to replicate some or all of the competitive advantages the Company derives from its development efforts or design a product based on the Company's protected proprietary technology or develop their own competitive technologies that fall outside of the Company's protected intellectual property rights. If the Company's intellectual property is not adequately protected against use by competitors and other third parties, its competitive position could be eroded and its business could be adversely affected.

In addition to the risks of third-party infringement of the Company's intellectual property, there is also the risk that the Company may inadvertently and innocently infringe on the intellectual property of a third party, which would expose the Company to possible patent infringement claims which are often lengthy and costly disputes. The Company may be required to obtain licenses from third parties or otherwise redesign its products so as not to utilize such intellectual property, which may be uneconomical or otherwise impossible.

### *Risks Pertaining to Product Liability and Product Warranty*

The products developed by the Company may contain latent defects that may only be discovered after the products have been installed and are in use. Such defects could cause a reduction in customers' satisfaction, harm the reputation of the Company or create a need to introduce costly changes to the product. In addition, the Company could be exposed to potential product liability claims. This could involve significant costs to the Company. Although the Company has a Corporate General Liability insurance policy, this policy does not cover costs the Company may incur to change the product, and there is no guarantee that the Company's insurance policy will fully cover any and all types of claims pertaining to product liability or afford coverage to the full extent of such claims that may be filed against the Company.

The Company provides a limited product warranty for the use and operation of its products, many of which also contain components manufactured by third parties. In effect, the Company is warranting components which it does not manufacture. This could give rise to a situation whereby the Company provides a more extensive warranty on these third party components than the Company receives from such third party manufacturers, thus creating some warranty exposure for the Company.

### *Marketing and Product Risk*

The Company spends significant time and money to understand the needs of the market; however, the Company may misjudge market needs. The Company may design products and solutions that do not meet market demands or are not priced correctly or are not delivered to the market in a timely manner. For example, the Company may develop complementary products for its security solution with remote management capabilities that the market determines are not necessary. In case this event happens, the Company's costs would increase without a corresponding increase in revenues. This may have a negative impact on the Company's operations and its financial condition.

### *International Markets*

The Company sells its products globally, primarily in Western Europe, the United States and Asia. As a result of operating internationally, the Company may face the following risks due to its international operations, any one of which may affect sales or the Company's profitability:

- Changes in governmental requirements and regulations and differences in various country's requirements;
- Difficulty in collecting accounts receivables;
- Differences in customs in each country;
- Differences in taxation in different countries;
- Political and/or economic instability;
- Disruption in trade caused by civil disturbances and/or war;
- Local labor strikes that affect the Company's ability to sell or deliver products in a particular country; and
- Weakening economies in target markets.

## **Risks Related to the Industry**

### *Changes in Prices of Raw Materials*

The raw materials of the Company (mainly electronic, metal and plastic components) are purchased from various suppliers throughout the world. The capacity, supply and demand for such raw materials is subject to cyclical forces and market factors as well and may fluctuate significantly and as a result, the Company may have limited ability to control its costs in securing raw materials. In addition, prices of raw materials may be subject to fluctuation. The Company cannot assure that it will be able to pass on to customers the increased costs associated with the procurement of raw materials. To the extent that increases in costs of raw materials cannot be passed on to customers or there is a delay in passing on the increased costs to customers, the Company is likely to absorb the increase in the cost of raw materials which may materially reduce its margin of profitability.

### *Delay or Discontinuation in the Supply of Raw Materials*

Currently, the Company receives sales forecasts from the majority of its customers. Based on these sales forecasts and incoming orders, the Company purchases raw materials needed for production. The Company generally maintains a sufficient inventory of long lead-time items in order to meet its production schedule. The Company does purchase several components from a sole source supplier. This makes the Company dependent on a single supplier. In the event that the sole source supplier ceases to supply the Company or materially raises its price, or the Company incurs substantial delays in delivery, the Company may need to seek a new supplier for these components. The search process can be time consuming, costly, and could potentially delay production until the new supplier's components are tested and approved.

There may be a delay in the supply of, or a shortage of, raw materials or component(s) that could impede or delay the production of the Company's products, particularly with respect to raw materials supplied by a sole source supplier. The Company may be unable to quickly locate alternative sources for needed components at reasonable prices and at the time needed to meet the Company's production cycle. In the event of (1) a delay in the supply of, or (2) shortage of, raw materials, customers may cancel their orders or turn to the Company's competitors to fill their orders. In addition, in the event the Company is compelled to find new sources of supply, this could cause delays in shipments of its products, which could increase costs needed to meet the Company's commitments to its customers.

The Company may choose to maintain inventories of certain components that exceed what is necessary for the short term in order to have a small buffer stock to compensate for shortages or cessation in the supply of components. In such an event, the Company will incur additional costs to maintain this excess inventory, which could affect its gross margins.

### *Competition and Pressure to Develop New Products*

The Company operates in a competitive market environment. Competition, whether direct or indirect, may adversely affect the income and profits of the Company through pressure exerted on prices, the loss of market share or other factors. Some of the Company's current and potential competitors are large companies or conglomerates that have vast resources (including capabilities in the fields of finance, technology, production, marketing and distribution), including, for example, General Electric,

Tyco, Bosch and Honeywell. The Company may not be able to position its solutions as distinct from those of its competitors or be able to invest the same amount of resources in order to penetrate the market or successfully develop and introduce new products at the same pace of its competitors. These large competitors may also be able to respond quickly to the Company's marketing or technological initiatives due to their vast resources, which would materially affect the Company's competitive position and its ability to increase its sales.

In addition, new competitors, such as service providers, utility companies, cable companies, and non-security distributors, may enter into the competitive market in which the Company operates.

The Company's products deal with evolving technology. The Company must continually invest in product development in order to stay on the cutting edge of technology in its market and secure its market position. The Company's sales may be affected by newer technologies offered by competitors that are not available from the Company.

## **Risks Related to Israel**

### *Dependence on Governmental Programs and Tax Benefits*

Pursuant to the *Encouragement of Capital Investments Law, 1959*, the Company is obligated to continuously fulfill certain requirements, including the receipt of additional approvals for the execution of certain investments in fixed assets, employing a certain number of employees and maintaining a certain level of exports from its total sales. The Company has received a formal approval which indicates that it has met all necessary terms and requirements with respect to its current approved plans. However, if the Company fails to meet such requirements, the benefits may be cancelled and the Company may be required to return to the State of Israel taxes and other receipts, plus interests tied to the Israeli consumer price index.

In connection with the private placement of July 2005, the Company on November 6, 2005, obtained approval of the private placement from the Investment Center of the Ministry of Industry, Trade and Employment of the State of Israel which is the branch of the Ministry which implements and coordinates the *Encouragement of Capital Investments Law, 1959* (the "Investment Center"). In addition, the Company has taken steps to obtain approval of the sale of New Shares and the Over-allotment Shares contemplated in this Report by the Investment Center of the Ministry of Industry and Trade. In the event the Investment Center does not approve the sale of shares contemplated by this Report, the Company may be required to return all benefits that it has received from the Investment Center.

Any changes or reductions of certain programs and tax benefits that currently benefit the Company, especially those available as a result of the Company's "Approved Enterprise" status, would increase the Company's tax rate up from 31% to the full rate of taxation applicable to companies in Israel, which is currently 34%, which would adversely affect the Company's profitability.

### *Chief Scientist*

Certain of the Company's products are developed using financing, in part, provided by the Chief Scientist of the Israel Ministry of Industry and Trade (the "Chief Scientist"), who is responsible for implementing the Israeli government's policy regarding the support and encouragement of industrial research and development.

The participation of the Chief Scientist in R&D expenses is based on certain conditions, unless the Chief Scientist approves a different arrangement (see page 26). In the event the Company does not comply with the terms of the Chief Scientist grants, the Company may be required to return the grants, which may have a material adverse effect on the Company.

### *Security, Political and Economic Instability in Israel*

The principal offices of the Company are located in Israel. Accordingly, security, political and economic conditions in Israel may directly affect the Company's business. Over the past several decades, a number of armed conflicts have occurred between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect the Company's operations. Since October 2000, terrorist violence in Israel increased significantly, primarily in the West Bank and Gaza Strip. Thus far in 2005, there has been a noticeable decline in terrorist activity. Israel's recent unilateral withdrawal from the Gaza Strip has stimulated the local economy and opened potential contacts with countries which had no previous diplomatic contact with Israel. However, the ongoing hostilities and violence, future armed conflicts, political developments in other countries in the region or continued or increased terrorism, could disrupt the Company's operations or make conducting the Company's operations in Israel more difficult. Any of these factors could have the effect of increasing the Company's costs, adversely affecting the Company's financial results and the expansion of the Company's business and delaying deliveries to Customers.

Furthermore, several countries continue to restrict business with Israel, in general, and with Israeli companies, in particular, and this may limit the Company's ability to make sales to these countries. These boycotts and embargos may have an adverse impact on the operations, financial condition or the further expansion of the Company's business.

### *Reserve Military Service in Israel*

Unless exempt, all male, adult Israeli citizens that served in the Israeli Defense Forces and meet certain age restrictions are obligated to perform annual military duty for a period of several weeks. Additionally, they can be called to active duty at any time under emergency circumstances. Should the hostilities in the region escalate, some of the Company's employees could be called to active military duty possibly resulting in interruptions in the Company's business and operations. Any disruption to the Company's operations could harm its business.

### *Labor Strikes*

During 2004, a general strike at Israel's ports caused a shortage of raw materials and also resulted in a delay in the Company's shipments to customers, resulting in increased operating costs. Although earlier this year privatization of the Israeli sea ports was instituted, a further strike or labor disruption at Israel's ports may still have an adverse effect on the Company's business.

## Outlook

### *Future Projections*

Going forward, the Company expects an increase in revenues from its strategic markets, in particular, Northern and Western Europe, Latin America and China. In these locations, the Company intends to address non-traditional marketing channels, in addition to the traditional security channels. Non-traditional marketing channels include utility companies, cable providers, telcos and other service providers.

The Company plans to focus on its new iConnect product line, that will support a wide range of solutions and services that the Company offers to its customers. The Company believes that the new solution will be well received in the market place.

The Company is undergoing a strategic transition, becoming a provider of integrated security and control solutions while developing a strong value proposition for large-scale business partners. The Company will continue this shift from working with traditional security distribution channels to a new focus on prominent service providers and value-added resellers/

Among its goals, the Company will also continue its efforts to obtain and maintain international standard approvals for its products.

## Responsibility Statement

To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the interim management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company for the remaining months of the financial year.