

Electronics Line 3000 Announces FY 2008 Results

- **2008 Revenues up 6% at \$36.4 Million**
- **Positive Cash Flow in 2008**
- **Additional Risk Provisions for Internal and External Challenges**

Petach Tikva, Israel (March 31, 2009) – Electronics Line 3000 Ltd. (“the Company”) (XETRA: ELN), a leading global provider of wireless security with remote management solutions announced its results in U.S. Dollar for the financial year ended December 31st 2008.

Financial Highlights

- Revenues for 2008 were \$36.4 million, a 6% growth compared to \$34.4 million for 2007. This is mainly attributed to a significant 29% increase in sales from the Company’s headquarters in Israel (\$22.2 million in 2008, compared to \$17.2 million in 2007).
- Gross Margin for 2008 was 36%, compared to 39% in 2007. The decrease in Gross Margin is due to several reasons: the Company’s decision to increase the provision for slow moving inventory by \$300,000; changes in exchange rates and the reclassification of freight according to international accounting policies.
- Operating Results for 2008 showed a loss of \$1.2 million, compared to a loss of \$6.1 million in 2007. (The 2007 loss included an operating profit of \$48,000 before a one-time extraordinary impairment of intangible assets of \$6.2 million).
- Net Loss for 2008 was \$2.9 million, compared to a net loss of \$7.3 million for 2007 (\$1.1 million loss before impairment).
- Basic and Diluted Loss per Share for 2008 was \$0.29, compared to loss per share of \$0.72 for 2007 (\$0.10 before impairment).
- Cash Flow provided by operating activities was \$1.8 million for 2008, compared to \$1 million cash flow used in 2007. The cash flow resulting from operating activities was used for investments in non-current and current assets and for loan repayments.
- EBITDA loss for 2008 was \$308,000, compared to a loss of \$4.9 million (\$1.2 million profit before impairment in 2007).



Discussion & Overview

The current global economic crisis has affected Electronics Line 3000 as well as many businesses around the world. Electronics Line 3000 has been facing these external challenges along with additional internal and external influences. These developments affected the Company's 2008 results and mainly Q4 2008 results as will be discussed below.

Electronics Line 3000 succeeded in increasing its revenues, rising from \$34.4 million in 2007, to \$36.4 million in 2008. In the year under review, the Company acquired 12 new customers which purchased over \$4 million worth of products. The Company also expanded its sales activities to several new geographical regions, including Canada, Latvia, Brazil and South Africa. Moreover, during 2008, eight out of the Company's ten largest customers increased their order volumes compared to 2007. Also contributing to the 2008 increase in sales was the Company's successful iConnect product line launch during the year.

The Company's 2008 increase in revenues is mainly attributed to a 29% increase in sales from the Company's headquarters. However, revenues from the Company's U.S. subsidiary were significantly lower than in 2007. The Company's U.S. subsidiary has been undergoing a transition phase which dramatically influenced the Company's 2008 results as well as the subsidiary's cash and cash-flow situation. The Company is taking the necessary measures to address this issue and prevent further losses.

	2007 Revenues	2008 Revenues	% Change
Headquarters – Israel	17,185	22,232	29%
USA Subsidiary	7,740	5,485	-29%
UK Subsidiary	9,428	8,718	-8%
Total Sales	34,353	36,435	6%

Additionally, the Company has decided to write off \$521,000 in deferred taxes, most of it resulting from the consolidation of that asset from the U.S. subsidiary, taking into account the developments in global markets over the past few months. As the market situation improves, the Company may be able to use this deferred tax asset based on expected profit levels.

The provision for bad debts was also increased by US\$240,000 in order to account for potential losses due to potentially reduced customer creditability.



2008 results were also strongly impacted by currency exchange rates. The majority of the Company's revenues are in U.S. Dollars, yet most of its operational costs are in New Israeli Shekels. As presented in the table below, assuming a 2008 U.S./NIS exchange rate equal to the average for 2007, Electronics Line 3000's operating profit would have been \$54,000, and the Company would have posted a net loss of \$1.7 million loss rather than the reported \$2.9 million loss.

Additionally, at the beginning of 2008, the Company changed its accounting policy, and now expenses R&D costs, rather than capitalize these. Assuming R&D expenses would have been amortized, as was done up to 2008, and incorporating the exchange rate effect, Electronics Line 3000's operating profit would have been \$724,000 and the Company would have posted a net loss of \$1.0 million.

	Actual 08	After Exchange Rate Effect *	After Exchange Rate Effect + New R&D Accounting Policy **	Actual 07 (before impairment)
Revenues in 000's	36,435	36,435	36,435	34,373
Operating Profit (loss) in 000's	(1,204)	54	724	48
Net loss in 000's	2,949	1,691	1,021	1,167
EBITDA	(308,000)	949,000	1,619,000	1,222,000

* Assuming expenses in 2008 were paid according to the average \$/NIS exchange rate of 2007 (rate of 4.108 NIS per U.S. \$)

** Assuming R&D expenses were amortized (as was done until 2008) instead of being expensed immediately to the P&L account (as is being done since 2008)

An additional currency exchange rate effect was the dramatic decline of the GBP (British Pound Sterling) in relation to the U.S. Dollar. Although revenues from the U.K subsidiary declined from 2007 to 2008 by only GBP 43,000, it resulted in a 710,000 decline in U.S. Dollars.

Mr. Amir Hayek, President and CEO commented: "2008 found us, much like the rest of the world, affected by the global financial crisis. Our customers are experiencing a slowdown in sales and are stretching their payables and this, in turn, affects our sales and cash flow. Yet even through these volatile times, we have successfully increased our revenues and maintained a positive cash flow balance during 2008. In light of the global economic recession we are committed to improving efficiency, and plan to cut expenses by a further \$2 million in 2009. In light of the global situation, the Company has been implementing an efficiency plan from December 1st 2008, which mainly will affect 2009 results.



In parallel, and while planning for the long term, we are continuously developing unique distribution channels and innovative solutions, suitable for a wide variety of marketplaces”.

Mr. Ron Chaimovski, Vice Chairman of the Board of Directors added: “In view of the external challenges the Company faced in 2008, its performance is commendable. The Company’s stable and growing customer base, together with the positive cash flow maintained in 2008, provide a solid ground from which the Company can face the challenges of 2009. The Effectiveness Plan implemented during Q4 of 2008 and Q1 of 2009 will enable the Company to better face the stormy water out there.”

Deutsche Boerse has announced and authorized Electronics Line 3000’s decision to revoke its admission to Prime Standard on March 17, 2009. Effective from June 18, 2009, the shares of Electronics Line 3000 will be traded on the General Standard of Deutsche Boerse AG.

Summary financial tables are listed below. Please see the Director’s Report posted on the website for more details and the accompanying notes which are an integral part of the interim consolidated financial statements.

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About Electronics Line 3000

Electronics Line 3000 Ltd. (EL3K) is a leading global provider of wireless security with remote management solutions for the mass residential and commercial markets. Multiple technologies and applications are integrated in the solutions to enable real-time, two-way data, audio and video solutions. The Company has over 25 years of experience in the electronic security industry, and is well recognized for its technological innovations and for the high quality of its products. The Company partners with leading monitoring companies, distributors and residential service providers to create unique solutions.

Disclaimer:

“This release contains forward-looking statements, which express the current beliefs and expectations of management. Such statements involve a number of known and unknown risks and uncertainties that could cause the Company’s future results, performance or achievements to differ significantly from those expressed or implied by such forward-looking statements. A number of these risks and other factors that might cause differences, some of which could be material, along with additional discussion of forward-looking statements, are set forth in the Company’s Annual Report and its other filings filed with the Israeli Securities



Authority. Forward-looking statements speak only as of the date on which they are made and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.”



Financial Highlights

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2008	2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	2,297	3,128
Trade receivables	4	6,529	8,295
Income tax receivable		291	225
Prepaid expenses		691	416
Advances to suppliers		112	187
Other accounts receivable	5	331	440
Inventories	6	6,552	8,611
Total current assets		16,803	21,302
NON CURRENT ASSETS:			
Property, plant and equipment:	7		
Cost		14,664	14,397
Less - accumulated depreciation		10,258	9,441
		4,406	4,956
Deferred taxes	14d	215	788
Security deposits		86	85
Total non current assets		4,707	5,829
Total assets		21,510	27,131
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	9	8,141	9,832
Trade payables	10	4,096	4,102
Accrued expenses		518	283
Income tax payable		98	201
Other current liabilities	11	1,888	2,350
Total current liabilities		14,741	16,768
LONG-TERM LIABILITIES:			
Bank loans	12	77	85
Accrued severance pay, net	13	776	612
Total long-term liabilities		853	697
EQUITY:			
Share capital	16	10,933	10,933
Additional paid-in capital		6,610	6,535
Foreign currency translation reserve		1,300	2,191
Hedge reserve		15	-
Accumulated deficit		(12,942)	(9,993)
Total equity		5,916	9,666
Total liabilities and equity		21,510	27,131



CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	Year ended December 31,	
		2008	2007
Revenues	18	36,435	34,373
Cost of revenues	19	<u>23,366</u>	<u>21,041</u>
Gross profit		<u>13,069</u>	<u>13,332</u>
Operating costs and expenses:			
Research and development	20	3,608	1,981
Selling and marketing	21	7,403	8,656
General and administrative	22	3,262	2,648
Impairment of intangible assets	8b	<u>-</u>	<u>6,130</u>
Total operating costs and expenses		<u>14,273</u>	<u>19,415</u>
Operating loss		(1,204)	(6,083)
Financial income	23a	100	123
Financial expenses	23b	(1,143)	(1,083)
Other income (expenses)		<u>2</u>	<u>(448)</u>
Loss before taxes on income		(2,245)	(7,491)
Taxes on income (tax benefit)	14b	<u>704</u>	<u>(194)</u>
Loss		<u>(2,949)</u>	<u>(7,297)</u>
Loss per share (basic and diluted)	24	<u>(0.29)</u>	<u>(0.72)</u>



CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2008	2007
Cash flows from operating activities:		
Loss before taxes on income	(2,245)	(7,491)
Adjustments for:		
Depreciation and amortization	896	1,343
Impairment of intangible assets	-	6,130
Loss on sale of property, plant and equipment	-	1
Increase in accrued severance pay, net	164	82
Cost of share-based payments	75	94
Financial expenses, net	1,043	960
	<u>(67)</u>	<u>1,119</u>
Operating cash flows before working capital changes		
Decrease in trade receivables	1,039	1,547
Increase in prepaid expenses and other accounts receivables	(77)	(221)
Decrease (increase) in inventories	1,407	(1,530)
Decrease (increase) in security deposits	(1)	25
Decrease in trade payables	(5)	(592)
Increase (decrease) in accrued expenses	235	(289)
Increase (decrease) in other current liabilities	231	(379)
	<u>2,829</u>	<u>(1,439)</u>
Cash provided by (used in) operations	2,762	(320)
Interest received	11	29
Interest paid	(630)	(548)
Income taxes received	132	5
Income taxes paid	(431)	(139)
	<u>1,844</u>	<u>(973)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Acquisition of intangible assets	-	(880)
Acquisition of property, plant and equipment	(381)	(609)
Proceeds from sale of equipment	16	24
	<u>16</u>	<u>24</u>
Net cash used in investing activities	<u>(365)</u>	<u>(1,465)</u>
Cash flows from financing activities:		
Proceeds from exercise of options	-	83
Decrease in short-term bank credit, net	(472)	(66)
Repayment of loan from shareholders	-	(150)
Receipt of long-term loans from banks and others	-	4,077
Repayment of long-term loans from banks	(1,642)	(1,300)
Net cash provided by (used in) financing activities	<u>(2,114)</u>	<u>2,644</u>
Effect of exchange differences on cash and cash equivalents of foreign operation	<u>(196)</u>	<u>16</u>
Increase (decrease) in cash and cash equivalents	(831)	222
Cash and cash equivalents at beginning of year	<u>3,128</u>	<u>2,906</u>
Cash and cash equivalents at end of year	<u><u>2,297</u></u>	<u><u>3,128</u></u>



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