



Electronics Line 3000 announces the results of the First Half of 2009

Petach Tikvah, Israel (August 6, 2009) – Electronics Line 3000, a global leader in electronic security with remote management solutions, achieved operating profit in the amount of US\$ 132,000 and positive cash flow in the reported period from operating activities. Nevertheless the Company has decided to take a business and financial conservative approach due to internal and external challenges.

General

We hereby submit the Directors' Report for the three month ended June 30, 2009 (the "Reported Quarter") the comparable three months ended June 30, 2008 and for the year ended December 31, 2008 ("Reported Year").

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 is facing internal and external challenges due to the recent developments in the global economy. These global economic developments have affected the Company, its customers and suppliers and introduced new challenges for the Company's 2009 performances and results.

The Company's US subsidiary ("ELUSA") has been undergoing a transition phase, severely influencing the Company's 2008 and for the current period of 2009 results as well as the US subsidiary's cash and cash-flow situation. The Company has been taking necessary measures to address this issue and prevent further losses. As part of these measures, during Q2 2009, ELUSA entered into an agreement with a local U.S.-based service provider to spin out ELUSA's non-core products such as the DVRs and CCTV.



The service provider will continue ELUSA's activities within industry areas that are not among the main areas serviced by Electronics Line 3000, continue to support existing customers, sell the inventory and collect account receivables on behalf of ELUSA (with a commission to the service provider). As such, Electronics Line 3000 and its U.S. subsidiary will be able to cut down operational costs and focus on marketing Electronics Line 3000 core residential security solutions.

In light of the global situation, the Company has been implementing a rolling efficiency plan since December 1st 2008, which mainly influenced results from the second quarter of 2009 onwards.

The Company's revenues in the Reported Quarter amounted to US\$ 6.2 million, compared to revenues of US\$ 10.1 million during the comparable quarter last year and to US\$ 36.4 million for the year ended December 31, 2008. The Q2 2009 reduction in sales is mainly a result of the US subsidiary's performance and the devaluation of the British Pound against the US Dollar and a slowdown in sales of some of the Company's customers in other regions.

	Q2	
	2009	2008
IL	4,081	6,128
UK	1,722	2,396
USA	396	1,528
Total	6,199	10,052

During the Reported Quarter gross margins were 36% compared to 39% during the comparable quarter of last year.

The gross profit in the Reported Quarter amounted to US\$ 2.2 million compared to US\$ 3.9 million in the comparable quarter of the previous year and to US\$ 13.1 million for the fiscal year of 2008.

Research and development costs and know-how, amounted to US\$ 382,000 compared to US\$ 967,000 in the comparable quarter of last year and US\$ 3.6 million for the whole year of 2008. The reduction in Research and Development costs is mainly due to the efficiency plan implemented since December 2008 and the completion of several R&D projects from 2008. Nevertheless the Company is focusing on developing new products and services that will help the Company to remain an innovation leader in its markets. US\$ 190,000 of these new developing future products was capitalized until the end of the year.

Sales and marketing expenses amounted to US\$ 1.2 million during the Reported Quarter, compared to US\$ 2.1 million for the comparable quarter of last year and to US\$ 7.4 million for 2008. The Company continues to develop and expand its marketing and sales capabilities with a focus on strategic customers, while at the same time, providing more



marketing and technical support to existing customers due to the tough economic situation in certain countries.

General and administrative expenses amounted to US\$ 540,000 during the Reported Quarter, compared to US\$ 793,000 for the comparable quarter last year and to US\$ 3.3 million for 2008.

The Company's operating profit amounted to US\$ 132,000 during the Reported Quarter, compared to an operating profit of US\$ 82,000 in the comparable quarter of last year and to US\$ 1.2 million loss for 2008.

Financing and other expenses, net amounted to US\$ 305,000 during the Reported Quarter, compared to US\$ 275,000 for the comparable quarter of last year and to US\$ 1.0 million during 2008.

Part of these costs, as well as payments in NIS to local suppliers, has been hedged against the US Dollar. Nevertheless the influence of the strengthening of all currencies against the US Dollar negatively influenced operating loss.

Loss before taxes on income amounted to US\$ 173,000 during the Reported Quarter, compared to US\$ 193,000 for the comparable quarter of last year and to a US\$ 2.2 million loss for 2008.

Tax expenses amounted to US\$ 5,000 during the Reported Quarter, compared to US\$ 19,000 for the comparable quarter of last year and to US\$ 704,000 for 2008.

The Company ended the Reported Quarter with a net loss of US\$ 178,000, compared to a US\$ 212,000 for the comparable quarter of last year and to US\$ 2.9 million loss for 2008.

Move from Prime Standard to General Standard

Following the Board resolution dated February 8th 2009 to move from the Prime Standard to the General Standard, the Deutsche Bourse has announced Electronics Line 3000's revocation from the Prime Standard on March 17th 2009.

The revocation does not affect the admission to the regulated market (General Standard). It has the objective of reducing the costs and the administration efforts associated with the listing and takes effect three months after the announcement of the revocation by the executive of the German Stock Exchange on the internet at www.deutsche-boerse.com. i.e. on June 18th 2009.

On June 18th 2009, all Electronics Line 3000 shares traded on the General Standard for the first time.



The Company's Financial Position

The Company's cash and cash equivalents as of June 30, 2009 (hereinafter: "the Reported Date") were US\$ 0.9 million, compared to US\$ 2.3 million on December 31, 2008. The reduction is mainly due to repaid loan's principals in the amount of US\$ 2.4 million.

The Company's trade receivables on the Reported Date were US\$ 5.2 million, compared to US\$ 6.6 million on December 31, 2008.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reported Date were US\$ 1.3 million, compared to US\$1.4 million on December 31, 2008.

The Company's inventories on the Reported Date were US\$ 5.6 million compared to US\$ 6.6 million on December 31, 2008.

Net investment in non-current assets, less amortization, on the Reported Date amounted to US\$ 6.0 million, and a US\$ 4.7 million investment on December 31, 2008, comprising of the following:

- Net investment in property, plant and equipment less amortization was US\$ 5.5 million on the Reported Date, compared to US\$ 4.4 million on December 31, 2008. During the second quarter of 2009, Electronics Line 3000's UK subsidiary, finalized the acquisition of new commercial property which will serve as the Company's hub for all European activities. The acquisition was financed by UK loans, all of which will be returned within twenty years at most.
- Net investment in research and development for products that have been proven to be technologically feasible but have not yet been released, were US\$190,000 in the Reported Period.
- Deferred taxes were US\$ 219,000 as of the Reported Date, compared to US\$ 215,000 on December 31, 2008.
- Security deposits were US\$ 86,000 as of the Reported Date, with the same investment on December 31, 2008.

The short term credit balance from banks and others on the Reported Date amounted to US\$ 6.1 million, compared to US\$ 8.1 million on December 31, 2008.

The Company's trade payables as of the Reported Date were US\$ 3.0 million compared to US\$ 4.1 million on December 31, 2008.

Other current liabilities, accrued expenses and income tax payable were US\$ 2.3 million, compared to US\$ 2.5 million on December 31, 2008.

Long term loans were US\$ 1.6 million on the Reported Date compared to US\$ 77,000 on December 31, 2008.



Financial Ratios

	June 30, 2009	December 31, 2008
Current Ratio	1.1	1.1
Quick Ratio	0.7	0.7

Cash Flow

During the Reported Quarter, net cash provided by operating activities was US\$ 612,000 compared to US\$ 1.3 million provided by operating activities during the comparable quarter of last year and US\$ 1.8 million provided during the entire year of 2008. Most of the decrease in cash provided by operating activities derives from the increase in trade receivables and a decrease in other current liabilities.

During the Reported Quarter, the Company directed US\$ 1.5 million towards investment activities, compared to US\$ 22,000 during the comparable quarter last year and to US\$ 365,000 during the entire year of 2008. As was elaborated above, the increase is mainly due to the acquisition of commercial property.

During the Reported Quarter, cash provided by financing activities amounted to US\$ 138,000, compared to US\$ 1.2 million used in financing activities during the comparable quarter last year and to US\$ 2.1 million used in financing activities during the fiscal year of 2008. Loans of US\$ 1.5 million were taken in order to finance the commercial property that was acquired in UK. During the period the Company repaid loans' principals in the amount of US\$ 2.4 million.



Electronics Line 3000 Ltd.

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Financing Sources

Shareholders' equity as of June 30, 2009 amounted to US\$ 5.4 million, a ratio of 28.4% to the total balance sheet, compared to US\$ 5.9 million and 27.5%, respectively, as of December 31, 2008.

On June 30, 2009, short and long term credit from banks and other creditors designated for financing working capital and investments in fixed assets and rental property was US\$ 7.6 million, compared to a credit balance of US\$ 8.2 million on December 31, 2008.

Amir Hayek
President & CEO

Bob Marbut
Chairman of the Board

Petach Tikva, August 5, 2009

ELECTRONICS LINE 3000 LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2009

U. S. DOLLARS IN THOUSANDS

UNAUDITED

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CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>June 30,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>Unaudited</u>		<u>Audited</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	927	3,790	2,297
Trade receivables	5,216	7,977	6,529
Income tax receivable	237	262	291
Prepaid expenses	562	261	691
Advances to suppliers	114	263	112
Other accounts receivable	418	452	331
Inventories	5,569	7,006	6,552
<u>Total current assets</u>	<u>13,043</u>	<u>20,011</u>	<u>16,803</u>
NON CURRENT ASSETS:			
Property, plant and equipment:			
Cost	16,194	14,495	14,664
Less - accumulated depreciation	10,690	9,833	10,258
	5,504	4,662	4,406
Research and development	190	-	-
Deferred taxes	219	784	215
Security deposits	86	85	86
<u>Total non current assets</u>	<u>5,999</u>	<u>5,531</u>	<u>4,707</u>
<u>Total assets</u>	<u>19,042</u>	<u>25,542</u>	<u>21,510</u>

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>June 30,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>Unaudited</u>		<u>Audited</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	6,082	9,262	8,141
Trade payables	3,044	3,470	4,096
Accrued expenses	319	526	518
Income tax payable	132	244	98
Other current liabilities	1,848	2,006	1,888
<u>Total current liabilities</u>	<u>11,425</u>	<u>15,508</u>	<u>14,741</u>
LONG-TERM LIABILITIES:			
Bank loans	1,565	94	77
Accrued severance pay, net	643	771	776
<u>Total long-term liabilities</u>	<u>2,208</u>	<u>865</u>	<u>853</u>
EQUITY:			
Share capital	10,933	10,933	10,933
Additional paid-in capital	6,618	6,559	6,610
Foreign currency translation reserve	1,663	2,173	1,300
Hedge reserve	30	(6)	15
Accumulated deficit	(13,835)	(10,490)	(12,942)
<u>Total equity</u>	<u>5,409</u>	<u>9,169</u>	<u>5,916</u>
<u>Total liabilities and equity</u>	<u>19,042</u>	<u>25,542</u>	<u>21,510</u>

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

<u>August 5, 2009</u>	<u>Bob Marbut</u>	<u>Amir Hayek</u>	<u>Shirly Gavriely</u>
Date of approval of the financial statements	Chairman of the Board	President and CEO	VP Finance

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands, except share data

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited				Audited
Revenues	12,396	19,468	6,199	10,052	36,435
Cost of revenues	8,082	11,858	3,990	6,157	23,366
Gross profit	4,314	7,610	2,209	3,895	13,069
Operating costs and expenses:					
Research and development	946	1,881	382	967	3,608
Selling and marketing	2,412	4,001	1,155	2,053	7,403
General and administrative	1,215	1,581	540	793	3,262
<u>Total operating costs and expenses</u>	<u>4,573</u>	<u>7,463</u>	<u>2,077</u>	<u>3,813</u>	<u>14,273</u>
Operating profit (loss)	(259)	147	132	82	(1,204)
Financial income	-	24	-	10	100
Financial expenses	(567)	(581)	(305)	(285)	(1,143)
Other income, net	-	2	-	-	2
Loss before taxes on income	(826)	(408)	(173)	(193)	(2,245)
Taxes on income	67	89	5	19	704
Loss	<u>(893)</u>	<u>(497)</u>	<u>(178)</u>	<u>(212)</u>	<u>(2,949)</u>
Loss per share (basic and diluted)	<u>(0.09)</u>	<u>(0.05)</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.29)</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited				Audited
Loss	(893)	(497)	(178)	(212)	(2,949)
Exchange differences of translation of foreign operations	363	(18)	393	6	(891)
Net gain (loss) on cash flow hedges	15	(6)	226	(29)	15
Total comprehensive income (loss)	<u>(515)</u>	<u>(521)</u>	<u>441</u>	<u>(235)</u>	<u>(3,825)</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, 2009 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of January 1, 2009 (audited)	10,933	6,610	1,300	15	(12,942)	5,916
Cost of share-based payments	-	8	-	-	-	8
Total comprehensive loss	-	-	363	15	(893)	(515)
Balance as of June 30, 2009	<u>10,933</u>	<u>6,618</u>	<u>1,663</u>	<u>30</u>	<u>(13,835)</u>	<u>5,409</u>
	Six months ended June 30, 2008 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of January 1, 2008 (audited)	10,933	6,535	2,191	-	(9,993)	9,666
Cost of share-based payments	-	24	-	-	-	24
Total comprehensive loss	-	-	(18)	(6)	(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>

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, 2009 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of April 1, 2009	10,933	6,613	1,270	(196)	(13,657)	4,963
Cost of share-based payments	-	5	-	-	-	5
Total comprehensive income	-	-	393	226	(178)	441
Balance as of June 30, 2009	<u>10,933</u>	<u>6,618</u>	<u>1,663</u>	<u>30</u>	<u>(13,835)</u>	<u>5,409</u>

	Three months ended June 30, 2008 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of April 1, 2008	10,933	6,541	2,167	23	(10,278)	9,386
Cost of share-based payments	-	18	-	-	-	18
Total comprehensive loss	-	-	6	(29)	(212)	(235)
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>

	Year ended December 31, 2008 (audited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedge reserves	Accumulated deficit	Total equity
Balance as of January 1, 2008	10,933	6,535	2,191	-	(9,993)	9,666
Cost of share-based payments	-	75	-	-	-	75
Total comprehensive loss	-	-	(891)	15	(2,949)	(3,825)
Balance as of December 31, 2008	<u>10,933</u>	<u>6,610</u>	<u>1,300</u>	<u>15</u>	<u>(12,942)</u>	<u>5,916</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 June 30,		Three months ended June 30,		Year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited				Audited
Cash flows from operating activities:					
Loss before taxes on income	(826)	(408)	(173)	(193)	(2,245)
Adjustments for:					
Depreciation and amortization	421	445	204	220	896
Gain on sale of property, plant and equipment	-	(2)	-	-	-
Increase (decrease) in accrued severance pay	(133)	159	6	33	164
Cost of share-based payments	8	24	5	18	75
Financial expenses, net	567	557	305	275	1,043
Operating cash flows before working capital changes	37	775	347	353	(67)
Decrease (increase) in trade receivables	1,590	292	(765)	(286)	1,039
Decrease (increase) in prepaid expenses and other accounts receivable	95	60	407	429	(77)
Decrease in inventories	1,187	1,587	559	640	1,407
Increase in security deposits	-	-	-	-	(1)
Increase (decrease) in trade payables	(1,256)	(632)	288	(87)	(5)
Increase (decrease) in accrued expenses	(199)	243	83	168	235
Increase (decrease) in other current liabilities	(42)	(302)	(236)	200	231
	1,375	1,248	336	1,064	2,829
Cash provided by operations	1,412	2,023	683	1,417	2,762
Interest received	2	25	-	23	11
Interest paid	(186)	(222)	(71)	(130)	(630)
Income taxes received	-	-	-	-	132
Income taxes paid	(16)	(78)	-	(51)	(431)
Net cash provided by operating activities	1,212	1,748	612	1,259	1,844
Cash flows from investing activities:					
Acquisition of property, plant and equipment	(1,517)	(165)	(1,331)	(22)	(381)
Proceeds from sale of equipment	1	15	1	-	16
Investments in research and development	(190)	-	(190)	-	-
Net cash used in investing activities	(1,706)	(150)	(1,520)	(22)	(365)
Cash flows from financing activities:					
Decrease in short-term bank credit, net	(1,388)	(328)	(800)	(1,042)	(472)
Receipt of long-term loans	1,496	-	1,362	-	-
Repayment of long-term loans from banks	(1,048)	(600)	(424)	(200)	(1,642)
Net cash provided by (used in) financing activities	(940)	(928)	138	(1,242)	(2,114)
Effect of exchange differences on cash and cash equivalents of foreign operation					
	64	(8)	81	1	(196)
Increase (decrease) in cash and cash equivalents	(1,370)	662	(689)	(4)	(831)
Cash and cash equivalents at beginning of period	2,297	3,128	1,616	3,794	3,128
Cash and cash equivalents at end of period	927	3,790	927	3,790	2,297

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

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

- a. These interim consolidated financial statements have been prepared in a condensed format as of June 30, 2009 and for the six 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, 2008 ("the annual financial statements").
- b. Following the Board resolution, dated February 8, 2009, to move from the Prime Standard to the General Standard, the Deutsche Bourse announced the Company's revocation from the Prime Standard on March 17, 2009.

On June 18, 2009, all of the Company's shares began trading on the General Standard for the first time.

- c. 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>
		\$	
June 30, 2009	0.26	1.41	1.66
June 30, 2008	0.30	1.58	1.99
December 31, 2008	0.26	1.39	1.45
<u>Change during the period ended</u>	<u>%</u>	<u>%</u>	<u>%</u>
June 2009 (6 months)	(3)	1.4	13.8
June 2008 (6 months)	15.3	7.5	(2.5)
June 2009 (3 months)	6.9	6	16.1
June 2008 (3 months)	7.1	0	0
December 2008 (12 months)	(1.1)	(5.4)	(28.9)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are prepared in accordance with the principles set forth in IAS 34 "Interim Financial Report".

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except for the noted below:

Development costs:

Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. As of June 30, 2009, the carrying amount of capitalised development costs was \$ 190 thousand.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company assesses whether there are any indicators that development costs are impaired at each reporting date. Development costs are tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Development costs are amortised using the straight-line method over its useful economic life of 4 years.

IAS 1 (Revised) - Presentation of Financial Statements:

IAS 1 (Revised) introduces an additional statement, "statement of comprehensive income". The statement may be presented as a separate statement which includes net income and all items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) and the tax effect of these items carried directly to equity, with allocation between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, 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, with allocation between the Company and the minority interests.

IAS 1 (Revised) also requires entities to present a balance sheet as of the beginning of the comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the annual financial statements.

The revision was adopted on January 1, 2009 with a retrospective restatement of comparative figures.

IFRS 2 - Share-based Payment:

Pursuant to an amendment to IFRS 2, the definition of vesting terms will only include service conditions and performance conditions and the cancellation of a grant that includes non-vesting conditions by the Company or the counterparty, will be accounted for by way of acceleration of vesting and not by forfeiture.

Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

This amendment was adopted on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IFRS 8 - Operating Segments:

IFRS 8 ("the Standard") deals with operating segments and replaces IAS 14. According to the Standard, the Company adopted a management approach in reporting on the financial performance of the operating segments. The segment information is the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

The Company adopted the provisions of IFRS 8 on January 1, 2009 with a retrospective restatement of comparative figures.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- SERVICE PROVIDER AGREEMENT**

In May 2009, the Company's subsidiary, Electronics Line USA Inc. ("ELUSA"), entered into an agreement with a service provider.

The service provider will continue ELUSA's activities within industry areas that are not among the main areas serviced by the Company, continue to support existing customers, sell the inventory and collect account receivables on behalf of ELUSA.

The service provider will get commissions for his services based on the percentage from the sale of inventory and the collection of accounts receivable.

NOTE 4: - OPERATING SEGMENTS

a. General:

The Group operates in two operating segments: Europe and United States.

Management monitors the operating results of its geographical units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on segment profit. Group financing (including finance costs and finance income) and taxes on income are managed on a group basis and are not allocated to operating segments.

b. Information about geographical segments:

	<u>Europe</u>	<u>U.S.</u>	<u>Other countries</u>	<u>Adjustments</u>	<u>Total - consolidated</u>
	U.S. dollars in thousands				
Six months ended June 30, 2009 (unaudited)					
Segment revenues	10,575	1,242	1,479	(900)	12,396
Segment results	1,590	(319)	160	*) (2,257)	(826)
Six months ended June 30, 2008 (unaudited)					
Segment revenues	15,398	3,222	2,045	(1,197)	19,468
Segment results	3,092	(335)	371	*) (3,536)	(408)
Three months ended June 30, 2009 (unaudited)					
Segment revenues	5,637	483	536	(457)	6,199
Segment results	880	(36)	(19)	*) (998)	(173)
Three months ended June 30, 2008 (unaudited)					
Segment revenues	8,027	1,582	1,098	(655)	10,052
Segment results	1,607	(98)	207	*) (1,909)	(193)
Year ended December 31, 2008 (audited)					
Segment revenues	27,174	5,873	5,741	(2,353)	36,435
Segment results	4,630	(891)	734	*) (6,718)	(2,245)

*) Including expenses not allocated to segments.

c. During the second quarter of 2009, the Company invested in approximately \$1.5 million a new commercial property, which will serve the European activity.

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

2nd Interim Report
January – June 2009

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 37.2% of its total revenues in the First Half of 2008 and approximately 29.5 % of its total revenues during 2008. 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.

Amir Hayek
President & CEO

Bob Marbut
Chairman of the Board

Petach Tikva, August 5, 2009