



## **Electronics Line 3000 Announces Third Quarter 2008 Results**

Petach Tikvah, Israel (November 5, 2008) – Electronics Line 3000, a global leader in electronic security with remote management solutions, achieved growth of 14% in revenues compared to the comparable quarter of last year and 10% growth in revenues over the past nine months, compare to the first nine month of last year, and has successfully remained profitable from ongoing operations.

### **General**

We hereby submit, the Directors' Report for the nine (the “Reported Period”) and three months period ended September 30, 2008 (the “Reported Quarter”), the comparable nine and three months period ended September 30, 2007 and for the year ended December 31, 2007.

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

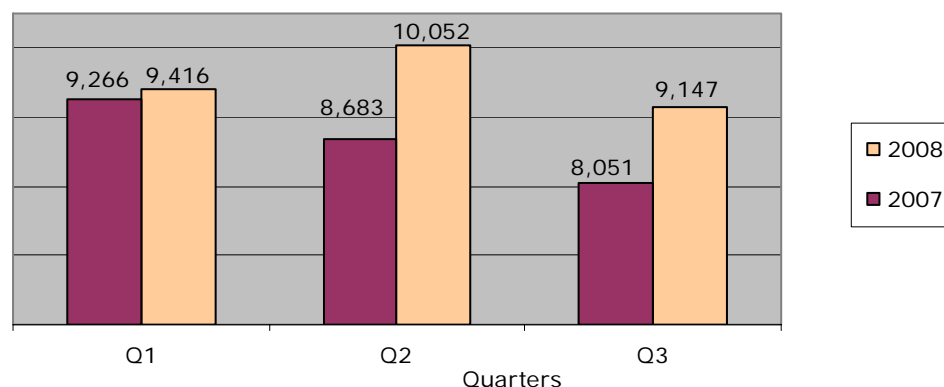
The Company engages in the design, development, production, marketing and sale of electronic security with remote management solutions and complementary products for the mass residential and small commercial markets. These solutions can be monitored and enable remote management of the premises for security, 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\$ 9.1 million, compared to revenues of US\$ 8.1 million during the comparable quarter of last year and to US\$ 34.4 million for the year ended December 31, 2007.

Revenues by Quarters - \$ 000's





The Company is facing internal and external challenges due to the recent developments in the global economy.

Gross margin remained at 39% for the Reported Quarter, same as during the comparable quarter of last year. Gross margin for the Reported period was 39% compare to 40% in the comparable period of last year.

The gross profit in the Reported Quarter amounted to US\$ 3.6 million compared to US\$ 3.1 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, mainly a 16% devaluation of the US Dollar against the New Israeli Shekel (average value of 3.51 NIS per \$ during the first nine months of 2008, compared to 4.16 NIS per \$ for the comparable period 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\$ 924,000 compared to US\$ 508,000 in the comparable period 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\$ 1.8 million during the Reported Quarter, compared to US\$ 2.0 million for the comparable period 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\$ 811,000 during the Reported Quarter, compared to US\$ 542,000 for the comparable quarter last year and to US\$ 2.6 million for 2007.

The Company's operating profit amounted to US\$ 39,000 during the Reported Quarter, compared to an operating profit of US\$ 56,000 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.

Financing and other expenses, net amounted to US\$ 222,000 during the Reported Quarter, compared to US\$ 301,000 for the comparable quarter of last year and to US\$ 960,000 during 2007.

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 last 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\$ 183,000 during the Reported Quarter, compared to a US\$ 245,000 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\$ 38,000 during the Reported Quarter, compared to US\$ 94,000 tax benefit 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\$ 221,000, compared to a US\$ 151,000 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 September 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\$ 7.3 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\$ 1.9 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\$ 7.4 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\$ 5.4 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\$ 4.5 million on the Reported Date, compared to US\$ 5.0 million on December 31, 2007.
- Deferred taxes were US\$ 767,000 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\$ 8.6 million, compared to US\$ 9.8 million on December 31, 2007.

The Company's trade payables as of the Reported Date were US\$ 4.7 million, compared to US\$ 4.1 million on December 31, 2007.

Other current liabilities, accrued expenses and income tax payable were US\$ 2.7 million, compared to US\$ 2.8 million on December 31, 2007.

Long term loans were US\$ 89,000 on the Reported Date compared to US\$ 85,000 on December 31, 2007.

### **Financial Ratios**

|               | <b>September 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 Period, net cash provided by operating activities was US\$ 2.6 million (US\$ 818,000 million net cash provided by operating activities during the Reported Quarter) compared to US \$1.3 million used for operating activities during the comparable period of last year (US\$ 174,000 net cash used for operating activities during the comparable quarter 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\$ 71,000 towards investment activities, compared to US\$ 394,000 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\$ 696,000, compared to US\$ 1.1 million provided 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 September 30, 2008 amounted to US\$ 8.8 million, a ratio of 34.2% to the total balance sheet, compared to US\$ 9.7 million and 35.6%, respectively, as of December 31, 2007.

On September 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\$ 16.1 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, November 5, 2008

**ELECTRONICS LINE 3000 LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2008**

**U. S. DOLLARS IN THOUSANDS**

**UNAUDITED**

**INDEX**

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

-----

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

|                                      | <b>September 30,</b> |               | <b>December 31,</b> |
|--------------------------------------|----------------------|---------------|---------------------|
|                                      | <b>2008</b>          | <b>2007</b>   | <b>2007</b>         |
|                                      | <b>Unaudited</b>     |               | <b>Audited</b>      |
| <b>ASSETS</b>                        |                      |               |                     |
| <b>CURRENT ASSETS:</b>               |                      |               |                     |
| Cash and cash equivalents            | 3,761                | 2,947         | 3,128               |
| Trade receivables                    | 7,278                | 8,359         | 8,295               |
| Income tax receivable                | 260                  | 210           | 225                 |
| Prepaid expenses                     | 910                  | 727           | 416                 |
| Advances to suppliers                | 222                  | 320           | 187                 |
| Other accounts receivable            | 507                  | 264           | 440                 |
| Inventories                          | 7,378                | 8,278         | 8,611               |
| <b>Total current assets</b>          | <b>20,316</b>        | <b>21,105</b> | <b>21,302</b>       |
| <b>NON CURRENT ASSETS:</b>           |                      |               |                     |
| Property, plant and equipment:       |                      |               |                     |
| Cost                                 | 14,590               | 14,239        | 14,397              |
| Less - accumulated depreciation      | 10,050               | 8,982         | 9,441               |
|                                      | 4,540                | 5,257         | 4,956               |
| Intangible assets, net               | -                    | 5,877         | -                   |
| Deferred taxes                       | 767                  | 569           | 788                 |
| Security deposits                    | 86                   | 114           | 85                  |
| <b>Total non current assets</b>      | <b>5,393</b>         | <b>11,817</b> | <b>5,829</b>        |
| <b>Total assets</b>                  | <b>25,709</b>        | <b>32,922</b> | <b>27,131</b>       |
| <b>LIABILITIES AND EQUITY</b>        |                      |               |                     |
| <b>CURRENT LIABILITIES:</b>          |                      |               |                     |
| Short-term credit from banks         | 8,502                | 7,069         | 9,692               |
| Loans from shareholders              | 140                  | 140           | 140                 |
| Trade payables                       | 4,750                | 3,410         | 4,102               |
| Accrued expenses                     | 450                  | 253           | 283                 |
| Income tax payable                   | 120                  | 132           | 201                 |
| Other current liabilities            | 2,089                | 2,155         | 2,350               |
| <b>Total current liabilities</b>     | <b>16,051</b>        | <b>13,159</b> | <b>16,768</b>       |
| <b>LONG-TERM LIABILITIES:</b>        |                      |               |                     |
| Bank loans                           | 89                   | 2,187         | 85                  |
| Accrued severance pay, net           | 766                  | 590           | 612                 |
| <b>Total long-term liabilities</b>   | <b>855</b>           | <b>2,777</b>  | <b>697</b>          |
| <b>EQUITY:</b>                       |                      |               |                     |
| Share capital                        | 10,933               | 10,933        | 10,933              |
| Additional paid-in capital           | 6,582                | 6,511         | 6,535               |
| Foreign currency translation reserve | 1,927                | 2,222         | 2,191               |
| Hedge reserve                        | 71                   | -             | -                   |
| Accumulated deficit                  | (10,710)             | (2,680)       | (9,993)             |
| <b>Total equity</b>                  | <b>8,803</b>         | <b>16,986</b> | <b>9,666</b>        |
| <b>Total liabilities and equity</b>  | <b>27,709</b>        | <b>32,922</b> | <b>27,131</b>       |

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

November 5, 2008

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

**CONSOLIDATED STATEMENTS OF INCOME**

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

|   | Nine months ended<br>September 30, |         | Three months ended<br>September 30, |        | Year ended<br>December 31, |
|---|------------------------------------|---------|-------------------------------------|--------|----------------------------|
|   | 2008                               | 2007    | 2008                                | 2007   | 2007                       |
|   | Unaudited                          |         |                                     |        | Audited                    |
| Revenues  | 28,615                             | 26,000  | 9,147                               | 8,051  | 34,373                     |
| Cost of revenues                                  | 17,438                             | 15,658  | 5,580                               | 4,940  | 21,041                     |
| Gross profit                                      | 11,177                             | 10,342  | 3,567                               | 3,111  | 13,332                     |
| Operating costs and expenses:                     |                                    |         |                                     |        |                            |
| Research and development                          | 2,805                              | 1,393   | 924                                 | 508    | 1,981                      |
| Selling and marketing                             | 5,794                              | 6,442   | 1,793                               | 2,005  | 8,656                      |
| General and administrative                        | 2,392                              | 1,988   | 811                                 | 542    | 2,648                      |
| Impairment of intangible assets                   | -                                  | -       | -                                   | -      | 6,130                      |
| Total operating costs and expenses                | 10,991                             | 9,823   | 3,528                               | 3,055  | 19,415                     |
| Operating profit (loss)                           | 186                                | 519     | 39                                  | 56     | (6,083)                    |
| Financial income                                  | 93                                 | 182     | 69                                  | 51     | 123                        |
| Financial expenses                                | (871)                              | (747)   | (290)                               | (352)  | (1,083)                    |
| Other income (expenses), net                      | 2                                  | 3       | -                                   | -      | (448)                      |
| Loss before taxes on income                       | (590)                              | (43)    | (182)                               | (245)  | (7,491)                    |
| Taxes on income (tax benefit)                     | 127                                | (59)    | 38                                  | (94)   | (194)                      |
| Net profit (loss)                                 | (717)                              | 16      | (220)                               | (151)  | (7,297)                    |
| Net earnings (loss) per share (basic and diluted) | (0.07)                             | *) 0.00 | (0.02)                              | (0.01) | (0.72)                     |

\*) Represents an amount less than \$ 0.01.

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

|   | Nine months ended September 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 gain on cash flow hedges                | -  | -                                | -   | 71                 | -                      | 71              | 71  |
| Cost of share-based payments                | -  | 47                               | -   | -                  | -                      | 47              | -   |
| Foreign currency translation<br>differences | -  | -                                | (264)   | -                  | -                      | (264)           | (264)                                       |
| Loss  | -  | -                                | -   | -                  | (717)                  | (717)           | (717)                                       |
|   |  |                                  |   |                    |                        |                 | (910)                                       |
| Balance as of September 30,<br>2008         | <u>10,933</u>                                    | <u>6,582</u>                     | <u>1,927</u>                                  | <u>71</u>          | <u>(10,710)</u>        | <u>8,803</u>    |   |

|  | Nine months ended September 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 differences | -  | -                                | 85  | -                      | 85              | 85  |                               |
| Net profit                               | -  | -                                | -   | 16                     | 16              | 16  |                               |
|  |  |                                  |   |                        |                 | 101 |                               |
| Balance as of September 30, 2007         | <u>10,933</u>                                    | <u>6,511</u>                     | <u>2,222</u>                                  | <u>(2,680)</u>         | <u>16,986</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

| <b>Three months ended September 30, 2008 (unaudited)</b> |                      |                                   |   |                        |                            |                     |   |
|--|----------------------|-----------------------------------|---|------------------------|----------------------------|---------------------|---|
|  | <b>Share capital</b> | <b>Additional paid-in capital</b> | <b>Foreign currency translation reserve</b> | <b>Hedges reserves</b> | <b>Accumulated deficit</b> | <b>Total equity</b> | <b>Total recognized income (expenses)</b> |
| Balance as of July 1, 2008                               | 10,933               | 6,559                             | 2,173                                       | (6)                    | (10,490)                   | 9,169               |   |
| Net gain on cash flow hedges                             | -                    | -                                 | -   | 77                     | -                          | 77                  | 77  |
| Cost of share-based payments                             | -                    | 23                                | -   | -                      | -                          | 23                  | -   |
| Foreign currency translation differences                 | -                    | -                                 | (246)                                       | -                      | -                          | (246)               | (246)                                     |
| Loss   | -                    | -                                 | -   | -                      | (220)                      | (220)               | (220)                                     |
|  |                      |                                   |   |                        |                            |                     | <u>(389)</u>                              |
| Balance as of September 30, 2008                         | <u>10,933</u>        | <u>6,582</u>                      | <u>1,927</u>                                | <u>71</u>              | <u>(10,710)</u>            | <u>8,803</u>        |   |

| <b>Three months ended September 30, 2007 (unaudited)</b> |                      |                                   |   |                            |                     |   |
|--|----------------------|-----------------------------------|---|----------------------------|---------------------|---|
|  | <b>Share capital</b> | <b>Additional paid-in capital</b> | <b>Foreign currency translation reserve</b> | <b>Accumulated deficit</b> | <b>Total equity</b> | <b>Total recognized income (expenses)</b> |
| Balance as of July 1, 2007                               | 10,933               | 6,511                             | 2,188                                       | (2,529)                    | 17,103              |   |
| Foreign currency translation differences                 | -                    | -                                 | 34  | -                          | 34                  | 34  |
| Loss   | -                    | -                                 | -   | (151)                      | (151)               | (151)                                     |
|  |                      |                                   |   |                            |                     | <u>(117)</u>                              |
| Balance as of September 30, 2007                         | <u>10,933</u>        | <u>6,511</u>                      | <u>2,222</u>                                | <u>(2,680)</u>             | <u>16,986</u>       |   |

| <b>Year ended December 31, 2007 (audited)</b> |                      |                                   |   |                            |                     |   |
|---|----------------------|-----------------------------------|---|----------------------------|---------------------|---|
|   | <b>Share capital</b> | <b>Additional paid-in capital</b> | <b>Foreign currency translation reserve</b> | <b>Accumulated deficit</b> | <b>Total equity</b> | <b>Total recognized income (expenses)</b> |
| 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)                                   |
|   |                      |                                   |   |                            |                     | <u>(7,243)</u>                            |
| 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>        |   |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

|   | Nine months ended<br>September 30, |         | Three months ended<br>September 30, |         | Year ended<br>December 31, |
|---|------------------------------------|---------|-------------------------------------|---------|----------------------------|
|   | 2008                               | 2007    | 2008                                | 2007    | 2007                       |
|   | Unaudited                          |         |                                     |         | Audited                    |
| <u>Cash flows from operating activities:</u>  |                                    |         |                                     |         |                            |
| Loss before taxes on income   | (590)                              | (43)    | (182)                               | (245)   | (7,491)                    |
| Adjustments for:  |                                    |         |                                     |         |                            |
| Depreciation and amortization   | 639                                | 856     | 193                                 | 266     | 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  | 154                                | 60      | (5)                                 | 2       | 82                         |
| Cost of share-based payments  | 47                                 | 70      | 23                                  | -       | 94                         |
| Financial expenses, net   | 778                                | 565     | 221                                 | 301     | 960                        |
| Operating cash flows before working capital changes                                 | 1,026                              | 1,509   | 250                                 | 324     | 1,119                      |
| Decrease (increase) in trade receivables  | 1,011                              | 1,514   | 719                                 | 1,451   | 1,547                      |
| Increase in prepaid expenses and other accounts<br>receivable                       | (753)                              | (489)   | (813)                               | (284)   | (221)                      |
| Decrease (increase) in inventories  | 1,039                              | (1,164) | (548)                               | 504     | (1,530)                    |
| Increase in security deposits   | (1)                                | (4)     | (1)                                 | (4)     | 25                         |
| Increase (decrease) in trade payables   | 649                                | (1,302) | 1,281                               | (1,841) | (592)                      |
| Increase (decrease) in accrued expenses   | 167                                | (321)   | (76)                                | (64)    | (289)                      |
| Increase (decrease) in other current liabilities                                    | (9)                                | (596)   | 293                                 | (8)     | (379)                      |
|   | 2,103                              | (2,362) | 855                                 | (246)   | (1,439)                    |
| Cash provided by (used in) operations:  | 3,129                              | (853)   | 1,105                               | 78      | (320)                      |
| Interest received   | 44                                 | 25      | 19                                  | 12      | 29                         |
| Interest paid   | (387)                              | (392)   | (164)                               | (188)   | (548)                      |
| Income taxes received   | -                                  | 5       | -                                   | -       | 5                          |
| Income taxes paid   | (220)                              | (109)   | (142)                               | (76)    | (139)                      |
| Net cash provided by (used in) operating activities                                 | 2,566                              | (1,324) | 818                                 | (174)   | (973)                      |
| <u>Cash flows from investing activities:</u>  |                                    |         |                                     |         |                            |
| Acquisition of intangible assets  | -                                  | (627)   | -                                   | (202)   | (880)                      |
| Acquisition of property, plant and equipment  | (236)                              | (422)   | (71)                                | (192)   | (609)                      |
| Proceeds from sale of equipment   | 15                                 | 24      | -                                   | -       | 24                         |
| Net cash used in investing activities   | (221)                              | (1,025) | (71)                                | (394)   | (1,465)                    |
| <u>Cash flows from financing activities:</u>  |                                    |         |                                     |         |                            |
| Proceeds from exercise of options   | -                                  | 83      | -                                   | -       | 83                         |
| Increase (decrease) in short-term bank credit, net                                  | (504)                              | 3,333   | 96                                  | 1,388   | (66)                       |
| Repayment of loan from shareholders   | -                                  | (150)   | -                                   | -       | (150)                      |
| Receipt of long-term loans from banks and others                                    | -                                  | 98      | -                                   | 98      | 4,077                      |
| Repayment of long-term loans from banks   | (1,120)                            | (1,000) | (792)                               | (400)   | (1,300)                    |
| Net cash provided by (used in) financing activities                                 | (1,624)                            | 2,364   | (696)                               | 1,086   | 2,644                      |
| Effect of exchange differences on cash and cash<br>equivalents of foreign operation | (88)                               | 26      | (79)                                | 11      | 16                         |
| Increase (decrease) in cash and cash equivalents                                    | 633                                | 41      | (28)                                | 529     | 222                        |
| Cash and cash equivalents at beginning of period                                    | 3,128                              | 2,906   | 3,789                               | 2,418   | 2,906                      |
| Cash and cash equivalents at end of period  | 3,761                              | 2,947   | 3,761                               | 2,947   | 3,128                      |

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 September 30, 2008 and for the nine 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 NIS 1</u> | <u>Exchange rate<br/>of €1<br/>\$</u> | <u>Exchange rate<br/>of £ 1</u> |
|---------------------------------------|-----------------------------------|---------------------------------------|---------------------------------|
| September 30, 2008                    | 0.29                              | 1.46                                  | 1.84                            |
| September 30, 2007                    | 0.25                              | 1.42                                  | 2.03                            |
| December 31, 2007                     | 0.26                              | 1.47                                  | 2.04                            |
| <u>Change during the period ended</u> | <u>%</u>                          | <u>%</u>                              | <u>%</u>                        |
| September 2008 (9 months)             | 11.5                              | (0.1)                                 | (9.8)                           |
| September 2007 (9 months)             | 5.5                               | 7.6                                   | 3.6                             |
| September 2008 (3 months)             | (3.3)                             | (7.6)                                 | (7.5)                           |
| September 2007 (3 months)             | 4.2                               | 5.2                                   | 1.5                             |
| December 2007 (12 months)             | 9.7                               | 11.4                                  | 4.1                             |

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim condensed consolidated financial statements for the nine months and three months ended September 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 recognized 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.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized 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 recognized 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>Nine months ended<br/>September 30, 2008<br/>(unaudited)</b> |                                  |              |                            |                    |                                 |
| Segment revenues  | <u>22,092</u>                    | <u>4,593</u> | <u>3,678</u>               | <u>(1,748)</u>     | <u>28,615</u>                   |
| Segment results   | <u>4,412</u>                     | <u>(437)</u> | <u>672</u>                 | <u>*) (4,461)</u>  | <u>186</u>                      |
| <b>Nine months ended<br/>September 30, 2007<br/>(unaudited)</b> |                                  |              |                            |                    |                                 |
| Segment revenues  | <u>18,620</u>                    | <u>6,384</u> | <u>2,951</u>               | <u>(1,955)</u>     | <u>26,000</u>                   |
| Segment results   | <u>2,687</u>                     | <u>245</u>   | <u>149</u>                 | <u>*) (2,562)</u>  | <u>519</u>                      |

\*) Including expenses not allocated to segments.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**


---

**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<br/>September 30, 2008<br/>(unaudited)</b> |                                  |              |                            |                    |                                 |
| Segment revenues   | <u>6,694</u>                     | <u>1,371</u> | <u>1,633</u>               | <u>(551)</u>       | <u>9,147</u>                    |
| Segment results  | <u>1,320</u>                     | <u>(102)</u> | <u>301</u>                 | <u>*) (1,480)</u>  | <u>39</u>                       |
| <b>Three months ended<br/>September 30, 2007<br/>(unaudited)</b> |                                  |              |                            |                    |                                 |
| Segment revenues   | <u>5,982</u>                     | <u>2,127</u> | <u>422</u>                 | <u>(480)</u>       | <u>8,051</u>                    |
| Segment results  | <u>527</u>                       | <u>258</u>   | <u>(59)</u>                | <u>*) (670)</u>    | <u>56</u>                       |
| <b>Year ended<br/>December 31, 2007<br/>(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.

-----