

Electronics Line 3000 Ltd. announces the results of the First Half of 2010

Petach Tikvah, Israel (November 17, 2010) – Electronics Line 3000 Ltd. (the “Company”), a global leader in electronic security with remote management solutions, had operating loss in the amount of US\$ 1.35 million and positive cash flow in the Reported Period from operating activities.

General

We hereby submit the Directors' Report for the six months ended June 30, 2010 (the “Reported Period”) the comparable six months ended June 30, 2009 and for the year ended December 31, 2009 (“Reported Year”).

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

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.

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 2010 and 2009 performances and results.

Following the board resolution dated August 12th 2010, the Company entered into agreements with Risco Ltd. (“Risco”)

Management services agreement:

Risco is willing to exert its efforts and utilize its professional connections in order to assist the Company in the following fields: (i) sales administration services; (ii) IT and computerized systems; (iii) Finance management and accounting; (iv) human resources; (v) directors and consulting services; (vi) legal and company secretarial services.

Manufacturing services agreement – the Company wishes to retain Risco services for the purpose of manufacturing certain products of the Company, on a non-exclusive basis, prices shall be provided by the service provider, and agreed on by the parties.

Distribution agreement - Risco has the facilities to import, promote, sell, market and distribute the Products in the Territory (as define in the agreement) and is willing to act as Supplier's non-exclusive distributor of the Products in the Territory.

In addition, the Company received a line of credit, in the amount of up to US\$ 6.5 Million from Risco. Any amount taken by the Company from the line of credit shall bear an annual interest of Libor+2.5%, charged on quarterly basis



The Company has restated its financial statements as of June 30, 2009 and December 31, 2009 and for each of the periods then ended, respectively, in order to retroactively reflect the effect of correcting an error in assessing the impairment of financial assets, write down of inventories and capitalization of standardization costs.

The Company's revenues in the Reported Period amounted to US\$ 14.2 million, compared to revenues of US\$ 12.4 million during the comparable period last year and to US\$ 26.4 million for the year ended December 31, 2009.

Based on the current sales orders, the Company expects to end 2010 with a turnover similar to last year's.

During the Reported Period, gross margin was 25% compared to 33% during the comparable period of last year.

The decrease in gross margin is due to accelerated depreciation expenses for machinery and fixed assets in the production facility in the amount of \$780,000 as a result of outsourcing the production activity and an increase in provisions for slow moving inventory in a total amount of \$280,000.

The gross profit in the Reported Period amounted to US\$ 3.6 million compared to US\$ 4 million in the comparable period of the previous year and to US\$ 8.7 million for the fiscal year of 2009.

Research and development costs, amounted to US\$ 962,000 compared to US\$ 946,000 in the comparable period of last year and US\$ 1.7 million for the whole year of 2009.

The Company is developing new products and services that will help the Company to remain an innovation leader in its markets. US\$504,000 of these new developing future products were capitalized until the end of the Reported Period.

Sales and marketing expenses amounted to US\$ 2.2 million during the Reported Period, compared to US\$ 2.4 million for the comparable period of last year and to US\$ 5 million for 2009.

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\$ 1.8 million during the Reported Period, compared to US\$ 1.4 million for the comparable period last year and to US\$ 3.3 million for 2009.

The increase in general and administrative expenses is due accelerated depreciation expenses in respect of leasehold improvements over the expected lease period, which is due to the Company's decision to vacate the buildings of the Company's administration. During the Reported Period, the Company recorded depreciation expenses in the amount of \$ 303,000.



The Company's operating loss amounted to US\$ 1.35 million during the Reported Period, compared to an operating loss of US\$ 781,000 in the comparable period of last year and to US\$ 1.6 million loss for 2009.

Financing expenses net amounted to US\$ 250,000 during the Reported Period, compared to US\$ 567,000 for the comparable period of last year and to US\$ 696,000 during 2009.

Payments in NIS to local suppliers and wages, have been hedged by the Company 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\$ 1.6 million during the Reported Period, compared to US\$ 1.3 million for the comparable period of last year and to a US\$ 2.3 million loss for 2009.

Tax expenses related to the UK subsidiary amounted to US\$ 55,000 during the Reported Period, compared to US\$ 67,000 for the comparable period of last year and to US\$ 68,000 for 2009.

The Company ended the Reported Period with a net loss of US\$ 1.65 million compared to a US\$ 1.4 million for the comparable period of last year and to US\$ 2.3 million loss for 2009.

The Company's Financial Position

The Company's cash and cash equivalents as of June 30, 2010 (hereinafter: "the Reported Date") were US\$ 1 million, compared to US\$ 2.2 million on December 31, 2009. The reduction is mainly due to repaid loan's principals in the amount of US\$ 1 million.

The Company's trade receivables on the Reported Date were US\$ 2.6 million, compared to US\$ 3 million on December 31, 2009.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reported Date were US\$ 0.9 million, compared to US\$ 1 million on December 31, 2009.

The Company's inventories on the Reported Date were US\$ 4.7 million compared to US\$ 4.6 million on December 31, 2009.

Net investment in non-current assets, less amortization, on the Reported Date amounted to US\$ 3.8 million, and a US\$ 5.2 million investment on December 31, 2009:

Decrease in Net investments is due to accelerated depreciation expenses for machinery and fixed assets in the amount of \$1.1 million.

Also, due to the outsourcing production activity process and the move of corporate administration, the Company will have to register additional expenses of \$2.1 million in the second half of 2010.

The short term credit balance from banks and others on the Reported Date amounted to US\$ 4.7 million, compared to US\$ 5.7 million on December 31, 2009.

The Company's trade payables as of the Reported Date were US\$ 4 million compared to US\$ 4.1 million on December 31, 2009.



Other current liabilities, accrued expenses and income tax payable were US\$ 2.6 million, compared to US\$ 2.5 million on December 31, 2009.

Long term loans were US\$ 1.1 million on the Reported Date compared to US\$ 1.2 million on December 31, 2009.

Financial Ratios	June 30, 2010	December 31, 2009
Current Ratio	0.8	0.9
Quick Ratio	0.4	0.5

As of the Reported Date, the Company does not comply with loan covenants, and therefore, banks can demand repayment of these loans at any time. All companies' loans classify to short term credit from bank.

Cash Flow

During the Reported Period, net cash provided by operating activities was US\$ 218,000 compared to US\$ 1.2 million provided by operating activities during the comparable period of last year and US\$ 3.4 million provided during the entire year of 2009.

During the Reported Period, the Company directed US\$ 137,000 towards investment activities, compared to US\$ 1.7 during the comparable period last year and to US\$ 2 million during the entire year of 2009.

Investment activities during 2009 were high mainly due to the acquisition of commercial property in the UK.

During the Reported Period, cash used in financing activities amounted to US\$ 1.1 million, compared to US\$ 1 million during the comparable period last year and to US\$ 1.6 million during the fiscal year of 2009.

During the period the Company repaid loans' principals in the amount of US\$ 1 million.

Financing Sources

Shareholders' equity as of June 30, 2010 amounted to US\$ 739,000, a ratio of 5.4% to the total balance sheet, compared to US\$ 2.7 million and 16%, respectively, as of December 31, 2009.

On June 30, 2010, 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\$ 5.7 million, compared to a credit balance of US\$ 6.9 million on December 31, 2009.

Douglas Luscombe
President & CEO

Moshe Alkelai
Chairman of the Board

Petach Tikva, November 17th, 2010



Electronics Line 3000 Ltd.
www.electronics-line.com

ELECTRONICS LINE 3000 LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

U. S. DOLLARS IN THOUSANDS

UNAUDITED

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Auditors' review report to the shareholders of Electronics Line 3000 Ltd.

Introduction

We have reviewed the accompanying financial information of Electronics Line 3000 Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of June 30, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets constitute approximately 42% of total consolidated assets as of June 30, 2010, and whose revenues constitute approximately 27% of total consolidated revenues for the six months then ended. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Without qualifying our conclusion, we draw attention to Note 3 to the financial statements. The financial statements as of June 30, 2009 and for the six months then ended and as of December 31, 2009 and for the year then ended were restated in order to retroactively reflect the effect of correcting an error in assessing the impairment of financial assets, write down of inventories and capitalization of Standardization costs.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30,		December 31,
	2010	2009	2009
	<u>Unaudited</u>		<u>Audited</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	993	927	2,245
Trade receivables	2,558	*) 4,756	*) 2,965
Income tax receivable	604	237	246
Prepaid expenses	155	*) 405	*) 255
Advances to suppliers	87	114	126
Other accounts receivable	43	418	388
Inventories	4,706	*) 4,525	*) 4,551
<u>Total current assets</u>	<u>9,146</u>	<u>11,382</u>	<u>10,776</u>
NON CURRENT ASSETS:			
Property, plant and equipment:			
Cost	15,872	16,194	16,006
Less - accumulated depreciation	12,195	10,690	10,838
	3,677	5,504	5,168
Intangible assets	504	190	392
Deferred taxes	215	219	215
Security deposits	49	86	74
<u>Total non current assets</u>	<u>4,445</u>	<u>5,999</u>	<u>5,849</u>
<u>Total assets</u>	<u>13,591</u>	<u>17,381</u>	<u>16,625</u>

Restated, see Note 3 *)

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30,		December 31,
	2010	2009	2009
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
and others Short-term credit from banks	4,664	6,082	5,704
Trade payables	4,042	3,044	4,091
Accrued expenses	474	319	453
Income tax payable	116	132	62
Other current liabilities	2,055	1,848	1,971
<u>Total current liabilities</u>	<u>11,351</u>	<u>11,425</u>	<u>12,281</u>
LONG-TERM LIABILITIES:			
Bank loans	1,080	1,565	1,214
Accrued severance pay, net	421	643	395
<u>Total long-term liabilities</u>	<u>1,501</u>	<u>2,208</u>	<u>1,609</u>
EQUITY:			
Share capital	10,933	10,933	10,933
Additional paid-in capital	6,486	6,618	6,621
Foreign currency translation reserve	1,406	1,663	1,588
Hedge reserve	(15)	30	10
Accumulated deficit	(18,071)	*(15,496)	*(16,417)
<u>Total equity</u>	<u>739</u>	<u>*) 3,748</u>	<u>*) 2,735</u>
<u>Total liabilities and equity</u>	<u>13,591</u>	<u>17,381</u>	<u>16,625</u>

Restated, see Note 3 *)

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

November 15, 2010			
Date of approval of the financial statements	Moshe Alkelai Chairman of the Board	Douglas Luscombe President and CEO	Lior Meidan Director & Responsible for the financial activities

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	Six months ended June 30,		Year ended December 31,
	2010	2009	2009
	Unaudited		Audited
Revenues	14,192	12,396	26,391
Cost of revenues	10,605	*) 8,360	*) 17,703
Gross profit	3,587	4,036	8,688
Operating costs and expenses:			
Research and development	962	946	1,856
Selling and marketing	2,152	*) 2,444	*) 5,041
General and administrative	1,831	*) 1,427	*) 3,355
Other income (expenses) , net	9	-	(8)
<u>Total operating costs and expenses</u>	<u>4,936</u>	<u>4,817</u>	<u>10,260</u>
Operating loss	(1,349)	(781)	(1,572)
Financial income	31	-	2,371
Financial expenses	(281)	(567)	(3,067)
Loss before taxes on income	(1,599)	(1,348)	(2,268)
Taxes on income	55	67	68
Loss	<u>(1,654)</u>	<u>*) (1,415)</u>	<u>*) (2,336)</u>
Loss per share (basic and diluted)	<u>(0.17)</u>	<u>*) (0.14)</u>	<u>*) (0.23)</u>

Restated, see Note 3 *)

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		Year ended
	2010	2009	2009
	Unaudited		Audited
Loss	(1,654)	*) (1,415)	*) (2,336)
Exchange differences of translation of foreign operations	(182)	363	288
Net gain (loss) on cash flow hedges	<u>(25)</u>	<u>15</u>	<u>(5)</u>
	<u>(207)</u>	<u>378</u>	<u>283</u>
Total comprehensive income loss	<u>(1,861)</u>	<u>*) (1,037)</u>	<u>*) (2,053)</u>

Restated, see Note 3 *)

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, 2010 (unaudited)					Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	
Balance as of January 1, 2010 (audited)	10,933	6,621	1,588	10	(16,417)	2,735
Cost of share-based payments	-	(135)	-	-	-	(135)
Total comprehensive loss	-	-	(182)	(25)	(1,654)	(1,861)
Balance as of June 30, 2010	<u>10,933</u>	<u>6,486</u>	<u>1,406</u>	<u>(15)</u>	<u>(18,071)</u>	<u>739</u>

	Six months ended June 30, 2009 (unaudited)					Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated (* deficit)	
Balance as of January 1, 2009 (audited)	10,933	6,610	1,300	15	(14,081)	4,777
Cost of share-based payments	-	8	-	-	-	8
Total comprehensive loss	-	-	363	15	(1,415)	(1,037)
Balance as of June 30, 2009	<u>10,933</u>	<u>6,618</u>	<u>1,663</u>	<u>30</u>	<u>(15,496)</u>	<u>3,748</u>

	Year ended December 31, 2009 (audited)					Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedge reserves	Accumulated (* deficit)	
Balance as of January 1, 2009 (audited)	10,933	6,610	1,300	15	(14,081)	4,777
Cost of share-based payments	-	11	-	-	-	11
Total comprehensive loss	-	-	288	(5)	(2,336)	(2,503)
Balance as of December 31, 2009	<u>10,933</u>	<u>6,621</u>	<u>1,588</u>	<u>10</u>	<u>(16,417)</u>	<u>2,735</u>

Restated, see Note 3 *)

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		Year ended
	2010	2009	2009
	Unaudited		Audited
<u>Cash flows from operating activities:</u>			
Loss before taxes on income	(1,599)	*) (1,348)	*) (2,268)
Adjustments for:			
Depreciation and amortization	1,415	421	816
Loss (Gain) on sale of property, plant and equipment	(9)	-	8
Increase (decrease) in accrued severance pay	26	(133)	(381)
Cost of share-based payments	(135)	8	11
Financial expenses, net	250	567	694
Operating cash flows before working capital changes	(52)	(485)	(1,120)
Decrease (increase) in trade receivables	(147)	*) 1,737	*) 3,528
Decrease in prepaid expenses and other accounts receivable	187	*) 127	*) 316
Decrease (increase) in inventories	(155)	*) 1,530	*) 1,413
Increase in security deposits	25	-	12
Increase (decrease) in trade payables	460	(1,256)	(175)
Increase (decrease) in accrued expenses	21	(199)	(65)
Increase (decrease) in other current liabilities	74	(42)	86
	465	1,897	5,115
Cash provided by operations	413	1,412	3,995
Interest received	-	2	-
Interest paid	(134)	(186)	(430)
Income taxes paid	(61)	(16)	(122)
Net cash provided by operating activities	218	1,212	3,443
<u>Cash flows from investing activities:</u>			
Acquisition of property, plant and equipment	(97)	(1,517)	(1,599)
Proceeds from sale of equipment	72	1	7
Investments in intangible assets	(112)	(190)	(392)
Net cash used in investing activities	(137)	(1,706)	(1,984)
<u>Cash flows from financing activities:</u>			
Decrease in short-term bank credit, net	(60)	(1,388)	(795)
Receipt of long-term loans	-	1,496	1,568
Repayment of long-term loans from banks	(1,088)	(1,048)	(2,332)
Net cash used in financing activities	(1,148)	(940)	(1,559)
<u>Effect of exchange differences on cash and cash equivalents of foreign operation</u>			
	(185)	64	48
Decrease in cash and cash equivalents	(1,252)	(1,370)	(52)
Cash and cash equivalents at beginning of period	2,245	2,297	2,297
Cash and cash equivalents at end of period	993	927	2,245

*) Restated, see Note 3

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

NOTE 1:- GENERAL

These interim consolidated financial statements have been prepared in a condensed format as of June 30, 2010 and for the six months then ended ("Consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual consolidated financial statements and the accompanying notes as of December 31, 2009 ("the annual financial statements") and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting".

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.

- b. Standards issued but not yet applied:

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 clarifies the disclosure requirements prescribed by the Standard. The Standard highlights the connection between the quantitative and qualitative disclosures and the nature and scope of the risks arising from financial instruments. The disclosure requirements regarding securities held by the company have been minimized and the disclosure requirements regarding credit risk have been revised. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The Company estimates that the amendment will not have a material effect on financial instruments presented in the financial statements.

IAS 34 - Interim Financial Reporting:

Pursuant to the amendment to IAS 34, new disclosure requirements were introduced to interim financial reporting regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, the transfers of financial instruments between different fair value levels, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The required disclosures will be included in the Company's financial statements.

IAS 1 - Presentation of Financial Statements:

According to the amendment to IAS 1, the changes between the opening and the closing balances of each other comprehensive income component may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The amendment is not expected to have a material effect on the Company's financial statements.

NOTE 3:- RESTATEMENTS

The Company has restated its financial statements as of June 30, 2009 and December 31, 2009 and for each of the periods then ended, respectively, in order to retroactively reflect the effect of correcting an error in assessing the impairment of financial assets, write down of inventories and capitalization of standardization costs.

The effect of the changes on the financial statements:

Balance sheets:

	<u>As previously reported</u>	<u>The change</u>	<u>As presented in these financial statements</u>
	<u>US dollars in thousands</u>		
As of June 30, 2009:			
Trade Receivables	<u>5,216</u>	<u>(460)</u>	<u>4,756</u>
Prepaid expenses	<u>562</u>	<u>(157)</u>	<u>405</u>
Inventories	<u>5,569</u>	<u>(1,044)</u>	<u>4,525</u>
Equity	<u>5,409</u>	<u>(1,661)</u>	<u>3,748</u>
Accumulated deficit	<u>(13,835)</u>	<u>(1,661)</u>	<u>(15,496)</u>
As of December 31, 2009:			
Trade Receivables	<u>3,898</u>	<u>(933)</u>	<u>2,965</u>
Prepaid expenses	<u>572</u>	<u>(317)</u>	<u>255</u>
Inventories	<u>5,890</u>	<u>(1,339)</u>	<u>4,551</u>
Equity	<u>5,324</u>	<u>(2,589)</u>	<u>2,735</u>
Accumulated deficit	<u>(13,828)</u>	<u>(2,589)</u>	<u>(16,417)</u>

NOTE 3:- RESTATEMENTS (Cont.)**Statements of income:**

	<u>As previously reported</u>	<u>The change</u>	<u>As presented in these financial statements</u>
	<u>US dollars in thousands (except per share data)</u>		
Six months ended June 30, 2009:			
Cost of Revenues	<u>8,082</u>	<u>278</u>	<u>8,360</u>
Gross profit	<u>4,314</u>	<u>(278)</u>	<u>4,036</u>
General and administrative	<u>1,215</u>	<u>212</u>	<u>1,427</u>
Selling and marketing	<u>2,412</u>	<u>32</u>	<u>2,444</u>
loss	<u>(893)</u>	<u>(522)</u>	<u>(1,415)</u>
loss per share (basic and diluted)	<u>(0.09)</u>	<u>(0.05)</u>	<u>(0.14)</u>
Year ended December 31, 2009:			
Cost of Revenues	<u>17,130</u>	<u>573</u>	<u>17,703</u>
Gross profit	<u>9,261</u>	<u>(573)</u>	<u>8,688</u>
General and administrative	<u>2,670</u>	<u>685</u>	<u>3,355</u>
Selling and marketing	<u>4,849</u>	<u>192</u>	<u>5,041</u>
loss	<u>(886)</u>	<u>(1,450)</u>	<u>(2,336)</u>
loss per share (basic and diluted)	<u>(0.09)</u>	<u>(0.14)</u>	<u>(0.23)</u>

NOTE 4:- BANK COVENANTS

As of the balance sheet date, the company is not in compliance with loan covenants, and therefore, the banks can demand repayment of these loans at any time. All companies' loans classify to short term credit from bank.

NOTE 5: - 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.

The following expenses are managed on a group basis and are not allocated to operating segments: company's research and development, company's general and administrative and group financing.

b. Information about geographical segments:

	<u>Europe</u>	<u>U.S.</u>	<u>Other countries</u>	<u>Adjustments</u>	<u>Total - consolidated</u>
	<u>U.S. dollars in thousands</u>				
Six months ended June 30, 2010 (unaudited)					
Segment revenues	<u>13,486</u>	<u>86</u>	<u>1,541</u>	<u>(921)</u>	<u>14,192</u>
Segment results	<u>1,106</u>	<u>(414)</u>	<u>451</u>	<u>(2,742)</u>	<u>(1,599)</u>
Six months ended June 30, 2009 (unaudited)					
Segment revenues	<u>10,575</u>	<u>1,242</u>	<u>1,479</u>	<u>(900)</u>	<u>12,396</u>
Segment results	<u>*) 1,220</u>	<u>*) (447)</u>	<u>*) 136</u>	<u>(2,257)</u>	<u>(1,348)</u>
Year ended December 31, 2009 (audited)					
Segment revenues	<u>21,516</u>	<u>1,550</u>	<u>3,325</u>	<u>(1,871)</u>	<u>26,391</u>
Segment results	<u>*) 3,121</u>	<u>*) (1,290)</u>	<u>*) 299</u>	<u>(4,398)</u>	<u>(2,268)</u>

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

- a. On March 18, 2010 the company received a joint announcement from Argyle Global Opportunities, L.P. Texas ("Argyle"), and Risco Group, Israel ("Risco"), that its largest shareholder, Argyle, has sold its entire 40.77% interest in the company to Risco.

- b. During the reported period, the Company accelerated the depreciation expenses in respect to leasehold improvements and fixed assets over the expected useful period, which is due to the Company's decision to vacate the buildings of the Company's plant and administration. Subsequent to the accelerated depreciation expenses that were recorded, during the reported period the Company recorded depreciation expenses in the amount of about \$ 1 million.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTED PERIOD

On August 12, 2010 at special general meeting, the shareholders approved all the below resolutions:

The company entered into agreements with its largest shareholder Risco

- a. Management services agreement – Risco is willing to exert its efforts and utilize its professional connections in order to assist the Company in the following fields: (i) sales administration services; (ii) IT and computerized systems; (iii) Finance management and accounting; (iv) human resource; (v) directors and consulting services; (vi) legal and company secretarial services.

The Company shall pay Risco for all Services rendered by it under this Agreement, payable not less often than monthly and in accordance with the Company's normal and reasonable payment payroll practices regarding service providers, an annual gross amount of US\$ 300,000. The annual amount shall be adjusted on a yearly basis in accordance with the change in the Company's revenues from sales compared to the revenue from sales of the preceding year, but in any event shall not be less than the Base Amount.

- b. Manufacturing services agreement – the company wishes to retain Risco services for the purpose of manufacturing certain products of the company, on a non-exclusive basis, prices shall be provided by the service provider, and agreed on by the parties.
- c. Distribution agreement - Risco has the facilities to import, promote, sell, market and distribute the Products in the Territory (as define in the agreement) and is willing to act as Supplier's non-exclusive distributor of the Products in the Territory. Distributor and Supplier intend that the Transfer Prices for the Products, shall be, in the aggregate for all Products for each calendar year, arm's length prices.

In addition, the company received a line of credit, in the amount of up to US\$ 6.5 Million from Risco. Any amount taken by the company from the line of credit shall bear an annual interest of Libor+2.5%, charged on quarterly basis.

All the above agreements approved by the audit committee and the company's general meeting.

Electronics Line 3000 Ltd.

Petach Tikva (Israel)

(The “Company”)

Interim Report

January – June 2010

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 46.4% of its total revenues in the First Half of 2010 and approximately 37.2 % of its total revenues during 2009. 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 25% to the full rate of taxation applicable to companies in Israel, 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.

Outlook

Future Projections

Looking forward, the Company expects an increase in revenues from its strategic markets, in particular, Northern and Western Europe. 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, telecom companies and other service providers.

In addition, the Company has signed a distribution agreement with Risco Ltd. and its subsidiaries, which will broaden the Company's marketing and sales as well as logistic global coverage.

The Company plans to focus on its iConnect product line and its PIR Detector with a built-in camera for video verification, which 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 reorganizing its sales force in order to achieve better coverage at the strategic markets. Thus, Mr. Douglas Luscombe, Company's CEO, was located in the UK and new additional Reginald Sales Managers (RSM) will be located in Europe.

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

The Company is outsourcing its production activity, both to sub-contractors and to Risco Ltd., in order to achieve better efficiency and margins. The Company believes that this will have a positive effect on its financial results starting H2 2011.

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.

Douglas Luscombe
President & CEO

Moshe Alkelai
Chairman of the Board

Petach Tikva, November 17th, 2010

