



Electronics Line 3000 Announces Third quarter of 2006 Results

Operating margin was improved by 45% from 4.7% in 2005 to 6.8% (9.5% adjusted) in 2006

Petach Tikvah, Israel (November 14, 2006) - Electronics Line 3000, a global leader in electronic security with remote management solutions, has successfully improved profitability.

General

We hereby submit, the Directors' Report for the nine and three months period ended September 30, 2006 and for the comparable periods ended September 30, 2005 and for the year ended December 31, 2005.

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 and automation and video applications.

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

In March 2006, the Company signed agreements with its three principal banks that enable the Company to refinance US\$ 6 million of short-term debt into loans with a maturity over a period of five years. As part of these agreements, the Company approved new financial covenants with the three banks and reached an understanding as to certain customary financial covenants that the Company will have to fulfill, including the ratio of shareholders' equity to total assets, certain profitability level, cash balances and other balance sheet ratios. As of September 30, 2006, the Company is meeting these financial covenants.

On May 9, 2006, the Company's Board of Directors ("BOD") resolved to accelerate the vesting of 21,875 options granted in August 2005 such that these options vest immediately.

In addition, on May 9, 2006, the BOD resolved to increase the number of shares available for option grants under the June 2005 share option plan up to 500,000 options. On that date, the BOD granted 125,183 options (including 41,561 options to the CEO) at an exercise price of Euro 5.19 (US\$ 6.59 on date of grant). The options vest over a period ending in December 2009 and expire 10 years after date of grant. Furthermore, the BOD granted an additional 97,692 options (including 35,939 options to the CEO) at an exercise price of Euro 5.19 (US\$ 6.59 on date of grant). These options vest on December 31, 2011, unless vesting is accelerated upon achievement of targeted share market prices in the range of between Euro 7 and Euro 15.



On May 22, 2006, the Company signed a compromise agreement with Metis. In accordance with the agreement, the consulting agreement with Metis, which was signed on May, 2004, will conclude and it will no longer has any force. As a compromise between the parties, the Company agreed to pay Metis US\$ 2.55 million instead of US\$ 3.6 million that it committed to pay pursuant to the consulting agreement. The compromise settled the Company's relationship with Metis regarding the consulting agreement. The compromise concluded the arbitration procedure between the Company and Metis.

The agreement was approved by the audit committee, the Board of Directors and the meeting of Metis's shareholders on June 29, 2006.

As a result of the agreement, the Company recorded in the nine months ended September 30, 2006 a non-recurring expense in the amount of US\$ 0.9 million.

A major customer of the Company has notified the Company that it experienced a difficulties with a certain type of smoke detector, that the Company sold to it (and which was manufactured by a contractor of the Company), and has asked the Company to participate in the costs that it may incur in handling the abovementioned difficulties. According to the customer, the extent of the total cost is still unclear. The Company has notified the customer that it does not accept any of its claims and that the customer has not yet provided the Company with any information sustaining the alleged difficulties in the smoke detectors, nor any information with regard to the nature of the problem, if such exists, its extent, to which products it refers, when those products were sold to the customer, etc. Therefore, the Company can not presently determine what is the appropriate way to handle the problem, if such exists, and the customer must provide further information necessary to address the issue. The Company is maintaining a continuing cooperative relationship with the customer. It should be noted that the Company provides the customer with other products in addition to smoke detectors, and that the Company has other types of smoke detectors, which the customer has requested the Company to supply until it finalizes its examination. Furthermore, the Company's obligation under its product warranty is restricted to repairing or replacing the product. At this stage, in light of the abovementioned, from a legal perspective, it is not possible to assess the Company's degree of exposure, if any.

General Results Review

The Company's revenues in the third quarter of 2006 ending September 30, 2006, ('the Reported Quarter') amounted to US\$ 8.75 million. Revenues in the nine months of 2006 ending September 30, 2006, ('the Reported Period') amounted to US\$ 33.2 million, compared to revenues of US\$ 12.1 million during the comparable quarter last year US\$ 32.9 million during the comparable period last year, and US\$ 45.4 million for all of 2005. Furthermore, the comparable figures for the third quarter and the first nine months of 2005 include a \$ 2 million (out of \$ 6 million for the second half of 2005) planned project deal of one of the Company's strategic customers which later was put on hold and resulted in inventories that were directed to ordinary course of business.



During the Reported Period, gross margin was 40%, compared to 38% in the same period last year, and 39% for 2005. The gross profit in the Reported Quarter amounted to US\$ 3.5 million (US\$ 13.3 million for the Reported Period), compared to US\$ 4.9 million in the comparable quarter last year (US\$ 12.6 million in the comparable period last year) and US\$17.5 million for the entire year of 2005.

The improvement in gross profit margin was from four main factors:

- Focus on more profitable products.
- Targeting higher margin customers.
- Cost reduction in some of the primary raw materials which the company uses.
- Downsizing, with the resulting reduction of labor costs.

Research and development costs and know-how, including some costs that were capitalized during the Reported Quarter, amounted to US\$ 681 thousands (US\$ 1.9 million in the Reported Period), compared to costs of US\$ 597 thousands in the same quarter last year (US\$ 1.7 million in the same period last year), and costs of US\$ 2.4 million during 2005.

Sales and marketing expenses amounted to US\$ 2.0 million during the Reported Quarter (US\$ 6.2 million during the Reported Period), compared to US\$ 2.2 million during the comparable quarter last year (US\$ 6.6 million during the comparable period last year) and expenses of US\$ 8.7 million for 2005. The 8% decrease in sales and marketing expenses derives from restructuring the operation in France. On the other hand, the Company continues to develop and to expand its marketing and sales force and capabilities by recruiting additional professional and experienced sales people and by focusing on strategic and profitable customers and products. In addition, sales and marketing efforts have been prioritized and reallocated more efficiently.

Administrative and general expenses amounted to US\$ 702 thousands during the Reported Quarter (US\$ 2.6 million during the Reported Period), compared to US\$ 1.0 million during the comparable quarter last year (US\$ 3.4 million during the comparable period last year) and expenses of US\$ 4.5 million during 2005.

The Company's operating income during the Reported Quarter was US\$ 294 thousands, (US\$ 2.3 million for the Reported Period) US\$ 3.2 million for the Reported Period excluding the US\$ 900 thousands expenses resulting from the compromise agreement with Metis, compared to an operating income of US\$ 1.3 million during the comparable quarter last year, US\$1.5 million during the comparable period last year and an income of US\$ 2.5 million during 2005. As a result of the significant improvement in its profitability and the launch of a new effectiveness and efficiency plan during the Reported Period, the Company has achieved operational profitability during the Reported Period.



Financing expenses and other income amounted to expenses of US\$ 213 thousands during the Reported Quarter (US\$ 458 thousands expenses during the Reported Period), compared to US\$ 365 thousands expenses during the comparable quarter last year (US\$ 214 thousands income during the comparable period last year) and US\$ 476 thousands income for 2005. The company continues to control and to manage its currency exposure risks. The expenses represent, among other, the interest on the loans from the banks.

Earnings before taxes on income during the Reported Quarter amounted to US\$ 81 thousands (US\$ 1.8 million during the Reported Period), compared to US\$ 954 thousands during the comparable quarter last year (US\$ 1.7 million during the comparable period last year) and an income of US\$ 3.0 million for 2005.

Taxes on income amounted to US\$ 42 thousands income during the Reported Quarter (US\$ 578 thousands expenses during the Reported Period), compared to expenses of US\$ 351 thousands during the comparable quarter last year (586 thousands expenses during the comparable period last year) and of US\$ 1.1 million expenses for 2005.

The Company ended the Reported Quarter with net profit of US\$ 123 thousands (net profit of US\$ 1.2 million for the Reported Period) US\$ 2.1 million for the Reported Period excluding the US\$ 900 thousands expenses resulting from the compromise agreement with Metis, compared to a net profit of US\$ 603 thousands during the comparable quarter last year (net profit of US\$ 1.2 million during the comparable period last year) and a net profit of US\$ 1.9 million during 2005. The Company has increased its profitability, excluding the expenses resulting from the compromise agreement with Metis as a direct result of successful implementation of efficiency and cost reduction plan during the Reported Period.

The Company's Financial Position

The Company's cash and cash equivalents as of September 30, 2006 (hereinafter: "the Reported Date") were US\$ 3.2 million, compared to US\$ 8.2 million on December 31, 2005.

The Company's trade receivables on the Reported Date were US\$ 9.1 million, compared to US\$ 9.0 million on December 31, 2005.

The Company's prepaid expenses, other accounts receivables and income tax receivables on the Reported Date were US\$ 615 thousands, compared to US\$ 1.3 million on December 31, 2005. The decrease resulted mainly from the decrease in advances payables and in income tax receivables.

The Company's inventories were US\$ 6.8 both on the Reported Date and on December 31, 2005.



The net investment in non current assets, less amortization, on the Reported Date amounted to US\$ 11.8 million, compared to US\$ 12.8 million on December 31, 2005, is comprised of the following:

- Net investment in property, plant and equipment less amortization was US\$ 5.6 million on the Reported Date, compared to US\$ 6.1 million on December 31, 2005.
- Net Investment in research and development for products that have been proven to be technologically feasible, but have not yet been released, less amortization, were US\$ 5.4 million both on the Reported Date and on December 31, 2005.
- Deferred taxes were US\$ 694 thousands as of the Reported Date compared to US\$ 1.2 million on December 31, 2005.
- Security deposits were 110 thousands as of the Reported Date compared to US\$ 107 thousands on December 31, 2005.

The short term credit balance from banks and other credit providers on the Reported Date, amounted to US\$ 2.1 million, compared to US\$ 13.6 million on December 31, 2005. The significant decreased in due to the conversion of US\$ 6 million into long term debt (five years).

The Company's trade payables as on the Reported Date were US\$ 4.7 million, compared to US\$ 5.6 million on December 31, 2005.

Other current liabilities, Accrued expenses and Income tax payable were US\$ 3.6 million both on the Reported Date, and on December 31, 2005.

Long term loans from banks were US\$ 4.3 million on the Reported Date compared to zero on December 31, 2005. The increase is due to the conversion of US\$ 6 million short term debt into long term debt.

Financial ratios:

	September 30, 2006	December 31, 2005
Current ratio	1.9	1.1
Quick ratio	1.2	0.8

Cash Flow

During the Reported Period, net cash provided by operating activities was US\$ 3.2 million, compared to US\$ 1.7 million provided by the Company during the comparable period in 2005 and US\$ 3.8 million provided by operating activities during the year 2005.



During the Reported Period, the Company directed US\$ 849 thousands toward investment activities, compared to US\$ 794 thousands during the comparable period last year and to US\$ 781 thousands net investments during the year 2005.

During the Reported Period, cash used in financing activities amounted to US\$ 7.3 million, compared to US\$ 1.1 million that was used in financing activities during the comparable period last year and to US\$ 1.5 million that was used in financing activities during the year 2005.

Financing Sources

Shareholders' equity as of September 30, 2006 amounted to US\$ 16.2 million, a ratio of 51% to the total balance sheet, compared to 14.8 million and 39%, respectively, as of December 31, 2005.

On September 30, 2006, short and long terms credit from banks and other creditors designated for financing working capital and investments in fixed assets and rental property was US\$ 15.3 million, compared to a credit balance of US\$ 23.2million on December 31, 2005.

Report of Exposure to, and managing, market risks

As a result of its activities, the Company is exposed mainly to the following market risks:

- Changes in currency and interest rates.
- Price fluctuations in raw materials.

Foreign Currency Rates

The Company's reporting currency is the US Dollar. At certain points in time, differences arise between the Company's financial assets denominated in or linked to other currencies, when compared to its financial liabilities in the same currencies, and this difference is exposed to changes in the currency rates relative to the US Dollar.

Moreover, most of the Company's labor costs are transacted in a currency other than the US Dollar, thus creating exposure due to the changes in the value of the currency of the sale relative to the US Dollar.



Electronics Line 3000 Ltd.

Security & Beyond

2 Granit St., P.O.B. 3253 Kiryat Arie Petah Tikva 49130 Israel
Tel: (+972-3) 918-1333, Fax: (+972-3) 921-2225, www.electronics-line.com

Changes in Raw Material Prices

The Company's raw materials (mainly electronics components) are fluctuated by changes in global demands for the particular components.

Amir Hayek
President & CEO

Bob Marbut
Chairman of the Board

Petach Tikvah, November 14, 2006

ELECTRONICS LINE 3000 LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2006

U. S. DOLLARS IN THOUSANDS

UNAUDITED

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CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	September 30,		December 31,
	2006	2005	2005
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3,210	6,443	8,188
Trade receivables	9,061	10,646	8,979
Income tax receivable	5	434	122
Prepaid expenses and other accounts receivable	610	776	1,135
Inventories	6,828	7,542	6,822
Total current assets	19,714	25,841	25,246
NON CURRENT ASSETS:			
Property, plant and equipment:			
Cost	13,812	14,583	13,961
Less - accumulated depreciation	8,192	8,332	7,894
	5,620	6,251	6,067
Intangible assets, net	5,372	5,382	5,365
Deferred taxes	694	1,106	1,228
Security deposits	110	107	107
Total non current assets	11,796	12,846	12,767
Total assets	31,510	38,687	38,013
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks	1,852	18,008	12,531
Loan from shareholders	290	509	1,028
Trade payables	4,740	6,857	5,610
Accrued expenses	345	662	507
Income tax payable	182	40	39
Other current liabilities	3,039	2,783	3,032
Total current liabilities	10,448	28,859	22,747
LONG-TERM LIABILITIES:			
Loans from banks	4,300	-	-
Accrued severance pay, net	540	472	473
Loan from shareholders	-	509	-
Total long-term liabilities	4,840	981	473
EQUITY:			
Share capital	10,895	9,901	10,895
Additional paid-in capital	6,322	1,937	6,126
Foreign currency translation reserve	1,871	1,871	1,871
Accumulated deficit	(2,866)	(4,862)	(4,099)
Total equity	16,222	8,847	14,793
Total liabilities and equity	31,510	38,687	38,013

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

November 14, 2006

Date of approval of the
financial statementsBob Marbut
Chairman of the BoardAmir Hayek
President and CEO

CONSOLIDATED STATEMENTS OF INCOME

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
Revenues	33,223	32,899	8,750	12,072	45,391
Cost of revenues	19,915	20,333	5,255	7,190	27,874
Gross profit	13,308	12,566	3,495	4,882	17,517
Operating costs and expenses:					
Research and development	1,298	1,076	454	360	1,786
Selling and marketing	6,198	6,552	2,045	2,175	8,689
General and administrative	2,643	3,408	702	1,028	4,532
Compromise agreement with Metis (Note 5)	900	-	-	-	-
<u>Total operating costs and expenses</u>	<u>11,039</u>	<u>11,036</u>	<u>3,201</u>	<u>3,563</u>	<u>15,007</u>
Operating profit	2,269	1,530	294	1,319	2,510
Financial income (expenses), net	(460)	218	(213)	(364)	275
Other income (expenses), net	2	(4)	-	(1)	201
Profit before taxes on income	1,811	1,744	81	954	2,986
Taxes on income (income tax benefit)	578	586	(42)	351	1,065
Net profit	<u>1,233</u>	<u>1,158</u>	<u>123</u>	<u>603</u>	<u>1,921</u>
Net earnings per share (basic and diluted)	<u>0.12</u>	<u>0.13</u>	<u>0.01</u>	<u>0.07</u>	<u>0.21</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

Nine months ended September 30, 2006 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance at the beginning of the period	10,895	6,126	1,871	(4,099)	14,793
Cost of share-based payments	-	196	-	-	196
Net profit	-	-	-	1,233	1,233
Balance at the end of the period	<u>10,895</u>	<u>6,322</u>	<u>1,871</u>	<u>(2,866)</u>	<u>16,222</u>
Nine months ended September 30, 2005 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance at the beginning of the period	9,359	1,317	1,871	(6,020)	6,527
Issuance of shares, net of issuance costs	542	521	-	-	1,063
Cost of share-based payments	-	99	-	-	99
Net profit	-	-	-	1,158	1,158
Balance at the end of the period	<u>9,901</u>	<u>1,937</u>	<u>1,871</u>	<u>(4,862)</u>	<u>8,847</u>
Three months ended September 30, 2006 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance at the beginning of the period	10,895	6,237	1,871	(2,989)	16,014
Cost of share-based payments	-	85	-	-	85
Net profit	-	-	-	123	123
Balance at the end of the period	<u>10,895</u>	<u>6,322</u>	<u>1,871</u>	<u>(2,866)</u>	<u>16,222</u>
Three months ended September 30, 2005 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance at the beginning of the period	9,359	1,317	1,871	(5,465)	7,082
Issuance of shares, net of issuance costs	542	521	-	-	1,063
Costs of share - based payments	-	99	-	-	99
Net profit	-	-	-	603	603
Balance at the end of the period	<u>9,901</u>	<u>1,937</u>	<u>1,871</u>	<u>(4,862)</u>	<u>8,847</u>
Year ended December 31, 2005 (audited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance at the beginning of the year	9,359	1,317	1,871	(6,020)	6,527
Issuance of shares, net of issuance costs	1,536	4,688	-	-	6,224
Cost of share-based payments	-	121	-	-	121
Net profit	-	-	-	1,921	1,921
Balance at the end of the year	<u>10,895</u>	<u>6,126</u>	<u>1,871</u>	<u>(4,099)</u>	<u>14,793</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**U.S. dollars in thousands**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
Cash flows from operating activities:					
Profit before taxes on income	1,811	1,744	81	954	2,986
Adjustments for:					
Depreciation and amortization	1,291	1,490	363	478	1,718
Loss (gain) on sale of property, plant and equipment	(2)	34	-	-	(6)
Increase in accrued severance pay	67	26	31	31	27
Cost of share-based payments	196	99	85	99	121
Financial expenses (income), net	460	(218)	213	364	(275)
Operating cash flows before working capital changes	3,823	3,175	773	1,926	4,571
Decrease (increase) in trade receivables	(82)	(3,978)	1,506	(1,684)	(2,311)
Decrease (increase) in prepaid expenses and other receivables	525	84	175	80	(274)
Increase in inventories	(6)	(753)	(768)	(873)	(33)
Increase in security deposits	(3)	-	-	-	(1)
Increase (decrease) in trade payables	(870)	1,998	(745)	659	751
Increase (decrease) in accrued expenses	(162)	73	(203)	(10)	(82)
Increase (decrease) in other current liabilities	7	830	(1,021)	837	1,079
	(591)	(1,746)	(1,056)	(991)	(871)
Cash provided by (used in) operations	3,232	1,429	(283)	935	3,700
Interest received	106	53	23	21	94
Interest paid	(400)	(850)	(147)	(296)	(1,076)
Income taxes received	347	1,198	2	-	1,165
Income taxes paid	(115)	(115)	(44)	(67)	(98)
Net cash provided by (used in) operating activities	3,170	1,715	(449)	593	3,785
Cash flows from investing activities:					
Acquisition of intangible assets	(634)	(656)	(227)	(237)	(645)
Acquisition of property, plant and equipment	(266)	(229)	(106)	(80)	(292)
Proceeds from sale of equipment	51	91	20	-	156
Net cash used in investing activities	(849)	(794)	(313)	(317)	(781)
Cash flows from financing activities:					
Proceeds from issuance of shares net of issuance costs	-	1,063	-	1,063	5,968
Decrease in short-term bank credit, net	(6,049)	(2,199)	(196)	(623)	(7,442)
Repayment of loan from shareholders	(750)	-	-	-	-
Repayment of long-term loans from banks	(500)	-	(300)	-	-
Net cash provided by (used in) financing activities	(7,299)	(1,136)	(496)	440	(1,474)
Increase (decrease) in cash and cash equivalents	(4,978)	(215)	(1,258)	716	1,530
Cash and cash equivalents at beginning of period	8,188	6,658	4,468	5,727	6,658
Cash and cash equivalents at end of period	3,210	6,443	3,210	6,443	8,188

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

NOTES TO THE 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, 2006 and for the nine months and three months then ended. These financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes as of December 31, 2005 ("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</u> <u>of U.S. \$ 1</u>	<u>Exchange rate</u> <u>of U.S. \$ 1</u>	<u>Exchange rate</u> <u>of U.S. \$ 1</u>
	<u>NIS</u>	<u>€</u>	<u>GBP</u>
September 30, 2006	4.302	0.79	0.53
September 30, 2005	4.598	0.83	0.57
December 31, 2005	4.60	0.85	0.58
<u>Change during the period ended</u>	<u>%</u>	<u>%</u>	<u>%</u>
September 2006 (nine months)	(6.5)	(7.1)	(8.6)
September 2005 (nine months)	6.7	13.7	9.6
December 2005 (a year)	6.8	15.3	11.8

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements 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 the same as those applied in the annual financial statements as of December 31, 2005.

NOTE 3:- FINANCIAL COVENANTS

In March 2006, the Company signed agreements with its three principal banks that enabled the Company to refinance \$ 6 million of short-term debt into loans with a maturity over a period of five years.

As part of these agreements, the Company approved new financial covenants with the three banks and reached an understanding as to certain customary financial covenants that the Company will have to fulfill, including the ratio of shareholders' equity to total assets, certain profitability level, cash balances and other balance sheet ratios. As of September 30, 2006, the Company is meeting these financial covenants.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- STOCK OPTION PLAN

On May 9, 2006, the Company's Board of Directors ("BOD") resolved to accelerate the vesting of 21,875 options granted in August 2005 such that these options vest immediately.

In addition, on May 9, 2006, the BOD resolved to increase the number of shares available for option grants under the June 2005 share option plan up to 500,000 options. On that date, the BOD granted 125,183 options (including 41,561 options to the CEO) at an exercise price of €5.19 (\$ 6.59 on date of grant). The options vest over a period ending in December 2009 and expire 10 years after date of grant.

Furthermore, the BOD granted an additional 97,692 options (including 35,939 options to the CEO) at an exercise price of €5.19 (\$ 6.59 on date of grant). These options vest on December 31, 2011, unless vesting is accelerated upon achievement of targeted share market prices in the range of between €7 and €15.

The weighted average fair value of options granted by the Company in May 2006, in the amount of \$ 3.04, was estimated by applying the Binomial Model for option pricing based on the following data and assumptions (weighted average): share price - \$ 6.48; exercise price - \$ 6.59; expected volatility - 58.2%; risk-free interest rate - 3.78% and expected dividends - 0%.

NOTE 5:- AGREEMENT WITH METIS CAPITAL LTD. ("METIS")

On May 22, 2006, the Company signed a compromise agreement with Metis. In accordance with the agreement, the consulting agreement with Metis, which was signed on May, 2004, was concluded and it no longer has any force. As a compromise between the parties, the Company agreed to pay Metis \$ 2.55 million instead of the \$ 3.6 million that it committed to pay pursuant to the consulting agreement. The compromise settled the Company's relationship with Metis regarding the consulting agreement. The compromise also concluded the arbitration procedure between the Company and Metis.

The agreement was approved by the audit committee, the Board of Directors and the meeting of Metis' shareholders on June 29, 2006.

As a result of the agreement, the Company recorded in the second quarter of 2006 a non-recurring expense in the amount of \$ 0.9 million.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**NOTE 6:- 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: the Europe and United States.

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>				
Nine months ended September 30, 2006 (unaudited)					
Segment revenues	24,626	6,605	3,970	(1,978)	33,223
Segment results	5,741	(210)	894	*) (4,156)	2,269
Nine months ended September 30, 2005 (unaudited)					
Segment revenues	24,042	8,466	3,340	(2,949)	32,899
Segment results	4,900	239	489	*) (4,098)	1,530
Three months ended September 30, 2006 (unaudited)					
Segment revenues	6,274	1,966	1,317	(807)	8,750
Segment results	1,094	(21)	194	*) (973)	294
Three months ended September 30, 2005 (unaudited)					
Segment revenues	8,990	3,114	1,143	(1,175)	12,072
Segment results	2,033	187	239	*) (1,140)	1,319
Year ended December 31, 2005 (audited)					
Segment revenues	34,306	10,504	4,183	(3,602)	45,391
Segment results	7,234	(25)	758	*) (5,457)	2,510

*) Including expenses not allocated to segments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: - ADDITIONAL INFORMATION

A major customer of the Company has notified the Company that it experienced a difficulties with a certain type of smoke detector, that the Company sold to it (and which was manufactured by a contractor of the Company), and has asked the Company to participate in the costs that it may incur in handling the abovementioned difficulties. According to the customer, the extent of the total cost is still unclear.

The Company has notified the customer that it does not accept any of its claims and that the customer has not yet provided the Company with any information sustaining the alleged difficulties in the smoke detectors, nor any information with regard to the nature of the problem, if such exists, its extent, to which products it refers, when those products were sold to the customer, etc. Therefore, the Company can not presently determine what is the appropriate way to handle the problem, if such exists, and the customer must provide further information necessary to address the issue. The Company is maintaining a continuing cooperative relationship with the customer.

It should be noted that the Company provides the customer with other products in addition to smoke detectors, and that the Company has other types of smoke detectors, which the customer has requested the Company to supply until it finalizes its examination. Furthermore, the Company's obligation under its product warranty is restricted to repairing or replacing the product.

At this stage, in light of the abovementioned, from a legal perspective, it is not possible to assess the Company's degree of exposure, if any.
