Advanced Vision Technology Ltd.

12 Months Report 2013 / January 1st - December 31st

Dear Shareholders,

2013 was a good year for AVT, with continued improvement in our business resulting in growth of both revenues and profitability. Over the year, AVT increased its revenues in the Labels & Packaging segments, both in product and service sales. Revenues in 2013 totaled $50.5 million, an increase of 5.2% from revenues of $48.0 million in 2012. Operating income totaled $5.8 million, an increase of 8.9% compared with the operating income of $5.3 million in 2012. Net income totaled $6.6 million, an increase of 34.2% compared with $4.9 million in 2012.

While revenues and order booking increased throughout the year, Q4 2013 results set a new record with the highest revenues and order booking in five years. Revenues in the fourth quarter of 2013 reached $13.0 million, 2.4% higher than in Q4 2012. New order bookings in Q4 2013 came in strong at $14.4 million, up 12.7% from Q3 2013, and higher by 2.0% than the same quarter last year.

During 2013, AVT penetrated into the Metal Decorative Market with the new PrintVision/Titan inspection-solution platform. We have successfully installed the PrintVision/Titan at three leading beta sites, and received their acceptance and testimonial about the system's positive contribution to operational efficiency, profitability and improved quality. As a result, we have officially released the product for sale in Q3 2013, and received many leads, which we expect to turn into orders in the near future.

Along the year, we have experienced an increasing demand for our solutions in the Label print segment. This increase is a result of our continued product development and strong sales and marketing presence which strengthened our leading position in this segment even further.

Among other events, in September 2013, AVT presented its new and innovative solutions for the Labels' market at the LabelExpo Europe show, including unique holographic inspection stations aimed at strengthening our offering for the high-end cosmetic and Pharma market. In addition to our booth, AVT's solutions were demonstrated in the booth of ten key partners, reflecting our leading position in this market. Among these partners is HP Indigo, which demonstrated their digital presses, integrated with AVT's PrintVision solutions. These platforms were equipped with the AVT ZeroSet package, which was developed with market leaders Esko & HP to enable the automatic integration of Quality Control into the digital-printing process. This partnership and innovative development is an important milestone in our effort to increase our penetration into the growing digital-printing market.

These new solutions are part of our growth engines going forward. For 2014, we plan to generate further top-line growth while making investments in some key areas, such as R&D, business development, and customer support, to ensure faster growth in 2015 and beyond.

I want to take this opportunity to thank our shareholders for their continued support.
I look forward to working together with our great team towards further increasing shareholder's value going forward.

Sincerely yours,

Jaron Lotan, President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We may from time to time make written or verbal forward-looking statements, in reports to shareholders, in press releases and investors' webcasts. You may identify these forward-looking statements by use of words such as "strategy", "expects", "continues", "plans", "anticipates", "believes", "will", "estimates", "intends", "projects", "goals", "targets", and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot assure you that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should know or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest or remain invested in Advanced Vision Technology (AVT) Ltd. securities. The forward-looking statements relate to, among other things: operating results; anticipated cash flow; gross margins; adequacy of resources to fund operations and our ability to maintain average selling prices despite the aggressive marketing and pricing strategies of our competitors.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements, the related notes and other financial information included elsewhere in this annual report.

Our Solutions

We have developed fully integrated solutions that include software applications and hardware components that can be deployed in a modular manner. This flexibility allows our customers to incorporate additional functions and capabilities as their business or operation require.

Solution	Market Served	Purpose
PrintVision /Jupiter	Packaging - on press Process Control	The industry standard solution for on-press automatic inspection. The PV/Jupiter offers superior Process Control capabilities that reduces production cost and enhances product quality. The PV/Jupiter can be equipped with added value modules such as press control, color management and barcode verification.
PrintVision/Apollo	Packaging - 100% Quality Assurance	Equipped with 100% LCCD technology, the PV/Apollo offers Quality Assurance solution and can be integrated on press or on various post press stages such as Lamination, Doctoring or slitting rewinding.
PrintVision/Helios	Labels and narrow web printing inspection applications	Advanced 100% automatic inspection platform that support the specific label & narrow web

		application & workflows . Installed on press or on rewinder, the PV/Helios provides excellent Process Control & 100% Quality Assurance.
PrintVision/Helios Varnish	Labels and narrow web varnish & coating inspection	Advanced 100% automatic inspection platform that simultaneously inspect print and varnish coating for high end label & narrow web applications
PrintVision/Argus and PrintVision/Argus Elite	Packaging - on press Process Control & Quality Assurance	A unique combination of Process Control & Quality Assurance. PV/Argus is the top of the line solution for high quality packaging applications. The new Argus Elite provides a unique 100% inspection with in image register and pressure setting.
pRegister and iReg	Packaging	Automatic register pre-setting and control module. The new iReg module adding simplicity of click and drag to the register process and does not require any special targets to bring the press into registration.
Presco	Packaging	Automatic plate pressure pre-setting and control module
I∆Eal	Packaging	In line color measurement module for ∆E and ∆L*a*b-based color pre-setting guidance and run-time color management
SpectraLab	Packaging	The latest in absolute color measurement technology deployed to the packaging market. A color measurement addition to the PrintVision family that measures and reports spectral L*a*b* values utilizing true 31 channels spectrophotometer, the only inline device in the industry that is calibrated to ISO std.
WorkFlow Link	Label & Packaging	The industry standard for end-to-end Quality Control solution, WFL enables digital, automatic handling of defected material removal at the finishing stage, based on the AVT inspection information gathered along the production workflow
PrintFlow family of products	Data management solution for all market segments	Printflow family enables comprehensive management of print quality information. It

		includes: • PrintFlow – an SQ database that collects online all Quality data • Printflow Central that enables multi-systems and multi-site data storage • PrintFlow Manager that enable sophisticated reporting, statistics and QA management
PrintVision/Titan	Packaging/ Metal Decorated Boxes	AVT's newest 100% automatic inspection platform that support the specific needs of the metal decorating sheets for metal boxes market. Installed on metal sheet printing press and provides excellent Process and QA with a very rapid ROI.
Microcolor II	Web and sheetfed offset presses, all market segments (Commercial, Newspaper, Packaging, Labels)	Full-featured remote digital ink fountain control system suitable for use on virtually any sheetfed or web offset press, integrated into the printing units and allows the press operator to automatically and remotely control ink fountain key positions from a remote workstation.
PrintVision/Neptune	Commercial Printing	AVT newest 100% automatic inspection platform that supports the specific web offset and commercial Application. Installed on commercial presses, the PV/Neptune provides excellent Process Control & 100% Quality Assurance.
Microcolor/Mercury	Web and sheetfed offset presses, all market segments (Commercial, Newspaper, Packaging, Labels)	Next generation remote ink control solution, utilizes new powerful HW & SW platform, ease-of-use touch screens, new Level of automation, and flexible reconfigurations for smooth upgrades
ColorQuick	Commercial and Newspaper printing/ Web Offset	Closed loop color control system that utilizes a spectrophotometer to measure colors on press. The CQ system converts spectrophotometric data to industry standard ink density and L*a*b* information and then compares the measured value to pre-defined job targets or standards. The system will automatically make adjustments to the press ink keys so

		that quality standards are met. The system reduces production cost while improving print quality
ColorQuick/Clarios	Commercial and Newspaper printing/ Web Offset	Based on the proven ColorQuick spectral technology, this Next Generation color control solution, includes new powerful HW & SW platform with easy to use touch screen based operation, higher productivity and new added-value tools.
SnapReg	Commercial printing/ Web Offset	State of the art automatic closed loop color-to-color register control designed for commercial presses. SnapReg is an add-one module to Clarios & Mercury platforms

Our products and services are primarily sold directly to end-users; a portion of product sales are sold through distributors and strategic partners. By December 31st, 2013 approximately 3,460 ***PrintVision*** platforms, 3,330 Microcolor/Mercury systems and over 900 ColorQuick/Clarios systems were installed worldwide. No distributor or end-user accounted for more than 10% of revenues in 2013 and 2012.

Overview

AVT was incorporated in October 1992 and introduced the prototype of its first product, the ***PrintVision/* 9000**, in 1996. Commercial sales of ***PrintVision/* 9000** commenced in the second quarter of 1997.

We established AVT Inc. in October 1996 to serve as our direct distribution channels in the Americas.

On June 19, 2002 we concluded the acquisition of the assets of Geiger Vision Systems GmbH (GVS) of Munich, Germany for a consideration of approximately 1 (one) million Euro. The acquisition of GVS assets (mostly intangible) was a strategic decision to facilitate the penetration into the Labels print market. The acquisition was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired based on their respective fair values.
AVT (Germany) GmbH was established in June 2002 to absorb the assets and operations of GVS and became our selling arm in the German speaking countries in Europe. As of January 1, 2006 AVT (Germany) GmbH commenced serving as our direct distribution channel for Europe. AVT EMEA (Belgium) CVBA was established in July 2007 consolidating and controlling our European customer support operations.

On October 1, 2007, as part of our strategy of diversifying into new growth areas for process control technologies, AVT Inc., a wholly-owned subsidiary of AVT Ltd., acquired all of the outstanding shares of Graphics Microsystems Inc. (GMI) and certain related intellectual property assets for approximately $33.5 million in cash (including transaction expenses of $0.5 million). GMI was a privately held US corporation, supplying Closed Loop Color control (CLC) systems, color management and reporting software, and remote digital ink fountain control systems to leading commercial printers and press manufacturers worldwide.

Via this acquisition AVT entered the commercial and newspaper printing markets.
GMI's products are sold to leading commercial, semi-commercial, newspaper and specialty printers in the heatset and coldset web printing markets as well as printing press OEMs worldwide. In addition, GMI also supplies the industry with press controls such as closed loop color-to-color register and ribbon/cutoff control systems.
By purchasing GMI, we strategically expanded our market share in the printing industry both in terms of market segments addressed and process and color control solutions offered to the traditional markets of both AVT and GMI. The factors that contributed to the purchase price that resulted in recognition of goodwill included synergies, the benefits of increased market share and strategic positioning value.

Our future revenues and operating results may fluctuate on a quarterly and on an annual basis due to a combination of factors, including but not limited to: variations in the timing of orders and deliveries of our products; variations in payment terms; variations in the size of orders and their internal product mix; by our customers; new product introductions; by the Company and its competitors; market acceptance of new products; the expansion and effectiveness of our distribution network; variations in capital spending budgets of print shops; foreign currency exchange rates; and general economic conditions and economic conditions specific to the printing industry.

Exchange rate exposure affects our results as we have both sales and costs in many currencies other than the US Dollar (mainly in Euro). In 2013 the European currency increased in value relative to the US Dollar by approximately 4.5%. In Israel, during 2013, the New Israel Shekel ("NIS") increased in value relative to the US Dollar by 7.0%.

Off-Balance Sheet Transactions

We have not engaged in nor been a party to off-balance sheet transactions.

Information on the Company

- **Manufacturing**

Our manufacturing activities for systems consist primarily of the manufacturing, assembly and testing of components and subassemblies that are acquired from third party vendors and subcontractors and then integrated by us into a finished system.
We manufacture our packaging and labels products in our facility in Hod Hasharon, Israel. Our commercial printing products as well as our Closed Loop Color Control solutions and absolute color measurement products deployed to the packaging and labels markets are manufactured in our facility in Rockwall, Texas. Our products are built in accordance with industry standard infrastructure and are PC compatible. The hardware elements in our packaging and labels products are based primarily on standard commercial off-the-shelf components. The hardware elements for the commercial printing as well as absolute color measurement products for the packaging and labels markets are manufactured mainly in the Rockwall facility. All products utilize proprietary in-house developed circuit boards and algorithms as well as image acquisition and image analysis techniques and software.
Some of the components we use have a single approved manufacturer while others have two or more options for purchasing. In addition, for some of the components and subassemblies we maintain an inventory to limit the potential for interruption. We also carry out relationships directly with some of the more significant manufacturers of our components. Although certain components and subassemblies, we use in our existing products, are purchased from a limited number of suppliers, we believe that we can obtain alternative sources of supply in the event that such suppliers are unable to meet our requirements in a timely manner.

- **Service and Support**

We have focused on building a strong service and support organization for all our systems and have focused on assisting the various regions, in which we operate, to be as self-sufficient as possible. We maintain a staff of highly skilled customer service engineers at our headquarters in Israel as well as in Rockwall Texas that offer support to our customers and distributors. These service engineers, as well as additional service engineers located in our subsidiaries in Europe in the Americas and in Asia-Pacific, provide first class field services and support worldwide. We install, service and provide training to customers on all our products. Within a very short time after delivery and with a minimum amount of site preparation by the customer, installation of a typical system can usually be completed at the customer’s site, either by us or by third parties. Generally, our customer support engineer installs and checks the system. As part of the installation procedure, we provide system documentation and basic training in maintenance and application.
We maintain regular training and installation support sessions for our service engineers and distributors. Our systems are generally sold with a warranty for repairs of hardware and software defects and malfunctions. The usual term of such warranty is one year after installation. In addition, for a fee, we offer customers service and maintenance contracts commencing after the expiration of the warranty period. Software, whether contained in optional features or forming an integral part of the functioning capacity of the system, is licensed. Software updates are typically included in the service fee.

◆ **Research & Development**

We believe that the development of new products and the enhancement of existing products are essential to our future success. Therefore, we intend to continue to devote substantial resources to research and new product development, and to continuously improve our systems and design processes in order to reduce the cost of our products. Our research and development efforts have been financed through our internal funds and certain programs sponsored through the Government of Israel. We believe our research and development effort has been an important factor in establishing and maintaining our competitive position.

◆ **Selling and Marketing**

We market our products for automatic inspection of printed materials and press control, Closed Loop Color control (CLC), color management and reporting software and provide customer support directly and through our wholly-owned subsidiaries in the United States and Europe and indirectly through our representative office in China as well as through network of dealers and representatives in Asia-Pacific.
Approximately 36 people are engaged in the Company's worldwide selling and marketing efforts, which include participation in various trade shows and conventions, publications and trade press, demonstrations performed in Company facilities and daily contact with customers by sales personnel.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. These policies are those that are both most important to the understanding of our financial condition and results of operations and require our management's most difficult, subjective and complex judgment and estimates. Actual results could differ from those estimates.
For any given individual estimate or assumption made by us there may be alternative estimates or assumptions which are also reasonable. We believe that, given the facts and circumstances at the time of making the relevant judgments, estimates or assumptions, applying any such other reasonable judgment may cause a material effect on our consolidated results of operations, financial position or liquidity as presented in the consolidated financial statements.

Management believes that the significant accounting policies which affect its more significant judgments and estimates used in the preparation of the consolidated financial statements are the most critical to aid in fully understanding and evaluating our reported results include the following:

- Revenue Recognition
- Inventory Valuation
- Impairment of Long-Lived Assets and Goodwill
- Taxes on Income
- Stock-Based Compensation
- Impact of Inflation and Exchange risk

Revenue recognition. We derive revenues primarily from two sources: product revenues, which include hardware and software. Service revenues, which comprised mainly of income from hardware and software maintenance contracts; time and material charges; consulting, installation and training fees and sales of spare parts. Revenues related to the sale of our products are generally recognized when persuasive evidence of an

agreement exists; the product has been delivered; the sale price is fixed and determinable, no further obligations exist, and collection is probable. If a payment is conditioned by the installation of the product, the revenue recognition of the conditioned amount will be deferred, until the payment is due.
Installation and training are not considered essential to the automatic inspection product capabilities since they do not require specialized skills and can be performed by other vendors. Conversely, upon delivery of our commercial web offset products, we defer revenues in an amount equivalent to the fair value of installation and training and recognize those deferred revenues once installation and training has been completed.

In the normal course of business, we do not provide a right of return to our customers. Sales agreements with specific acceptance terms are not recognized, until the customer has confirmed in writing that the product or service has been accepted**.**
Revenues from maintenance and professional services are recognized ratably over the contract period, or as services are performed.
When transactions involve multiple elements, revenues are allocated to the elements based on the fair value of each element in the arrangement. The best evidence of fair value is the price of a deliverable when it is regularly sold on a standalone basis. Fair value is limited to (a) the price charged for a deliverable when it is sold separately or (b), for a deliverable not yet being sold separately, the price established by management having the relevant authority.

Inventory Valuation. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes analysis of sales levels by product line and projection of future demand. In addition, we write off inventories that are considered obsolete. Remaining inventory balances are adjusted to the lower of cost or market value. If future demand or market conditions are less favorable than our projections, additional inventory write-off may be required and would be reflected in cost of sales in the period the revision is made.

Impairment of Long-Lived Assets, other intangible assets and Goodwill. Our long-lived assets include property and equipment, goodwill and other intangible assets. In assessing potential impairment of the long-lived assets, we consider the projected contribution of that asset, to our results of operations and other pertinent information. We will record an asset impairment charge when there are indicators that the asset has experienced a decline in value that is other than temporary. No impairment charge has arisen as a result of the impairment evaluation performed in the fourth quarter of 2013, 2012 and 2011.

In assessing the recoverability of our property and equipment, goodwill and other intangible assets, we must make assumptions regarding the estimated future cash flow and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

ASC 350 requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting units' goodwill over the implied fair value of that goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flow, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flow will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. We allocate goodwill to reporting units based on the reporting unit expected benefit from the acquisition. We evaluate our reporting units on an annual basis and, if required, reassign goodwill using a relative fair value allocation approach.

We will perform impairment test should circumstances indicate that an impairment loss may exist. The outcome of such testing may lead to the recognition of additional impairments. During 2013, 2012 and 2011 no indicators for such impairment existed.
As of December 31, 2013, the carrying value of our long-lived asset was $367 thousand including Technology & Patents, Customer Relationships and Trademarks/Trade names intangible assets related to GMI acquisition.

We are required to assess the impairment of long-lived assets, tangible and intangible, other than goodwill, ASC 360 on a periodic basis, when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.
Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flow to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flow.

Taxes on Income. Taxes on income are calculated based on our assumptions as to our entitlement to various benefits under the Approved Enterprise Law. Our entitlement to such benefits is conditional upon its compliance with the terms and conditions prescribed in this law.

We record income taxes using the asset and liability approach. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and net operating loss and tax credit carry forwards. Our financial statements contain tax assets which have arisen as temporary differences between book and tax accounting. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have considered future taxable income, prudent and feasible tax planning strategies and other available evidence in determining the need for a valuation allowance.
We evaluate all of these factors to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. If the realization of deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination was made.

Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, changes in the valuation allowance, changes in state or foreign tax laws, future expansion into geographic areas with varying country, state and local income tax rates, deductibility of certain costs and expenses by jurisdiction and as a result of acquisitions, divestitures and reorganizations.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of ASC 718. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. Determining the appropriate fair value model and calculating the fair value of stock-based awards, which includes estimates of stock price volatility, forfeiture rates, dividend yield and expected terms, requires judgment that could materially impact our operating results.

Impact of Inflation and Exchange risk. Our Consolidated Financial Statements are prepared in US Dollars. Substantially most of our revenues are made outside Israel in US Dollars. Sales in the United States and other regions except for the European Union are typically denominated in US Dollars, sales in Europe are primarily in Euro, US Dollars or Pound Sterling. Furthermore, a portion of our costs is incurred in US Dollars and another portion is incurred in New Israel Shekel (“Shekel” or “NIS”) and Euro. Since the US Dollar is the primary currency in the economic environment in which the Company operates, the US Dollar is its functional currency and accordingly, monetary accounts maintained in currency other than the US Dollar are re-measured using the foreign exchange rate at the balance sheet date and transaction gains and losses from re-measurements are reflected in the statement of operations as financial income or expenses, as appropriate.

Historically, the Israeli currency, the NIS has been devalued in relation to the US Dollar and other major currencies, principally to reflect the extent to which inflation in Israel exceeds average inflation rates in western economies. Such devaluations in any particular fiscal period are never completely synchronized with the rate of inflation, the annual rate of devaluation of the NIS against the US Dollar and the gap between them for the periods indicated:

	Year Ended December 31,		
	2013	**2012**	**2011**
Inflation	1.8%	1.6%	2.2%
Devaluation (Revaluation)	(7.0%)	(2.3%)	7.7%
Inflation (devaluation) gap	8.8%	3.9%	(5.5%)

Although a material portion of our costs relate to the operations in Israel, part of these Israeli costs are denominated in US Dollars or linked thereto. Costs not denominated in, or linked to, US Dollars are converted to US Dollars, when recorded, at the then prevailing exchange rates. To the extent such costs are linked to the Israeli Consumer Price Index, such costs may increase, if the rate of inflation in Israel exceeds the rate of devaluation on the NIS against the US Dollar, or if the timing of such devaluations were to lag considerably behind inflation. Conversely, such costs may, in US Dollar terms, decrease if the rate of inflation is lower than the rate of devaluation of the NIS against the US Dollar.

Organizational Structure

The following is a list of all our subsidiaries, including the name, country of incorporation or residence, and the proportion of our ownership interest in each.

Name of Subsidiary	Country of Incorporation	Percentage of Ownership Interest
Advanced Vision Technology AVT (Germany) GmbH	Germany	100%
Advanced Vision Technology Inc.	USA	100%
AVT EMEA CVBA	Belgium	100%
Graphics Microsystems Inc.	USA	100%

Operating Results

The following table sets forth selected consolidated statements of income data for each of the years ended December 31, 2013, 2012 and 2011 in thousands US Dollars:

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenues	50,498	48,014	45,967
Cost of revenues	23,370	22,403	23,086
Gross profit	27,128	25,611	22,881
Gross margin in %	53.7%	53.3%	49.8%
Operating expenses:			
Research and development, net	7,287	6,498	6,369
Selling and marketing	8,983	9,113	8,174
General and administrative	5,092	4,706	4,961
Total operating expenses	21,362	20,317	19,504
Operating income	5,766	5,294	3,377
Financial expense, net	64	31	221
Income before taxes on income	5,702	5,263	3,156
Taxes on income (tax benefit)	(882)	358	(718)
Net income	6,584	4,905	3,874

The following table sets forth selected consolidated statements of income data for each of the three years ended December 31, 2013, 2012 and 2011 expressed as a percentage of total revenues:

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenues	100%	100%	100%
Cost of revenues	46.3	46.7	50.2
Gross profit	53.7	53.3	49.8
Operating expenses:			
Research and development, gross	14.7	14.9	15.2
Less - grants	(0.3)	(1.4)	(1.4)
Selling and marketing	17.8	19.0	17.8
General and administrative	10.1	9.8	10.8
Total operating expenses	42.3	42.3	42.4
Operating income	11.4	11.0	7.4
Financial expense, net	0.1	0.1	0.5
Income before taxes on income	11.3	10.9	6.9
Taxes on income (tax benefit)	(1.7)	0.7	(1.5)
Net income	13.0	10.2	8.4

The annual schedule of amortization of acquired intangible assets is comprised of amortization of Technology of in the amount of $257 thousand in each of the years 2013, 2012 and 2011, respectively, and in 2013, 2012 and 2011 the Customer Relationship and Trade Marks amortization amounts were $82 thousand, $106 thousand, $117 thousand, respectively.

Technology and Trade Marks are amortized ratably over 7 and 10 years, respectively and Customer Relationship is amortized using the accretion method over 10 years commencing from the date of closing on October 1, 2007.

The following table sets forth selected proforma consolidated statements of income data adjusted to exclude the impact of non-cash annual amortization of acquired intangible assets of $339 thousand in 2013, $363 thousand in 2012 and $374 thousand in 2011. In addition, proforma consolidated statements of income excludes non cash stock-based compensation expenses of $237 thousand in 2013, $271 thousand in 2012 and $371 thousand in 2011, for each of the years ended December 31 2013, 2012 and 2011 in thousands US Dollars:

	Year Ended December 31,				
	2013			**2012**	**2011**
	GAAP	Adjustments	Non GAAP	Non GAAP	Non GAAP
Revenues	50,498	-	50,498	48,014	45,967
Cost of revenues	23,370	301	23,069	22,093	22,746
Gross profit	27,128	301	27,429	25,921	23,221
Gross margin in %	53.7%		54.3%	54.0%	50.5%
Operating expenses:					
Research and development, net	7,287	60	7,227	6,430	6,275
Selling and marketing	8,983	155	8,828	8,918	7,948
General and administrative	5,092	60	5,032	4,645	4,876
Total operating expenses	21,362	275	21,087	19,993	19,099
Operating income	5,766	576	6,342	5,928	4,122
Financial expense, net	64	-	64	31	221
Income before taxes on income	5,702	576	6,278	5,897	3,901
Taxes on income (tax benefit)	(882)	-	(882)	358	(718)
Net income	6,584	576	7,160	5,539	4,619

Year ended December 31, 2013, compared with year ended December 31, 2012

In fiscal 2013 we have seen continued improvement in our business. During the year we increased our revenues in the Labels and Packaging print markets and we have managed to achieve significant increase in our profitability and succeeded to increase our orders backlog going forward into 2014. We remain focused on achieving long term sustainable growth in our business and profitability.

Revenues

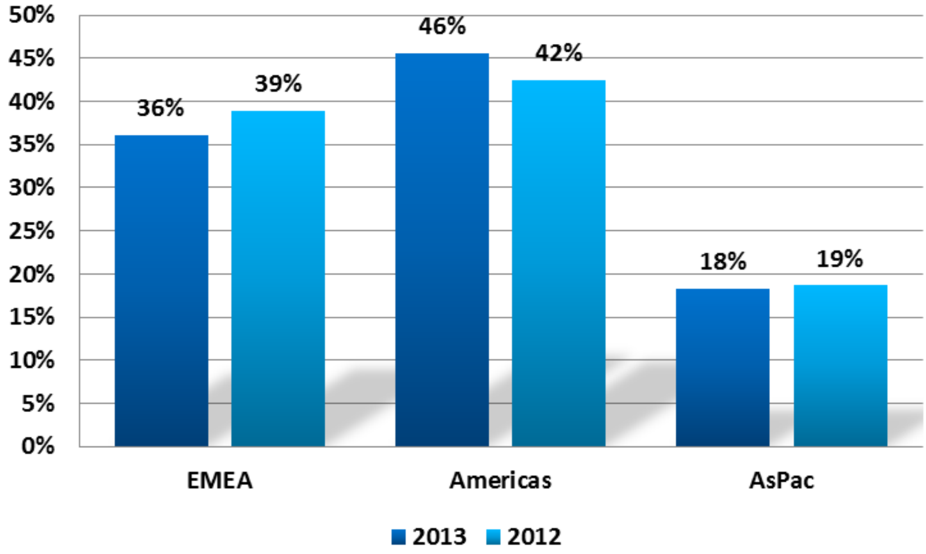
Revenues are derived primarily from the sale of our systems. Additional revenues are generated through the sale of support services, training and software updates to customers.
Revenues in 2013 totaled $50.5 million, 5.2% higher than the $48.0 million generated in 2012.
Revenues in the fourth quarter of 2013 were $13.0 million, 2.4% higher than in Q4 2012.
The increase in total revenues in 2013 is due mainly to growth in products sales to the Labels & Packaging convertors markets.

Revenues from services are generated from maintenance contracts; time and material charges; consulting and training fees, installation and sales of spare parts. We recognize revenues over the contractual period or as services are performed. Service revenues in 2013 totaled $9.8 million (out of the total revenues of $50.5 million) an increase of 11.2% compared with the $8.8 million generated in 2012. The increase in service revenues is attributable to higher level of business activity in the Packaging and Labels printing markets.

During 2013 new order booking totaled $51.6 million representing an increase of 3.9% over 2012 attributable mainly to increase in the Labels print market. The ratio of total new order booking to revenues in 2013 was 102.2% compared with a ratio of 103.5% in 2012. Total new order booking in the fourth quarter of 2013 was $14.4 million, higher by 2.0% as compared with the same quarter last year and the ratio of new order bookings to revenues in the fourth quarter of 2013 was 111.1%.

As of December 31, 2013 order backlog totaled $19.0 million, an increase of 7.7% compared with the balance at December 31, 2012 providing us with visibility of over one quarter of revenues.
We estimate that out of this back-log, 55%-70% will become revenue during Q1 of 2014, while major part of the remainder will become revenue in the succeeding three quarters.

The following chart sets forth breakdown of revenues by territory for each of the two years ended December 31, 2013 and 2012:



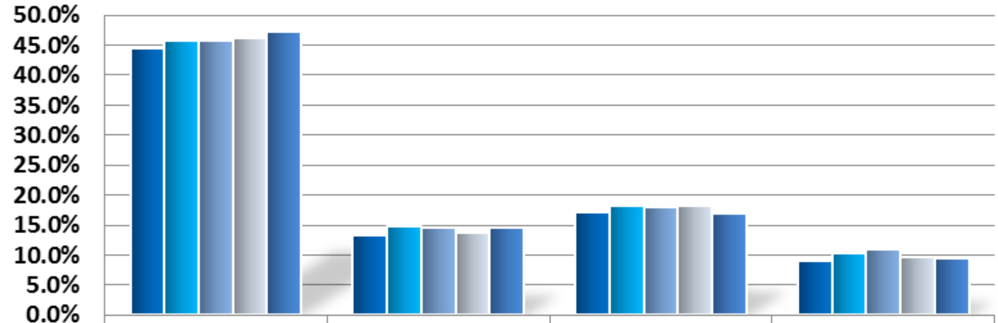
In 2013 the American market contributed 46% of total revenues compared with 42% in 2012 while EMEA (Europe, Middle East & Africa) contributed 36% of total revenues compared with 39% in 2012. Revenues generated in Asia-Pacific contributed 18% of total revenues compared with 19% in 2012.

Cost of Revenues / Gross Profit

Cost of revenues includes materials, labor, manufacturing overhead and an estimation of costs associated with installation, warranty and training. We generally provide a one-year warranty to the end-user. A provision, based on our experience and engineering estimates, is recorded to cover probable costs in connection with such warranty, for the 12 months period commencing at the end of installation.
Gross margin in 2013 was 53.7% compared with 53.3% in 2012. Proforma gross margin in 2013 (excluding the impact of non-cash amortization of acquired intangible assets and stock-based compensation expense) was 54.3% compared with proforma gross margin of 54.0% in 2012.
The increase in gross margin in 2013 is due primarily to favorable mix of products sales mix and higher total revenues coupled with the favorable impact of the Euro exchange rate relative to the US Dollar partly offset by the unfavorable impact of the Israeli Shekel exchange rate relative to the US Dollar.

Gross Margin may fluctuate due to changes in product mix as the sale of software options is generally increasing the platform’s selling price while keeping the same bill of material cost, and thus improving the gross profit.

The following table sets forth selected consolidated expenditures data for each of the five quarters ended 31.12.2013, 30.9.2013, 30.6.2013, 31.3.2013 and 31.12.2012 expressed as a percentage of total quarterly revenues.



	Cost of Revenues	R&D (net)	Selling & Marketing	General & Administrative
Q4/12	44.5%	13.2%	17.2%	9.0%
Q1/13	45.8%	14.8%	18.2%	10.3%
Q2/13	45.8%	14.7%	18.0%	10.9%
Q3/13	46.1%	13.7%	18.1%	9.7%
Q4/13	47.3%	14.6%	16.9%	9.5%

Research and Development

Research and development costs are charged to the statement of operations as incurred. Government funding for the development of approved projects is recognized as a reduction of expenses as the related costs are incurred.

In 2013, net research and development expenses were $7,287 thousand, 12.1% higher than in 2012 ($6,498 thousand).

The gross costs of research and development are partially offset by government grants. In 2013 total government grants and participation recorded were $164 thousand compared with $685 thousand recorded in 2012.
Proforma net research and development expenses in 2013 (excluding the impact of non-cash stock-based compensation expense) increased by 12.4% to $7,227 thousand compared to $6,430 thousand in 2012.
The increase in net research and development expenses is due primarily to lower government grants and extensive development activity coupled by the unfavorable impact of Israeli Shekel exchange rate relative to the US Dollar.

Selling and Marketing

In 2013, selling and marketing expenses decreased to $8,983 thousand, 1.4% lower than in 2012 ($9,113 thousand).
Proforma selling and marketing expenses in 2013 (excluding the impact of non-cash amortization of acquired intangible assets and stock-based compensation expense) decreased by 1.0% to $8,828 thousand compared to $8,918 thousand in 2012.
The decrease in selling and marketing expenses is attributable primarily to lower exhibition expenses (in May 2012 the company participated in the DRUPA tradeshow).

General and Administrative

In 2013, general and administrative expenses increased to $5,092 thousand, 8.2% higher than in 2012 ($4,706 thousand).
Proforma expenses in 2013 (excluding the impact of non-cash stock-based compensation expense) increased by 8.3% to $5,032 thousand compared to $4,645 thousand in 2012, primarily due to higher personnel related costs and certain variable expenses related to tax advisors coupled to the unfavorable impact of Israeli Shekel exchange rate relative to the US Dollar.

Stock-Based Compensation

Based on ASC 718 we recorded commencing January 1, 2006, share-based payments as expenses based on their fair value at the grant date. The compensation is recorded over the requisite service period. The measurement of the benefit is based on the Monte Carlo simulation. Total stock-based compensation expense recorded during 2013 was $237 thousand compared with $271 thousand in 2012.

Operating and Net Income

Net income for the full year ended December 31, 2013 was $6,584 thousand or a profit of $1.12 per share (diluted) compared with net income of $4,905 thousand or a profit of $0.88 per share (diluted) in 2012.
Consolidated proforma net income for 2013 (excluding the impact of non-cash amortization of acquired intangible assets and stock-based compensation expense), was $7,160 thousand compared with proforma net income of $5,539 thousand in 2012.

The total amount of items excluded in proforma financial results presentation comprising of non-cash amortization of intangibles and stock-based compensation expense totaled $576 thousand in 2013 compared with a total of $634 thousand in 2012.

Consolidated proforma operating income (excluding all expense items cited above) improved by 7.0% from a profit of $5,928 thousand in 2012 to a profit of $6,342 thousand in 2013. The increase in proforma EBIT in 2013 is due primarily to higher revenues coupled with higher gross margin partly offset by higher operating expenses.

Consolidated operating expenses were 42.3% of revenues in 2013, unchanged from 2012.

Proforma EBITDA in 2013 (excluding stock-based compensation expenses) improved by 6.1% from a profit of $6,342 thousand in 2012 to a profit of $6,727 thousand in 2013.

Financial Expense, net

Financial expense is comprised of interest income incurred on time deposits less interest expenses on lines of credit and exchange rate differences.
Net financial expense for 2013 was $64 thousand compared with net expense of $31 thousand for 2012.
Financial income in 2013 accounted for $115 thousand compared with $179 thousand in 2012. An additional net expense of $179 thousand was generated from exchange rate differences plus interest and bank charges.

Taxes

We operate within multiple taxing jurisdictions and are subject to audit in those jurisdictions. For AVT product line we conducted a Transfer Pricing study during 2010 in the United States. For AVT and GMI product lines we conducted a Transfer Pricing study during 2010 in Germany. The recommendations of those studies were incorporated in our tax estimates. In our opinion, an adequate asset and provision for income taxes has been made in the financial statements. This asset and provision takes into consideration the tax reform effective in Israel as of January 1, 2003 and potential tax liability in other jurisdictions.
During Q4 2013 the Israeli tax authorities have concluded tax assessment for the years 2009-2011. The conclusion of that assessment resulted provision for income tax in the amount of $63 thousand.
On July 30, 2013, the Israeli Parliament (the Knesset) approved the second and third readings of the Economic Plan for 2013-2014 ("Amended Budget Law") which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include, among others, raising the Israeli corporate tax rate from 25% to 26.5%, cancelling the lowering of the tax rates applicable to preferred enterprises (9% in development area A and 16% in other areas). The deferred tax balances included in the financial statements as of December 31, 2013 are calculated according to the new tax rates that were substantially enacted as of the balance sheet date and therefore comply with the above changes, as applicable to the Company. Following the change in tax rates, deferred taxes increased by approximately $218 thousand in 2013.
In response to the amendment to the Law for the Encouragement of Capital
Investments whereby companies that accumulated exempt profits will be able to “release” these “trapped profits” at highly reduced tax rate the company decided to take advantage of this special temporary provision made available by the Israeli government on November 12, 2012 by paying a discounted tax of 40% of the original tax rate that it would have had to pay. Accordingly, an amount of $1,521 thousand was recorded as tax expense during 2013.

In addition, at the end of 2013, in light of the continued profitability of our US operations, management concluded that it is probable that the Net Operating Losses will be utilized in the foreseeable future, resulting in recognition of deferred tax assets in the amount of $2,920 thousand recorded as credit to our income tax provision.

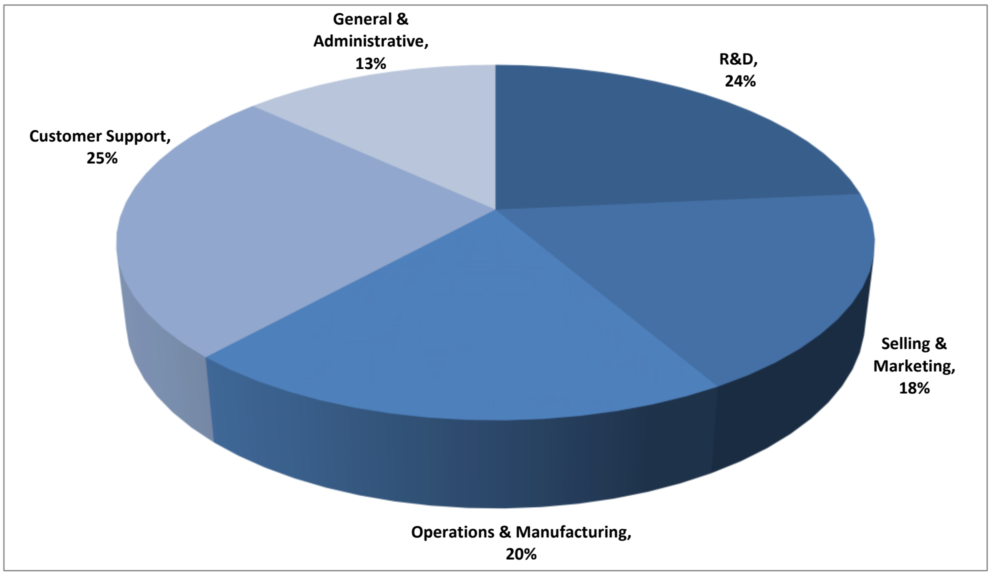
Liquidity and Capital Resources

As of December 31, 2013 our total current assets were $43.6 million, including a total cash balance and short term deposits of $26.6 million compared with cash and financial investment balance of $19.3 million on December 31, 2012.
During 2013, $8,625 thousand were provided by operating activities compared with $5,388 thousand provided by operating activities in 2012. Our 2013 net capital expenditures on fixed assets were $398 thousand compared with $325 thousand used during 2012.
We focus on managing our working capital, particularly in maintaining the relative low level of accounts receivable Days Sales Outstanding (DSO) and inventories. DSO in accounts receivable for the year ended December 31, 2013 were 57 days compared with 59 days for the year ended December 31, 2012.

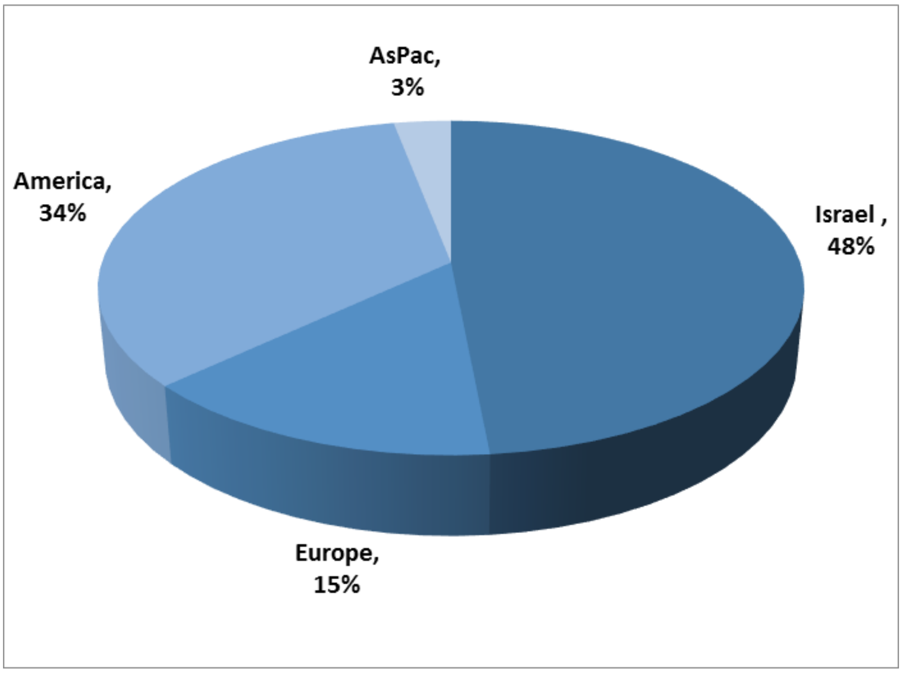
Employees

Our employees consistently remain our major asset, committed to the drive for technological leadership and outstanding customer service. Our dedicated team has repeatedly demonstrated that it shares our vision, and has the motivation, innovation and commitment to customer satisfaction that are the key ingredients of healthy growth.
On December 31, 2013, 198 people were employed by us worldwide compared with 194 people we employed at December 31 2012.

The breakdown of employees by activity is as follows:



Our employees are based in the following areas per their subsidiary affiliation:



FINANCIAL TABLE OF CONTENT

- - - - - - - - - - -

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2013	**2012**
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,378	$ 12,674
Short-term deposits	14,252	6,672
Trade receivables (net of allowance for doubtful accounts as of $ 757 and $ 627 as of December 31, 2013 and 2012, respectively)	7,937	7,820
Inventories	5,594	5,946
Other accounts receivable and prepaid expenses	3,420	3,078
Total current assets	43,581	36,190
LONG-TERM ASSETS:		
Deferred tax asset	2,521	302
Severance pay fund	3,320	2,951
Total long-term assets	5,841	3,253
PROPERTY AND EQUIPMENT, NET	1,189	1,180
INTANGIBLE ASSETS, NET	367	706
Total assets	$ 50,978	$ 41,329

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share amounts)

	December 31,	
	2013	**2012**
	Unaudited	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 1,903	$ 1,316
Employees and payroll accruals	2,619	2,688
Customer advances and deferred revenues	3,613	2,344
Accrued expenses and other liabilities	4,935	3,588
Total current liabilities	13,070	9,936
ACCRUED SEVERANCE PAY	4,805	4,088
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 2 par value: 15,000,000 shares authorized at December 31, 2013 and 2012; 6,659,189 and 6,297,730 shares issued at December 31, 2013 and 2012respectively; 5,840,067 and 5,478,608 shares outstanding at December 31, 2013 and 2012, respectively	3,602	3,402
Additional paid-in capital	64,099	62,568
Treasury shares at cost - 819,122 shares as of December 31, 2013 and 2012, respectively	(6,902)	(6,902)
Accumulated deficit	(27,696)	(31,763)
Total shareholders' equity	33,103	27,305
Total liabilities and shareholders' equity	$ 50,978	$ 41,329

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except per share amounts)

	Year ended December 31,		
	2013	**2012**	**2011**
	Unaudited		
Revenues	$ 50,498	$ 48,014	$ 45,967
Cost of revenues	23,370	22,403	23,086
Gross profit	27,128	25,611	22,881
Operating expenses:			
Research and development	7,451	7,183	7,007
Less - grants	(164)	(685)	(638)
Selling and marketing	8,983	9,113	8,174
General and administrative	5,092	4,706	4,961
Total operating expenses	21,362	20,317	19,504
Operating income	5,766	5,294	3,377
Financial expense, net	64	31	221
Income before taxes on income	5,702	5,263	3,156
Taxes on income (tax benefit)	(882)	358	(718)
Net income	$ 6,584	$ 4,905	$ 3,874
Basic earnings per ordinary share	$ 1.16	$ 0.91	$ 0.73
Diluted earnings per ordinary share	$ 1.12	$ 0.88	$ 0.70

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2011	$ 3,402	$ 62,337	$ (8,170)	$ (40,033)	$ 17,536
Issuance of treasury shares upon exercise of options	-	(53)	101	(37)	11
Stock-based compensation related to options granted to employees	-	371	-	-	371
Net income	-	-	-	3,874	3,874
Balance as of December 31, 2011	3,402	62,655	(8,069)	(36,196)	21,792
Issuance of treasury shares upon exercise of options	-	(358)	1,167	(472)	337
Stock-based compensation related to options granted to employees	-	271	-	-	271
Net income	-	-	-	4,905	4,905
Balance as of December 31, 2012	3,402	62,568	(6,902)	(31,763)	27,305
Issuance of shares upon exercise of options	200	1,294	-	-	1,494
Stock-based compensation related to options granted to employees	-	237	-	-	237
Dividend paid to shareholders	-	-	-	(2,517)	(2,517)
Net income	-	-	-	6,584	6,584
Balance as of December 31, 2013 (unaudited)	3,602	64,099	(6,902)	(27,696)	33,103

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

	Year ended December 31,		
	2013	**2012**	**2011**
	Unaudited		
Cash flows from operating activities:			
Net income	$ 6,584	$ 4,905	$ 3,874
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation related to options granted to employees	237	271	371
Depreciation of property and equipment	389	414	503
Amortization of intangible assets	339	363	374
Increase in trade receivables, net	(117)	(470)	(1,654)
Revaluation of short-term deposits	(80)	-	-
Decrease (increase) in inventories	352	478	(496)
Decrease (increase) in other accounts receivable and prepaid expenses	667	(127)	489
Decrease (increase) in deferred income taxes, net	(3,228)	94	(785)
Increase (decrease) in trade payables	587	(543)	481
Increase (decrease) in employees and payroll accruals	(69)	417	(129)
Increase (decrease) in customer advances and deferred revenues	1,269	(812)	439
Increase (decrease) in accrued expenses and other liabilities	1,347	254	(68)
Increase in accrued severance pay, net	348	144	56
Net cash provided by operating activities	8,625	5,388	3,455
Cash flows from investing activities:			
Investment in short-term deposits	(9,000)	(6,672)	(7,524)
Proceeds from maturity of short-term deposits	1,500	7,524	3,000
Purchase of property and equipment	(398)	(325)	(336)
Net cash provided by (used in) investing activities	(7,898)	527	(4,860)
Cash flows from financing activities:			
Dividend paid to shareholders	(2,517)	-	-
Proceeds from exercise of options granted to employees	1,494	337	11
Net cash provided (used in) by financing activities	(1,023)	337	11
Increase (decrease) in cash and cash equivalents	(296)	6,252	(1,394)
Cash and cash equivalents at the beginning of the year	12,674	6,422	7,816
Cash and cash equivalents at the end of the year	$ 12,378	$ 12,674	$ 6,422
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	$ 1,431	$ 95	$ 218