Orad Hi-Tec Systems Ltd ('Orad' or the 'Company')

Results for the fiscal year 2006 and the quarter ended December 31, 2006

Tel Aviv, March 13, 2007 – Orad Hi-Tec Systems Ltd (Frankfurt - Prime Standard; London - AIM. Symbol: OHT), a leading developer, marketer and distributor of state-of-the-art, 3D graphical solutions for the broadcasting, advertising and visual simulation markets, announced today its results for the fiscal year 2006 and the quarter ended December 31, 2006.

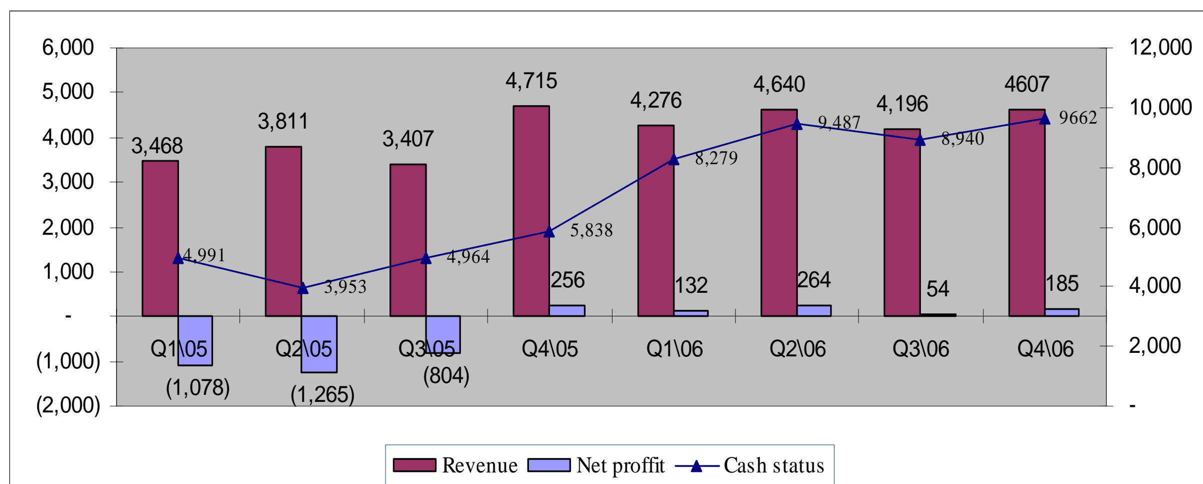
Highlights :

- **Revenue increased by 15% to $17.7 millions in 2006 compared to $15.4 millions in 2005.**
- **Revenues for Q4/06 increased by 10% to $4.6 millions compared to $4.1 million in Q3/06.**
- **Improved gross margin of 63% in Q4/2006 compare to 58% in Q4/2005 and 61% for 2006 compared to 53% for 2005.**
- **Net profit of $0.6 million in 2006 compared to net loss of $2,9 million in 2005**
- **Cash climbed to $9.7 millions with Positive cash flow of $3.8 million in 2006 and positive cash flow of $0.7 million in Q4/2006**
- **Orad strengthened its position in graphic systems segment by signing contracts with Deutsch Welle ,CCTV, Shanghai TV and Tele Madrid.**
- **Orad continue to dominate the virtual studios market.**

Avi Sharir, Orad’s President and Chief Executive Officer Commented “We are pleased with the results of 2006 which represent significant improvements in sales, gross margin, net profit and cash flow. With increased sales of graphic systems, we begin to see the fruits of our strategy of expanding our presence in all broadcast graphics segments" and added: "Orad offers today a one stop shop to prime broadcasters. As a reflection we see more broadcasters buy Orad's graphic systems. In 2006 we managed to increase our market share in news graphic systems, we strengthened our dominance in the virtual sets segment and maintain our position in the sports systems. Our strong order back log keeps us optimistic regarding the results for 2007".

Financial summery for the relevant periods:

	In thousand USD				
	Q4/06	**Q3/06**	**Q4/05**	**2005**	**2006**
Sales	4,607	4,196	4,716	15,401	17,719
Gross Profit	2,916	2,615	2,715	7,708	10,818
Gross Margin	63.29%	62.32%	57.57%	53.21%	61.05%
R&D expenses	660	625	584	2,451	2,507
S&M Expenses	1,840	1,602	1,440	6,079	6,631
G&A expenses	362	376	423	1,754	1,506
Net Profit/ (Loss)	185	54	256	(2,892)	636
Cash Status	9,662	8,940	5,838	5,838	9,662



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ORAD HI-TEC SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

ORAD HI-TEC SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of Orad Hi-Tec Systems Ltd. ("the Company") and its subsidiaries as of December 31, 2005 and 2006 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain wholly-owned subsidiaries, whose assets constitute 6% and 5% of total consolidated assets as of December 31, 2005 and 2006, respectively, and whose revenues constitute 15%, 10% and 12% of total consolidated revenues for the years ended December 31, 2004, 2005 and 2006, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 11, 2007

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2005	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,338	$ 9,091
Restricted cash	500	571
Trade receivables (net of allowance for doubtful accounts of $ 378 and $ 66 at December 31, 2005 and 2006, respectively)	3,754	2,422
Other accounts receivable and prepaid expenses	719	837
Inventories	2,817	2,696
Work in process, net of advances from customers	466	444
Total current assets	13,594	16,061
SEVERANCE PAY FUND	817	1,017
PROPERTY AND EQUIPMENT, NET	1,914	1,530
Total assets	$ 16,325	$ 18,608
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 1,262	$ 1,354
Deferred revenues	1,201	1,841
Other accounts payable and accrued expenses	4,182	4,691
Total current liabilities	6,645	7,886
ACCRUED SEVERANCE PAY	1,173	1,503
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of NIS 0.01 par value: Authorized - 27,000,000 shares as of December 31, 2005 and 2006; Issued and outstanding - 10,790,621 shares as of December 31, 2005 and 10,800,621 shares as of December 31, 2006	28	28
Additional paid-in capital	75,281	75,357
Foreign currency translation adjustments	(547)	(547)
Accumulated deficit	(66,255)	(65,619)
Total shareholders' equity	8,507	9,219
Total liabilities and shareholders' equity	$ 16,325	$ 18,608

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

March 11, 2007		
Date of approval of the financial statements	Avi Sharir Director and Chief Executive Officer	Ehud Ben Yair Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2004	**2005**	**2006**
Revenues:			
Sales	$ 15,728	$ 14,485	$ 17,719
Long-term development contracts	-	916	-
Total revenues	15,728	15,401	17,719
Cost of revenues:			
Cost of sales	7,647	6,646	6,901
Cost of long-term development contracts	-	1,047	-
Total cost of revenues	7,647	7,693	6,901
Gross profit	8,081	7,708	10,818
Operating expenses:			
Research and development, net	3,163	2,451	2,507
Sales and marketing	7,257	6,078	6,631
General and administrative	1,577	1,754	1,506
Total operating expenses	11,997	10,283	10,644
Operating income (loss)	(3,916)	(2,575)	174
Financial income (expenses), net	189	(316)	467
Other expenses, net	148	-	5
Net income (loss)	$ (3,875)	$ (2,891)	$ 636
Basic net earnings (loss) per share	$ (0.36)	$ (0.27)	$ 0.06
Weighted average number of shares used in computing basic net earnings (loss) per share (in thousands)	10,698	10,781	10,791
Diluted net earnings (loss) per share	$ (0.36)	$ (0.27)	$ 0.06
Weighted average number of shares used in computing diluted net earnings (loss) per share (in thousands)	10,698	10,781	10,823

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Number of outstanding Ordinary shares	Share capital	Additional paid-in capital	Foreign currency translation adjustments	Accumulated deficit	Total
Balance as of January 1, 2004	10,650,726	$ 28	$ 75,107	$ (547)	$ (59,489)	$ 15,099
Comprehensive loss:						
Net loss	-	-	-	-	(3,875)	(3,875)
Total comprehensive loss						(3,875)
Compensation expenses in respect of share options whose terms have been modified	-	-	38	-	-	38
Issuance of shares upon exercise of employee share options	100,000	*) -	96	-	-	96
Balance as of December 31, 2004	10,750,726	28	75,241	(547)	(63,364)	11,358
Comprehensive loss:						
Net loss	-	-	-	-	(2,891)	(2,891)
Total comprehensive loss						(2,891)
Issuance of shares upon exercise of employee share options	11,250	*) -	9	-	-	9
Issuance of earn-out shares	28,645	*) -	31	-	-	31
Balance as of December 31, 2005	10,790,621	28	75,281	(547)	(66,255)	8,507
Comprehensive income:						
Net income	-	-	-	-	636	636
Total comprehensive income						636
Issuance of shares upon exercise of employee share options	10,000	*) -	9	-	-	9
Share-based compensation	-	-	67	-	-	67
Balance as of December 31, 2006	10,800,621	$ 28	$ 75,357	$ (547)	$ (65,619)	$ 9,219

*) Represents an amount lower than $ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2004	**2005**	**2006**
Cash flows from operating activities:			
Net income (loss)	$ (3,875)	$ (2,891)	$ 636
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,091	623	569
Share-based compensation	-	-	67
Compensation expense in respect of share options whose terms have been modified	38	-	-
Decrease in trade receivables, net and other accounts receivable and prepaid expenses	890	591	1,214
Decrease in inventories	234	591	29
Decrease in work in process, net of advances from customers	277	597	22
Increase (decrease) in trade payables, other accounts payable and accrued expenses and accrued severance pay, net	(592)	429	731
Increase in deferred revenues	217	460	640
Other	28	31	5
Net cash provided by (used in) operating activities	(1,692)	431	3,913
Cash flows from investing activities:			
Purchase of property and equipment	(298)	(231)	(146)
Proceeds from sale of property and equipment	88	127	48
Decrease (increase) in restricted cash	(227)	250	(71)
Net cash provided by investing activities	(437)	146	(169)
Cash flows from financing activities:			
Payment of long-term bank loan	(16)	-	-
Issuance of shares upon exercise of employee share options	96	9	9
Net cash provided by financing activities	80	9	9
Increase (decrease) in cash and cash equivalents	(2,049)	586	3,753
Cash and cash equivalents at beginning of year	6,801	4,752	5,338
Cash and cash equivalents at end of year	$ 4,752	$ 5,338	$ 9,091
Supplemental disclosure of cash flows activities:			
Cash received during the year for:			
Interest, net	$ 62	$ 109	$ 297

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

NOTE 1:- GENERAL

a. Orad Hi-Tec Systems Ltd. ("the Company") was incorporated in 1993. The Company and its subsidiaries provide innovative real-time video processing technologies for TV broadcasting, internet, production studio and sports events. The Company also develops and markets high-end three dimensional graphical computer platforms for the visual simulation and virtual reality markets.

The Company operates through its wholly-owned subsidiaries in the United States, France, Poland, Germany, the Netherlands, the United Kingdom, Spain, Israel and Hong-Kong. During 2004, the Company became a sole owner of its Hong-Kong subsidiary (previously held 60% of the subsidiary's shares). These subsidiaries are engaged in the development, selling and marketing of the Company's products. The Company sells its products directly and through its subsidiaries and its distribution networks worldwide.

b. The Company reclassified certain overhead expenses in the prior years' statements of operations. The following reclassifications, which confirm with the current years allocation of these overhead expenses had no effect on the reported operating loss, net loss, basic and diluted loss per share and shareholders equity.

	Year ended December 31,					
	2004			2005		
	As previously reported	Reclassification	As currently reported	As previously reported	Reclassification	As currently reported
Cost of revenues:						
Cost of sales	$ 6,188	$ 1,459	$ 7,647	$ 5,287	$ 1,359	$ 6,646
Cost of long-term development contracts	-	-	-	1,047	-	1,047
Total cost of revenues	6,188	7,647	7,647	6,334	1,359	7,693
Gross profit	9,540	(1,459)	8,081	9,067	(1,359)	7,708
Operating expenses:						
Research and development, net	2,844	319	3,163	2,300	151	2,451
Sales and marketing	8,224	(967)	7,257	6,813	(735)	6,078
General and administrative	2,388	(812)	1,577	2,529	(775)	1,754
Total operating expenses	13,456	(1,459)	11,997	11,642	(1,359)	10,283
Operating loss	$ 3,916	$ -	$ 3,916	$ 2,575	$ -	$ 2,575

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company and its subsidiaries are generated in U.S. dollars ("dollar"). In addition, a substantial portion of the Company's and its subsidiaries' costs are incurred in dollars. A substantial portion of the Company's funds are held in U.S. dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar.

Accordingly, monetary assets, and liabilities and transactions in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" ("SFAS No. 52"). All transactions gains and losses from the remeasurement are reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

e. Restricted cash:

Restricted cash is primarily invested in highly liquid deposits, which are used as a security for sales agreements and office lease agreements.

f. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cost is determined as follows:

Raw materials, parts and supplies - by the moving average method.

Products in process and finished products:
Raw materials, parts and supplies - by the moving average method.
Subcontracting costs - on the basis of actual costs.

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and peripheral equipment	20 - 33
Office furniture and equipment	6 - 15
Motor vehicles	15
Leasehold improvements	Over the shorter of the term of the lease or the life of the asset

The Company leases under operating leases computers and peripheral equipment, mobile broadcasting and demonstrating units ("leased equipment") to its customers. Leased equipment is stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets (three years).

h. Impairment of long-lived assets:

The Company's and its subsidiaries' long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2006, no impairment losses have been identified.

i. Revenue recognition:

The Company and its subsidiaries generate revenues mainly from sales of systems, software licenses, development contracts and from operating leases of equipment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company and its subsidiaries implement Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP No. 97-2"), as amended. Revenues from systems sales are recognized upon delivery of the system or upon installation at the customer site, where applicable, provided that collection is probable, the system fee is fixed or determinable and persuasive evidence of an arrangement exists. In cases where a significant installation is required after the delivery of the system, revenues from the system are deferred until the installation occurs. Revenues in arrangements with multiple deliverables are recognized under the "residual method" when Vendor Specific Objective Evidence ("VSOE") of fair value exists for all undelivered elements, no VSOE exists for the delivered elements, and all other revenue recognition criteria are satisfied. Revenues from training and installation included in multiple element arrangements are recognized at the time they are rendered.

Revenues from development contracts are recognized based on SOP No. 81-1, "Accounting for Performance of Construction Type and Certain Production Type Contracts", using contract accounting on the completed-contract method or when applicable, as specific milestones are met. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified, in the amount of the estimated loss on the entire contract. A provision for losses as of December 31, 2005 and 2006 amounted to $ 200 and $ 200, respectively.

Revenues from operating leases of equipment are recognized ratably over the lease period, in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases" ("SFAS No. 13").

The Company and its subsidiaries generally do not grant a right of return to their customers.

Deferred revenue includes amounts received from customers but not recognized as revenues.

j. Warranty costs:

The Company offers a one year warranty for all of its systems. Provision for warranty costs is provided at the time revenues are recognized, for estimated material costs during the warranty period based on the Company's experience.

k. Research and development costs:

Research and development costs are charged to the statement of operations as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Non-royalty-bearing grants:

Non-royalty-bearing grants from the European Union for funding of approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred. These grants are presented as a reduction of research and development expenses. During the years 2004, 2005, 2006, the Company received grants in the amount of $ 0, $ 141 and $ 163, respectively.

m. Royalty-bearing grants:

Royalty-bearing grants from the Government of Israel for funding of approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred. These grants are presented as a reduction of research and development expenses. During the years 2004, 2005, 2006, no development grants were received.

n. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This Statement prescribes the use of the liability method whereby deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

o. Concentrations of credit risks:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, work in process, net of advances from customers and trade receivables.

Cash and cash equivalents and restricted cash are mainly invested in U.S. dollars with major banks in Cayman and in Israel. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

Work in process, net of advances from customers is derived from long term development contracts. The Company performs ongoing credit evaluations of its customers. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified, in the amount of the estimated loss on the entire contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Trade receivables are mainly derived from sales to customers located primarily in Europe, Asia, North America and South America. The Company performs ongoing credit evaluations of its customers. An allowance for doubtful accounts is determined with respect to those amounts that the Company and its subsidiaries have determined to be doubtful of collection.

As of December 31, 2005 and 2006, the Company and its subsidiaries have no significant off-balance-sheet concentration of credit risk such as forward exchange contracts, option contracts or other foreign hedging arrangements.

p. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to the Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof.

The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies deposited funds and by an accrual.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of the insurance policies.

Severance expenses for the years ended December 31, 2005 and 2006 amounted to approximately $ 244 and $ 313, respectively.

q. Net earnings (loss) per share:

Basic net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128").

r. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, other accounts receivable and prepaid expenses, trade payables and other accounts payable and accrued expenses approximate their fair value due to the short-term maturity of such instruments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Accounting for share-based compensation:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statement. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from January 1, 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognized in the year ended December 31, 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's net income for the year ended December 31, 2006, is approximately $ 67 lower than if it had continued to account for stock-based compensation under APB 25. Basic and diluted net earnings per share for the year ended December 31, 2006, are $ 0.01 lower than if the Company had continued to account for share-based compensation under APB 25.

Prior to January 1, 2006, the Company applied the intrinsic value method of accounting for stock options as prescribed by APB 25, whereby compensation expense is equal to the excess, if any, of the quoted market price of the stock over the exercise price at the grant date of the award.

In 1996, the Company approved an employee share option plan, which was expanded in 2000 and 2002 ("the 1996 Share Option Plan"). Under the 1996 share option plan, 974,465 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to directors, officers and employees of the Company and its subsidiaries.

Any options, which are canceled or forfeited before expiration, become available for future grants.

During 2003, the Company approved a new share option plan ("the 2003 Share Option Plan"). The Company's Board of Directors approved treating shares allotment under the 1996 Share Option Plan as being reserved for allotment under the 2003 Share Option Plan.

Options granted in 2006 are mainly vested as follows: 25% after the first year, 25% after the second year, 25% after the third year and 25% after the fourth year starting from the date of grant. If not exercised, the options will expire on the sixth anniversary of the date of the grant.

Total number of options available for future grants as of December 31, 2006 amounted to 22,729.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined based on the simplified method permitted by SAB 107 as the average of the vesting period and the contractual term. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value of the Company's stock options granted to employees and directors for the years ended December 31, 2005 and 2006 was estimated using the following weighted average assumptions:

	Year ended December 31,	
	2005	2006
Risk free interest	4.36%	4.89%
Dividend yields	0%	0%
Volatility	69%	66%
Expected term (in years)	4	4.2

During the year ended December 31, 2006, the Company recognized stock-based compensation expense related to employee stock options in the amount of $ 67.

A summary of the Company's options activity, and related information is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	454,584	$ 8.81		
Granted	270,000	$ 1.79		
Exercised	(10,000)	$ 0.89		
Expired or forfeited	(42,130)	$ 7.62		
Outstanding at end of year	672,454	$ 6.18	5.07	$ 510
Exercisable at end of year	352,454	$ 10.27	4.44	$ 207
Vested and expected to vest at end of year	672,454	$ 6.18	5.07	$ 510

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The weighted-average grant-date fair value of options granted during the years ended December 31, 2005 and 2006 was $ 0.65 and $ 0.99, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fourth quarter of fiscal 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2006. This amount changes based on the fair market value of the Company's stock.

Total intrinsic value of options exercised for the year ended December 31, 2006 was approximately $ 9.8. As of December 31, 2006, there was approximately $ 245 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 3.33 years. Total grant-date fair value of vested options vested for the year ended December 31, 2006 was approximately $ 62.

The following table summarizes information about options outstanding and exercisable as of December 31, 2006:

Range of exercise price	Options outstanding as of December 31, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2006	Weighted average exercise price of options exercisable
$ 0.80 - 1.19	130,000	6.75	$ 1.00	80,000	$ 0.95
$ 1.28 - 1.90	333,000	5.27	$ 1.78	63,000	$ 1.77
$ 2.14 - 2.85	68,214	5.92	$ 2.41	68,214	$ 2.41
$ 9.08 - 11.71	38,522	1.56	$ 10.36	38,522	$ 10.36
$ 20.71	49,218	2.92	$ 20.71	49,218	$ 20.71
$ 33.18 - 34.95	53,500	3.13	$ 34.60	53,500	$ 34.60
	672,454	5.07	$ 6.18	352,454	$ 10.27

All of the options granted to employees officers and directors in 2005 and 2006 (no options were granted during 2004), have an exercise price equal to the fair market value of the share at date of grant. During 2004, the Company's Board of Directors determined to accelerate vesting for 100,000 options held by one of the Company's senior officers, who resigned from his job. Accordingly, the Company recorded compensation expense in respect of these options whose terms have been modified for a total compensation amount of $ 38.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The pro-forma table below illustrates the effect on the net income (loss) and net earnings (loss) per share for the years ended December 31, 2004 and 2005, assuming that the Company had applied the fair value recognition provision of SFAS 123 on its stock-based employee compensation:

	Year ended December 31,	
	2004	**2005**
Net loss as reported	$ (3,875)	$ (2,891)
Add: share-based compensation expense included in reported net loss	38	-
Deduct: share-based compensation expense determined under fair value method	(227)	(63)
Pro forma net loss	$ (4,064)	$ (2,954)
Basic and diluted net loss per share as reported	$ (0.36)	$ (0.27)
Pro forma basic and diluted net loss per share	$ (0.38)	$ (0.27)

For the purposes of pro-forma disclosures, stock-based compensation is amortized over the vesting period using the straight line method.

t. Impact of recently issued accounting standards:

In July 2006, the FASB issued FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement. FIN 48 applies to all tax positions related to income taxes subject to the Financial Accounting Standard Board Statement No. 109, "Accounting for income taxes" (“FAS 109”). This includes tax positions considered to be “routine” as well as those with a high degree of uncertainty.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

FIN 48 has expanded disclosure requirements, which include a tabular roll forward of the beginning and ending aggregate unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. These disclosures are required at each annual reporting period unless a significant change occurs in an interim period. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying FIN 48 will be reported as an adjustment to the opening balance of retained earnings. The Company is currently evaluating the effect of the adoption of FIN 48 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS No. 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS No. 123(R) and related interpretations. The statements does not apply to accounting standard that require or permit measurement similar to fair value but are not intended to measure fair value. This pronouncement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement provides companies with an option to report selected financial assets and liabilities at fair value. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The Standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159.

NOTE 3: - OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2005	2006
Government authorities	$ 285	$ 386
Prepaid expenses	264	271
Other	170	180
	$ 719	$ 837

NOTE 4:- INVENTORIES

	December 31,	
	2005	2006
Raw materials	$ 719	$ 697
Products in process and finished products	2,098	1,999
	$ 2,817	$ 2,696

Inventory write-off provision expense recorded in 2004, 2005 and 2006 amounted to $ 190, $ 469 and $ 219, respectively. The write-offs are included in cost of revenues.

NOTE 5:- WORK IN PROCESS, NET OF ADVANCES FROM CUSTOMERS

	December 31,	
	2005	2006
Work in process	$ 1,923	$ 2,172
Advances from customers	(1,257)	(1,528)
Provision for estimated losses	(200)	(200)
	$ 466	$ 444

NOTE 6:- PROPERTY AND EQUIPMENT

	December 31, 2005	December 31, 2006
Cost:		
Computers and peripheral equipment	$ 7,621	$ 7,688
Office furniture and equipment	348	358
Motor vehicles	203	88
Leasehold improvements	2,340	2,347
	10,512	10,481
Accumulated depreciation:		
Computers and peripheral equipment	7,066	7,232
Office furniture and equipment	200	222
Motor vehicles	103	58
Leasehold improvements	1,229	1,439
	8,598	8,951
Depreciated cost	$ 1,914	$ 1,530

Depreciation expense amounted to $ 1,091, $ 623 and $ 569 for the years ended December 31, 2004, 2005 and 2006, respectively.

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2005	December 31, 2006
Employees and payroll accruals	$ 759	$ 897
Accrued expenses	2,839	3,302
Government authorities	289	124
Warranty provision	250	315
Other	45	53
	$ 4,182	$ 4,691

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

1. Royalties to the Office of the Chief Scientist ("the OCS"):

Under the Company's research and development agreements with the OCS and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3.5% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the OCS research and development grants received, linked to the dollar. The Company is obligated to repay the Israeli Government for the grants received only to the extent that there are sales of the funded products.

Royalty expenses amounted to $ 197, $ 217 and $ 276 for the years ended December 31, 2004, 2005 and 2006, respectively, relating to the accrual and repayment of such grants.

As of December 31, 2006, the Company had a contingent obligation to pay royalties in the amount of $ 2,298.

2. Royalty obligation to the Marketing Fund of the Government of Israel:

The Israeli Government, through the Fund for the Encouragement of Marketing Activities, awarded the Company grants for participation in foreign marketing expenses. The Company is committed to pay royalties at the rate of 4% of the increase in foreign sales, up to an amount equal to 100% of the grant received plus interest.

Royalty expenses amounted to $ 144, $ 194 and $ 182 for the years ended December 31, 2004, 2005 and 2006, respectively, relating to the repayment of such grants.

As of December 31, 2006, the Company had a contingent obligation to pay royalties in the amount of $ 149.

b. Operating leases:

The Company and its subsidiaries lease their facilities under various operating lease agreements, which expire on various dates. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2006, are as follows:

2007	$ 447
2008	443
2009	420
2010 and thereafter	1,027
	$ 2,337

Total rental expense for the years ended December 31, 2004, 2005 and 2006, amounted to $ 695, $ 565 and $ 546, respectively.

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

c. Liens:

As of December 31, 2006, fixed pledges on bank accounts in the amount of $ 571 were recorded to secure sales agreements and office lease agreements.

d. Litigation:

Claims have been lodged against the Company in respect of various matters in the ordinary course of business and legal proceedings in respect thereof are under way. The Company's management is of the opinion, based upon the opinions of the legal advisors handling the claims, that the likelihood of the claims to prevail is remote.

NOTE 9:- SHAREHOLDERS' EQUITY

The Company's shares are listed for trading on the Frankfurt Stock Exchange (Prime Standard) and on the Alternative Investment Market ("AIM") in the London Stock Exchange, both under the symbol "OHT".

a. Ordinary shares:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends, and the right to a share in excess assets upon liquidation of the Company.

b. Employee share option plan:

See detailed information in Note 2s.

c. Acquisition of Art Technologies GmbH ("Art"):

According to the purchase agreement with Art, the issuance of 57,290 Ordinary shares was conditional upon achieving certain revenue targets from the product developed by Art ("contingent shares"). During 2002, upon achievement of certain of the revenue targets, 28,645 of the contingent shares with a fair value of $ 54 were issued. During 2003 and 2004, certain of the revenue targets were not achieved in the prescribed time frame and therefore, the remaining 28,645 shares were not issued. However, the Company agreed to issue such shares during 2005, and accordingly, the remaining 28,645 shares with a fair value of $ 31 were issued.

d. Dividends:

Dividends, if any, will be paid in New Israeli Shekels ("NIS"). Dividends paid to shareholders outside Israel may be converted to U.S. dollars on the basis of the exchange rate prevailing at the date of the conversion. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 10:- INCOME TAXES

a. Domestic - Israeli income taxes:

1. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided deferred income taxes on the difference between the functional currency and the tax basis of assets and liabilities.

2. Tax rates:

On July 25, 2005, the Knesset (Israeli Parliament) approved the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%. The amendment is not expected to have a material effect on the Company's financial position and results of operations.

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company's production facilities in Israel have been granted an "Approved Enterprise" status under the above law. Four expansion programs of the Company have been granted the status of an "Approved Enterprise". According to the provisions of such Israeli law, the Company has been granted an "Alternative Benefit" status, under which the main benefits are tax exemption and a reduced tax rate. Consequently, the Company's income derived from the "Approved Enterprise" is tax exempt for a period of two years and for an additional period of five to eight years is subject to a reduced tax rate of 10% - 25% (based on the percentage of foreign ownership in each taxable year).

The Company completed implementation of its first, second and third expansion programs in 1996, 1999 and in 2000, respectively. The fourth program has not yet been completed.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from the approval date.

The entitlement to the above benefits is conditional upon the fulfillment of the conditions stipulated by the above law, regulations published thereunder and the instruments of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

If the retained tax-exempt profits are distributed, they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently 20%-25% for an "Approved Enterprise". As of December 31, 2006, accumulated deficit included approximately $ 6,721 of tax exempt profits earned by the Company's "Approved Enterprises". The Company has decided not to distribute dividends out of such tax-exempt profits. Accordingly, no deferred income taxes have been provided on income attributable to the Company's "Approved Enterprise".

Income from sources other than the "Approved Enterprise" during the benefit period will be subject to the tax at the regular rate.

4. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company is an "Industrial Company", as defined by this law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, as prescribed by regulations published under the Inflationary Adjustments Law and the right to deduct public issuance expenses and amortization of intangible property rights for tax purposes.

b. Tax assessments:

The Company has obtained final tax assessments from the Israeli Tax Authorities for the tax years through 2002.

c. Stamp duty:

An amendment of the Stamp Duty on Documents Law, 1961, or the Stamp Duty Law, came into effect on June 1, 2003 determining, among other things, that the Stamp Duty on most agreements shall be paid by the parties that signed such agreement, jointly or severally, or by the party that undertook under such agreement to pay the Stamp Duty. The Stamp Duty Law determined that a document (or part thereof) that is signed in Israel or relates to an asset or obligation in Israel would be subject to a tax rate between 0.4% and 1% of the value of the subject matter of such document.

Under an order published in December 2005, the requirements to pay Stamp Duty were cancelled with respect to documents signed on or after January 1, 2006.

NOTE 10:- INCOME TAXES (Cont.)

During 2006, based on the opinion of its legal counsel, the Company's management decided to reduce a previously recorded accrual by approximately $ 75 (reduction of general and administrative expenses).

d. Net operating carryforward losses:

The Company has accumulated losses for tax purposes as of December 31, 2006, in the amount of approximately $ 15,460 which may be carried forward and offset against taxable income in the future for an indefinite period.

The carryforward losses of the Israeli subsidiary, amounting to approximately $ 720.

Foreign:

The carryforward losses of the French subsidiary, amounting to approximately $ 13,600, which may be carried forward and offset against taxable income in the future, for an indefinite period.

The carryforward losses of the U.S. subsidiary, amounting to approximately $ 9,460 as of December 31, 2006, can be utilized mainly through 2017 to 2027. Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

The carryforward losses of the Dutch subsidiary, amounting to approximately $ 5,880 as of December 31, 2006, can be utilized indefinitely.

The carryforward losses of the other subsidiaries amount to approximately $ 4,000 as of December 31, 2006. The majority of these carryforward losses can be utilized indefinitely.

e. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company and its subsidiaries deferred tax liabilities and assets are as follows:

	December 31,	
	2005	**2006**
Deferred tax assets in respect of operating loss carryforwards	$ 10,147	$ 11,253
Valuation allowance	(10,147)	(11,253)
Net deferred tax asset	$ -	$ -

NOTE 10:- INCOME TAXES (Cont.)

Management currently believes that since the Company and its subsidiaries have a history of losses it is more likely than not that the deferred tax assets regarding the loss carryforwards will not be realized in the foreseeable future.

f. Reconciliation of the theoretical tax expense (benefit) to the actual tax expense (benefit):

In 2004, 2005 and 2006, the main reconciling items between the statutory tax rate of the Company and the effective tax rate (0%) are carryforward tax losses, for which a full valuation allowance was provided.

g. Net income (loss) is comprised of the following:

	Year ended December 31,		
	2004	2005	2006
Domestic	$ (2,342)	$ (2,031)	$ 2,851
Foreign	(1,533)	(860)	(2,215)
	$ (3,875)	$ (2,891)	$ 636

NOTE 11:- GEOGRAPHIC INFORMATION

The Company manages its business on the basis of one reportable segment.

a. Revenues classified by geographic destinations based on customer locations:

	Year ended December 31,		
	2004	2005	2006
Europe	$ 8,332	$ 8,239	$ 9,930
Asia	3,587	3,844	3,969
North America	1,381	1,234	473
South America	2,258	1,836	2,848
Other	170	248	499
	$ 15,728	$ 15,401	$ 17,719

b. Long-lived assets by geographic region:

	December 31,	
	2005	2006
Israel	$ 1,465	$ 1,222
Europe	354	255
North America	39	6
Other	56	47
	$ 1,914	$ 1,530

NOTE 12:- FINANCIAL INCOME (EXPENSES), NET

	Year ended December 31,		
	2004	2005	2006
Financial income:			
Foreign currency translation adjustments, net	$ 188	$ -	$ 244
Interest on bank deposits	63	108	358
	251	108	602
Financial expenses:			
Foreign currency translation adjustments, net	-	(379)	-
Bank charges	(61)	(45)	(78)
Interest on short-term bank credit	(1)	-	(57)
	(62)	(424)	(135)
	$ 189	$ (316)	$ 467

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