



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

Results for the fourth quarter and for full year of 2011

Orad announces record revenues in 2011 of \$35.3 million, a 21% increase

Net profit for 2011 increased by 24% to \$3.4 million

During 2011, Orad distributed dividends in the amount of \$5 million

Orad declares another dividend in the amount of \$2 million

Successfully closed an investment in IBIS, fast turnaround MAM provider

Kfar-Saba, Israel, March 1, 2012 - Orad Hi-Tec Systems Ltd. (Frankfurt - Prime Standard; Symbol: OHT), a world-leading provider of real-time 3D broadcast graphic, video server, and media asset management solutions for the broadcasting markets, today announces its results for the three month and the full year ended December 31, 2011

Main Highlights:

- **Revenues** for 2011 increased by 21% to \$35.3 million compared to \$29.2 million in 2010. The increase is mainly from new products and increase in sales in Europe and in North America. Revenues for the three months increased by 18% to \$9.6 million in Q4/11 compared to \$8.1 million in Q4/10
- **Gross profit** for 2011 increased by 19% to \$24.3 million compared to \$20.4 million in 2010. Gross profit for the three months increased by 20% to \$6.2 million in Q4/11 compared to \$5.2 million in Q4/10
- **Net profit** for 2011 increased by 24% to \$3.4 million compared to \$2.7 million in 2010 (2011 profit includes \$0.3 million tax benefit). Net profit for the three months increased by 50% to \$1.1 million in Q4/11 compared to \$0.7 million in Q4/10
- On August 1, 2011 the Company successfully closed its investment in IBIS, a fast turnaround MAM provider. The Company invested \$2.1 million in cash against 63.4%, on a fully diluted basis, with an incentive formula to increase its holdings to 100%. IBIS is fully consolidated from August 1, 2011.
- Cash and cash equivalents at the end of December 2011 was \$12 million.
- During 2011 Orad distributed dividends in the amount of \$5 million
- The Board of Directors decided to declare a dividend in the amount of \$0.18 per share. The total dividend amount to be paid to all shareholders is currently expected to be approximately \$2.0 million.
- The Company is considering listing its shares on an additional market, the Tel-Aviv stock exchange and is currently evaluating the process.
- The company penetrated successfully the video server market, new applications are planned for 2012

Management Comments:

Mr. Avi Sharir, President and CEO of Orad commented, “We are publishing today record results for the company, both in terms of revenue for 2011 and its fourth quarter, and in terms of net profit. Revenue growth in 2011 was due to the launch of new products and a double-digit growth in sales in Europe and North America. We increased orders, particularly in the second half of the year and we anticipate continued growth in 2012 mainly from large sporting events like Euro 2012 and London Olympics, and due to the U.S. Presidential elections.

During the year, we launched a new product in the video server market that combines Orad’s and IBIS’ technology. The MAM (Media Asset Management) market is a growing field in the broadcast market and this year we invested in development, sales and marketing, to maximize potential growth and to integrate our products with MAM solutions. We are soon launching another new product, which also combines the technologies of both companies.

Looking ahead, we are continuing our growth in all markets and are working towards maximizing the company's technological capabilities. I want to thank our employees and managers for their contribution for this record year".

About Orad Hi-Tec Systems

Orad Hi-Tec Systems is a world-leading provider of real-time 3D broadcast graphic, video server, and media asset management solutions including news, channel branding, sports production and enhancement, elections and special events, virtual studios, and virtual advertisement. Orad's compelling solutions streamline production workflow, enhance viewer experience, and improve production value. Founded in 1993, Orad is a public company listed on the Frankfurt Stock Exchange (OHT).

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Forward Looking Statements

This press release contains forward-looking statements that are based on the knowledge of the environment in which the Company currently operates, but because of factors beyond its control, actual results may differ materially from the expectations expressed in the forward-looking statements.

Important factors that may cause actual results to differ from anticipated results include, but are not limited to, financial risk, acquisition risk, changes in technology, as well as other risks.

The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. As a result, investors should not place undue reliance on these forward-looking statements.

ORAD HI-TEC SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors 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, 2011 and 2010, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2011. 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 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 audits 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 provide a reasonable basis for our opinion.

In our opinion, 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
February 29, 2012

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,649	\$ 18,912
Restricted cash	304	214
Trade receivables (net of allowance for doubtful accounts of \$ 212 and \$ 208 at December 31, 2011 and 2010, respectively)	6,758	*) 3,451
Other accounts receivable and prepaid expenses	1,755	1,622
Inventories	3,654	3,146
<u>Total current assets</u>	24,120	27,345
LONG-TERM ASSETS:		
Severance pay fund	2,403	2,324
Property and Equipment, net	1,322	1,132
Deferred tax assets	550	-
Other long term assets	400	-
Intangible assets, net	409	-
Goodwill	1,346	-
<u>Total long-term assets</u>	6,430	3,456
<u>Total assets</u>	\$ 30,550	\$ 30,801

*) Reclassified

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2011	2010
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 2,882	\$ 3,155
Deferred revenues	2,117	1,509
Other accounts payable and accrued expenses	4,584	*) 4,685
Total current liabilities	9,583	9,349
ACCRUED SEVERANCE PAY	3,215	2,991
Total liabilities	12,798	12,340
EQUITY:		
Share capital -		
Ordinary shares of NIS 0.01 par value -		
Authorized: 27,000,000 shares at December 31, 2011 and 2010;		
Issued: 11,100,147 shares at December 31, 2011 and 11,749,304 at		
2010; Outstanding: 11,100,147 and 10,978,621 shares at December		
31, 2011 and 2010, respectively	31	30
Additional paid-in capital	76,914	76,366
Accumulated other comprehensive loss	(504)	(547)
Non-controlling Interest	282	-
Accumulated deficit	(58,971)	(57,388)
Total equity	17,752	18,461
Total liabilities and equity	\$ 30,550	\$ 30,801

*) Reclassified

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

February 29, 2012

Date of approval of the
financial statements

Avi Sharir
Director and
Chief Executive Officer

Ilan Sidi
Chief Financial Officer

**ORAD HI-TEC SYSTEMS LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2011	2010	2009
Revenues	\$ 35,336	\$ 29,159	\$ 26,867
Cost of revenues	<u>11,044</u>	<u>8,779</u>	<u>8,669</u>
Gross profit	<u>24,292</u>	<u>20,380</u>	<u>18,198</u>
Operating expenses:			
Research and development	5,033	4,297	3,633
Sales and marketing	12,378	10,092	9,467
General and administrative	<u>3,771</u>	<u>2,902</u>	<u>2,711</u>
<u>Total operating expenses</u>	<u>21,182</u>	<u>17,291</u>	<u>15,811</u>
Operating income	3,110	3,089	2,387
Financial expenses, net	(56)	(369)	(223)
Other income (expenses), net	<u>(1)</u>	<u>13</u>	<u>(6)</u>
Income before income tax benefit	3,053	2,733	2,158
Income tax benefit	<u>325</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 3,378</u>	<u>\$ 2,733</u>	<u>\$ 2,158</u>
Basic net earnings per share	<u>\$ 0.30</u>	<u>\$ 0.25</u>	<u>\$ 0.20</u>
Weighted average number of shares used in computing basic net earnings per share (in thousands)	<u>11,087</u>	<u>10,850</u>	<u>10,821</u>
Diluted net earnings per share	<u>\$ 0.30</u>	<u>\$ 0.25</u>	<u>\$ 0.20</u>
Weighted average number of shares used in computing diluted net earnings per share (in thousands)	<u>11,196</u>	<u>10,999</u>	<u>10,943</u>

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

**ORAD HI-TEC SYSTEMS LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	Number of outstanding Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Non- controlling interest	Accumulated deficit	Total comprehensive income	Total
Balance as of January 1, 2009	10,820,550	\$ 29	\$ 75,672	\$ (547)	\$ -	\$ (60,414)		\$ 14,740
Net income	-	-	-	-	-	2,158	\$ 2,158	2,158
Stock-based compensation	-	-	245	-	-	-	-	245
Total comprehensive income							<u>\$ 2,158</u>	
Balance as of December 31, 2009	10,820,550	29	75,917	(547)	-	(58,256)		17,143
Net income	-	-	-	-	-	2,733	\$ 2,733	2,733
Issuance of shares upon exercise of employee share options	158,071	1	208	-	-	-	-	209
Distribution of earnings to shareholders	-	-	-	-	-	(1,865)	-	(1,865)
Stock-based compensation	-	-	241	-	-	-	-	241
Total comprehensive income							<u>\$ 2,733</u>	
Balance as of December 31, 2010	10,978,621	30	76,366	(547)	-	(57,388)		18,461
Net income	-	-	-	-	-	3,378	\$ 3,378	3,378
Unrealized loss on forward and options contracts designated as cash flow hedge, net	-	-	-	73	-	-	73	73
Change in non-controlling interest due to acquisition of a subsidiary	-	-	-	-	282	-	-	282
Issuance of shares upon exercise of employee share options	121,526	1	274	-	-	-	-	275
Foreign currency translation adjustments	-	-	-	(30)	-	-	(30)	(30)
Distribution of earnings to shareholders	-	-	-	-	-	(4,961)	-	(4,961)
Stock-based compensation	-	-	274	-	-	-	-	274
Total comprehensive income							<u>\$ 3,421</u>	
Balance as of December 31, 2011	<u>11,100,147</u>	<u>\$ 31</u>	<u>\$ 76,914</u>	<u>\$ (504)</u>	<u>\$ 282</u>	<u>\$ (58,971)</u>		<u>\$ 17,752</u>

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,		
	2011	2010	2009
<u>Cash flows from operating activities:</u>			
Net income	\$ 3,378	\$ 2,733	\$ 2,158
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	602	723	780
Compensation costs related to non-controlling interest	92	-	-
Stock-based compensation	274	241	245
Decrease (increase) in trade receivables, net and other accounts receivable and prepaid expenses	(3,140)	(417)	686
Income tax benefit	(325)	-	-
Decrease (increase) in inventories	(845)	(1,395)	639
Increase (decrease) in trade payables, other accounts payable and accrued expenses and accrued severance pay, net	(1,645)	1,773	(1,012)
Increase (decrease) in deferred revenues	(129)	55	(760)
Revaluation of restricted cash	27	(15)	(4)
Net cash provided by (used in) operating activities	<u>(1,711)</u>	<u>3,698</u>	<u>2,732</u>
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(439)	(258)	(178)
Proceeds from sale of property and equipment	-	6	4
Decrease (increase) in restricted cash	(117)	173	-
Payment for the acquisition of IBIS Ltd. (a)	(246)	-	-
Net cash used in investing activities	<u>(802)</u>	<u>(79)</u>	<u>(174)</u>
<u>Cash flows from financing activities:</u>			
Distribution of earnings to shareholders	(4,961)	(1,865)	-
Issuance of shares upon exercise of employee share options	275	209	-
Net cash used in financing activities	<u>(4,686)</u>	<u>(1,656)</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(64)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(7,263)	1,963	2,558
Cash and cash equivalents at beginning of year	<u>18,912</u>	<u>16,949</u>	<u>14,391</u>
Cash and cash equivalents at end of year	<u>\$ 11,649</u>	<u>\$ 18,912</u>	<u>\$ 16,949</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Supplementary cash flow activities:</u>			
Cash paid for income taxes	\$ 141	\$ 96	\$ 131
<u>Non-cash transactions:</u>			
Classification between property and equipment and inventories, net	\$ 341	\$ 161	\$ 99
Dividend withholding taxes	\$ -	\$ 373	\$ -
(a) <u>Acquisition of IBIS Ltd.:</u>			
Fair value of assets acquired and liabilities assumed at the acquisition date:			
Working capital deficit (excluding cash and cash equivalents)	\$ (1,734)	\$ -	\$ -
Other long-term assets	308	-	-
Property and equipment, net	13	-	-
Intangible assets and goodwill	1,849	-	-
Employees stock options	(190)	-	-
	<u>\$ 246</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

- a. Orad Hi-Tec Systems Ltd. ("the Company") was incorporated in 1993. The Company and its subsidiaries ("the Group") provide innovative three dimensional real-time video processing technologies for TV broadcasting, production studio and sports events.

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. 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.

The Company's shares are listed for trading on the Frankfurt Stock Exchange under the symbol "OHT".

- b. Business combination - acquisition of IBIS:

On July 29, 2011 the Company completed the acquisition of 75.41% of the outstanding shares of Integrated Broadcast Information Systems Ltd. ("IBIS"), incorporated and registered in England and Wales, a provider of workflow applications for news, sports, media, and digital asset management markets for total consideration of \$ 2,228, in cash (out of which \$ 1,982 were invested in IBIS). During August 2011, the Company closed the acquisition of IBIS.

The excess of total acquisition costs over the fair value of net tangible and identifiable intangible assets on acquisition amounting to \$ 1,346 was attributable to goodwill. The goodwill from the acquisition relates to additional capabilities of the Group to expand its products and technology offering, to augment capabilities of current products and the ability to enter new markets.

Core technology and customer relationships deriving from acquisition in the total amount of \$ 457 are being amortized over 4 years.

Under the purchase method of accounting the purchase price was allocated to the acquired identifiable intangible assets and liabilities assumed based upon their estimated fair values as follows:

Current assets, net of current liabilities	\$	294
Other long-term assets		308
Property and equipment		13
Intangible assets:		
Core Technology		332
Customer Relationships		125
Goodwill		1,346
Employees stock options		(190)
		<hr/>
Net assets acquired	\$	<u>2,228</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

As part of the transaction, the existing shareholders (holding 24.59%) granted Orad a call option to purchase their remaining shares in three tranches (first tranche 22 months after the acquisition date and the last tranche 46 months after acquisition date). The existing shareholders will be eligible for their shares only upon providing services to the Company for 24 months. As such, the Company will record compensation costs with respect to the existing shareholders shares over 24 months period against non-controlling interest.

In the event the call option of Orad will expire, and under some circumstances as defined in the agreement, the existing shareholders shall have the option to buy all the shares owned by Orad at that future date.

As of the acquisition date, the existing shareholders of IBIS also held options fully vested exercisable into IBIS ordinary shares. As such, the Company recorded a non-controlling interest in the amount of \$190 in consideration to the precombination service period relating to these options, and the remaining amount will be recorded as compensation costs over 24 months period against non-controlling interest.

Unaudited pro forma condensed results of operations:

The following represents the unaudited pro forma condensed results of operations for the years ended December 31, 2011 and 2010 assuming that the acquisitions of IBIS occurred on January 1, 2010. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisition been consummated on those dates, nor does it purport to represent the results of operations for future periods.

	Year ended December	
	<u>31, 2011</u>	<u>31, 2010</u>
	Unaudited	
	<u>Total Consolidated</u>	
Revenues	<u>\$ 36,728</u>	<u>\$ 31,976</u>
Net income	<u>\$ 2,960</u>	<u>\$ 1,758</u>
Basic net earnings per share	<u>\$ 0.27</u>	<u>\$ 0.16</u>
Diluted net earnings per share	<u>\$ 0.26</u>	<u>\$ 0.16</u>

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the amounts reported and disclosed in the financial statements. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A substantial portion of the revenues of the Group is generated in U.S. dollars ("dollar"). In addition, a substantial portion of the Group's costs is incurred in dollars. A substantial portion of the Company's funds is 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 each of its subsidiaries operate. Thus, the functional and reporting currency of the Company and certain of its subsidiaries is the U.S. dollar.

Accordingly, accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Accounting Codification Statement ("ASC") 830, "Foreign Currency Matters". All transactions gains and losses from the remeasurement of monetary balance sheet items are reflected in the consolidated statement of income as financial income or expenses, as appropriate.

The financial statements of a foreign subsidiary, whose functional currency has been determined to be its local currency, have been translated into dollars. Assets and liabilities have been translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts have been translated using average rates, which approximates the prevailing exchange rate for each transaction. The resulting translation adjustments are reported as a component of equity in accumulated other comprehensive loss.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company balances and transactions including profits from inter-company sales not yet realized outside the Group have been eliminated upon consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Accounting Standards Adopted for the first time:

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13") and No. 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price.

The Company adopted these standards as of the beginning of fiscal 2011 on a prospective basis for new and materially modified deals originating after January 1, 2011; the effect of the adoption of the new standards on the financial results of the Company for the year ended December 31, 2011, was immaterial. The Company is not able to reasonably estimate the effect of adopting this standard on future financial periods as the impact will vary based on the nature and volume of new or materially modified deals in any given period.

For 2011 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple elements, such as equipment and services, the Company allocates revenues to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements, revenues are allocated to each separate unit of accounting for each of the deliverables using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy.

ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance.

Under the historical accounting principal, the Company required to account for sales of its products in accordance to ASC 985-605, "Software" (formerly: SFAS No. 97-2, "Software Revenue Recognition").

The new accounting principle generally requires the Company to account for the sale of its tangible products, separately from its software products, in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB No. 104"), please refer also to note 21.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash equivalents:

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

f. Restricted cash:

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

g. 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, discontinued products and for market prices lower than cost. Any write-off is recognized in the consolidated statement of income as cost of revenues.

Cost is determined as follows:

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

Products in process and finished products:

Raw materials, parts and supplies - as above; Subcontracting costs - on the basis of actual costs.

Inventory write-offs recorded in 2011, 2010 and 2009 amounted to \$ 153, \$ 165 and \$ 269, respectively.

h. 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 , software 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group leases computers and peripheral equipment and mobile broadcasting ("leased equipment") to its customers under operating leases. 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).

i. Intangible assets, net:

Intangible assets subject to amortization are initially recognized based on the fair value allocated to them, and subsequently stated at amortized cost. The assets are amortized over their estimated useful lives using the straight line method over an estimated period during which benefits are expected to be received, in accordance with ASC 350, "Intangible - Goodwill and Other" ("ASC 350") (formerly: Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets") as the follows weighted average in years:

	Years
Core technology	4
Customer Relationships	4

As of December 31, 2011 no impairment losses have been identified (See also Note 2j).

j. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350 (formerly SFAS No. 142), goodwill is not amortized, but rather is subject to an annual impairment test.

ASC 350 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired. Goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. Fair value is determined using discounted cash flows. Significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting units. The Group has elected to perform the annual impairment test in the fourth quarter of the year and did not identify any impairment losses as of December 31, 2011 and as of December 31, 2011 no impairment loss was identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Impairment of long-lived assets:

The Group's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment" ("ASC 360") (formerly: SFAS 144, "Accounting for the Impairment or Disposal of Long Lived Assets"), 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. Such measurement includes significant estimates. 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. However, the carrying amount of an asset is not to be reduced below its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2011, 2010 and 2009 no impairment losses have been identified.

l. Revenue recognition:

The Group generates revenues mainly from sales of systems, from contracts required significant installation and from operating leases of equipment.

As mentioned also in note 2d, the new accounting principles generally require the Company to account for the sale of its products in accordance with SAB No. 104 thus recognizing when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable and no further obligation exists and collectability is probable. When significant acceptance provisions are included in the arrangement revenue are deferred until the acceptance occurs. Generally, the Group does not grant rights of return. Service revenues are recognized ratably over the period of the contract or as services are performed, as applicable.

For multi-element arrangements that include tangible products that contain software that is essential to the tangible product's functionality and undelivered software elements that relate to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the new accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable.

Revenue from products under sales-type lease contracts is recognized in accordance with ASC 840, "Leases" ("ASC 840") (formerly: SFAS No. 13, "Accounting for Leases") upon installation or upon delivery, in cases where the customer obtains its own or other's installation services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred revenue represents amounts received by the Group when one or more of the criteria for revenue recognition as described above are not met and are included in "Other current liabilities" and "Other long-term liabilities". In general, when deferred revenue is recognized as revenue, the associated deferred costs are also recognized as cost of sales.

m. Warranty costs:

The Group offers a standard limited warranty for a period of one year for all of its products. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time revenues are recognized. A tabular reconciliation of the changes in the Company's aggregate product warranty liability was not provided due to immateriality.

n. Research and development costs:

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

o. Grants:

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred.

During the years 2011, 2010 and 2009, no grants were received from the Government of Israel.

p. Income taxes:

The Group accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between the financial reporting and the tax basis 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, if it is more likely than not that a portion or all of the deferred tax assets will not be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ASC 740-10, "Income Taxes" ("ASC 740-10") clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This standard prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10 also provides guidance on derecognition of tax positions, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740-10 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect the operating results of the Company.

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740-10.

q. Concentrations of credit risks:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, severance pay deposits, hedging instruments and trade receivables.

Cash and cash equivalents and restricted cash are mainly invested in U.S. dollars with major banks in Luxemburg and in Israel. Severance pay deposits and hedging instruments are invested or held with major financial institutions in Israel. Generally, these cash and cash equivalents may be redeemed upon demand and, therefore management believes that they bear lower risk.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israel's 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 the remainder by an accrual.

The deposited funds include profits and losses 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 surrendered value of the insurance policies and includes immaterial profits or losses.

During 2010, some of the Company's new employees were signed subject to Section 14 of the Severance Pay Law, 1963 ("Section 14"). In accordance with Section 14, upon termination, the release of the contributed amounts from the fund to the employee shall relieve the Company from any further severance liability and no additional payments shall be made by the Company to the employee. As a result, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from severance obligation to employees once the amounts have been deposited, and the Company has no further legal ownership of the amounts deposited.

Severance expenses for the years ended December 31, 2011, 2010 and 2009 amounted to approximately \$ 656, \$ 387 and \$ 231, respectively.

s. Basic and diluted net earnings per share:

Basic net earnings per share ("Basic EPS") are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings 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 ASC 260, "Earnings Per Share".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Derivatives and hedging activities:

ASC 815, "Derivatives and Hedging" ("ASC 815"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company uses derivatives to hedge certain cash flow foreign currency exposures and receivables that are denominated in foreign currency in order to reduce the Company's exposure to foreign currency risks.

u. Fair value of financial instruments:

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

v. Accounting for share-based compensation:

The Company accounts for stock based compensation in accordance with ASC 718, "Compensation Stock-Compensation" ("ASC 718"). ASC 718 requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors.

The Company recognizes compensation expenses for the value of its awards 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.

The Company accounts for equity instruments issued to third party service providers (non-employees) in accordance with the fair value based on an option-pricing model, pursuant to the guidance in ASC 505-50, "Equity-Based Payments to Non-Employees" ("ASC 505-50"). The fair value of the options granted is revalued over the related service periods and recognized over the vesting period.

The Company's additional disclosures required by ASC 718 are provided in Note 10.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Impact of recently issued accounting standards:

1. In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance on the presentation of comprehensive income, which amended existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. The guidance requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company is still evaluating the impact of the adoption of this guidance on its financial statements.

2. In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

x. Reclassification:

Certain 2010 figures have been reclassified to conform to the 2011 presentation. The reclassification had no effect on previously reported net income, equity or cash flows.

NOTE 3: - OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2011	2010
Government authorities	\$ 324	\$ 311
Prepaid expenses	445	382
Deferred tax assets	550	609
Future contracts	225	-
Other	211	320
	\$ 1,755	\$ 1,622

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- INVENTORIES

	December 31,	
	2011	2010
Raw materials parts and supplies	\$ 1,978	\$ 1,836
Products in process and finished products	1,676	1,310
	\$ 3,654	\$ 3,146

NOTE 5:- PROPERTY AND EQUIPMENT, NET

a. Comprised as follows:

	December 31,	
	2011	2010
Cost:		
Computers, software and peripheral equipment	\$ 4,980	\$ 3,602
Office furniture and equipment	373	296
Motor vehicles	125	39
Leasehold improvements	2,252	2,224
	7,730	6,161
Accumulated depreciation:		
Computers, software and peripheral equipment	3,880	2,698
Office furniture and equipment	318	229
Motor vehicles	48	32
Leasehold improvements	2,162	2,070
	6,408	5,029
Depreciated cost	\$ 1,322	\$ 1,132

b. Depreciation expense amounted to \$ 602, \$ 723 and \$ 780 for the years ended December 31, 2011, 2010 and 2009, respectively.

c. During 2010 the Company disposed of fully depreciated assets in the amount of approximately \$ 243, constituting mostly computers, software and peripheral equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 6:- INTANGIBLE ASSETS, NET

- a. Composition of intangible assets is as follows:

	December 31,	
	<u>2011</u>	<u>2010</u>
Original amounts:		
Core Technology	\$ 332	\$ -
Customer Relationships	<u>125</u>	<u>-</u>
	<u>457</u>	<u>-</u>
Accumulated amortization:		
Core Technology	35	-
Customer Relationships	<u>13</u>	<u>-</u>
	<u>48</u>	<u>-</u>
	<u>\$ 409</u>	<u>\$ -</u>

- b. Amortization expenses amounted to \$ 48, \$ 0 and \$ 0 for the years ended December 31, 2011, 2010 and 2009, respectively.

- c. Estimated amortization expenses for the following years is as follows:

Year ending December 31,

2012	\$ 114
2013	114
2014	114
2015	<u>67</u>
	<u>\$ 409</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2011	2010
Employees and payroll accruals	\$ 1,118	\$ 810
Accrued expenses	2,571	3,251
Advances from customers	460	*) 195
Government authorities	148	181
Warranty provision	266	221
Other	21	27
	\$ 4,584	\$ 4,685

*) Reclassified

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

Royalties to the Office of the Israeli 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 including accrued interest at the LIBOR rate. 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 \$ 218, \$ 279 and \$ 277 for the years ended December 31, 2011, 2010 and 2009, respectively, relating to the accrual and repayment of such grants.

As of December 31, 2011 and 2010, the Company had a contingent obligation to pay royalties in the principal amount of \$ 1,183 and \$ 1,481, respectively.

b. Operating leases:

The Group leases their facilities under various operating lease agreements, which expire on various dates and rental car leases. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2011, are as follows:

2012	\$	946
2013		470
2014		157
2015		157
2016 and thereafter		389
	\$	2,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

Total rental expense for the years ended December 31, 2011, 2010 and 2009 amounted to \$ 758, \$ 768 and \$ 634, respectively.

On January 30, 2012, the Company signed a supplement to the existing office rental agreement from May 2000 (See also note 15).

c. Liens:

As of December 31, 2011, fixed pledges on cash deposits in the amount of \$ 170 were recorded on office lease agreements. The Company has also cash deposit in the amount of \$ 97 against guaranty to sales agreements and \$ 37 as a guaranty to the Israeli Chamber of Commerce.

d. Litigation:

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

NOTE 9:- HEDGING INSTRUMENTS

To protect against changes in value of forecasted foreign currency cash flows resulting from payroll that are denominated in NIS and receivables that are denominated in EURO, the Company has entered into foreign currency forward contracts and put and call options contracts. These contracts are designated as cash flows hedges and fair value hedges, as defined by ASC 815, as amended, and are considered highly effective as hedges of these transactions.

During the years ended December 31, 2011, 2010 and 2009 the Company recognized a net income of \$ 61, \$ 210 and net expenses of \$ 16, respectively, related to the effective portion of its hedging instruments. The effective portion of the hedged instruments has been included as an offset of payroll expenses or as financial income/expenses in the statement of income, as applicable.

As of December 31, 2011 the Company has outstanding hedging instruments in a total fair value of \$ 73 to protect against changes in value of forecasted foreign currency cash flows resulting from payroll that are denominated in NIS and receivables that are denominated in EURO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- EQUITY

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. Stock option plan:

In 1996, the Company approved an employee share option plan, which was expanded in 2000 and 2002 ("the 1996 Share Option Plan"). Under the expanded plan, 900,000 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to directors, officers and employees of the Group. During 2003, the Company approved a new share option plan ("the 2003 Share Option Plan"). The Company's Board of Directors approved treating shares allotted under the 1996 Share Option Plan as being reserved for allotment under the 2003 Share Option Plan. During 2008, an additional 253,500 options to purchase Ordinary shares have been reserved for issuance.

Options granted are vested at equal tranches, usually between 3-4 years. If not exercised, the options will expire on the sixth anniversary of the date of the grant. Any options that are canceled or forfeited before expiration become available for future grants.

The Company estimates the fair value of stock options granted to employees on the date of the grant using the Black-Scholes-Merton option-pricing model. The option-pricing model requires a number of assumptions, noted in the following table, of which the most significant are expected stock price volatility and the expected option term. The computation of expected volatility is based on actual historical stock price movements.

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 110 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 fair value of the Company's stock options granted to employees and directors for the years ended December 31, 2011, 2010 and 2009 was estimated using the following weighted average assumptions:

	Year ended December 31,		
	2011	2010	2009
Risk free interest	1.48%	1.41%	-
Dividend yields	3%	0%	-
Volatility	62%	69%	-
Expected term (in years)	4.25	3	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- EQUITY (Cont.)

During the years ended December 31, 2011, 2010 and 2009, the Company recognized stock-based compensation expenses related to employee stock options in the amount of \$ 274, \$ 241 and \$ 245, respectively.

A summary of the Company's option activity as of December 31, 2011, 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	798,214	\$ 2.43	2.35	\$ 995
Granted	317,500	\$ 3.68		
Exercised	(121,526)			
Expired or forfeited	(15,000)			
Outstanding at end of year	<u>979,188</u>	<u>\$ 2.91</u>	<u>3.06</u>	<u>\$ 325</u>
Exercisable at end of year	<u>591,896</u>	<u>\$ 2.52</u>	<u>2.04</u>	<u>\$ 302</u>
Vested at the end of the year and expected to be vested	<u>979,188</u>	<u>\$ 2.91</u>	<u>3.06</u>	<u>\$ 325</u>

The weighted-average grant-date fair value of options granted during the years ended December 31, 2011, 2010 and 2009 was \$ 1.81, \$ 1.63 and \$ 0, 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 2011 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, 2011. This amount changes, based on the fair market value of the Company's stock.

As of December 31, 2011, there was approximately \$ 580 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 2.96 years. Total grant-date fair value of options vested as of December 31, 2011 was \$ 207.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- EQUITY (Cont.)

The following table summarizes information about options outstanding and exercisable as of December 31, 2011:

Range of exercise price	Options outstanding as of December 31, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2011	Weighted average exercise price of options exercisable
\$ 1.28 - 1.90	133,867	0.49	\$ 1.71	133,867	\$ 1.71
\$ 2.21 – 2.99	497,821	2.29	\$ 2.71	434,696	\$ 2.72
\$ 3.06 – 3.68	342,500	5.19	\$ 3.65	18,333	\$ 3.2
\$ 4.60	<u>5,000</u>	1.36	\$ 4.60	<u>5,000</u>	\$ 4.60
	<u>979,188</u>		<u>\$ 2.91</u>	<u>591,896</u>	<u>\$ 2.52</u>

All of the options granted to employees, officers and non employee directors in 2011 and 2010 have an exercise price equal to the fair market value of the share at date of grant.

c. Dividends:

During the years 2011 and 2010 the Company paid dividends in the amounts of \$ 4,961 and \$ 1,865, respectively.

NOTE 11:- INCOME TAXES

a. Domestic - Israeli income taxes:

Tax rates applicable to the Company:

- The Israeli corporate tax rate was 26% in 2009, 25% in 2010 and 24% in 2011.

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the tax burden Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. The Tax Burden Law also increased the tax rate on dividend and capital gains by 5%. As such, starting in 2012, dividend paid to a non –Israeli resident and to Israeli individuals, will be subject to 25%/30% withholding tax depending on ownership percentage, unless reduced by an applicable tax treaty. Capital gains derived by a non Israeli residents and Israeli individuals, on most instruments will be subject to tax at a 25%/30% rate unless an exemption is available under domestic law or an applicable tax treaty.

The abovementioned had no effect on the Company's deferred tax balances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- INCOME TAXES (Cont.)

2. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 ("the Law"):

The Company's production facilities in Israel have been granted an "Approved Enterprise" status under the above law. Four programs of the Company have been granted the status of an "Approved Enterprise" and two expansion programs of the Company have been granted the status of a "Beneficiary Enterprise" (under the new amendment to the law). According to the provisions of the 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 implemented the year of operation of its first, second third, and fourth programs in 1996, 1999, 2000 and 2003, 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.

If the retained tax-exempt profits are distributed, they would be taxed at the corporate tax rate applicable between 10%-25% for an "Approved Enterprise" and "Beneficiary Enterprise" depending on the foreign (non-Israeli) investment in it.

On April 1, 2005, an amendment to the Law came into effect ("the Amendment") and has significantly changed the provisions of the Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a "Beneficiary Enterprise" (rather than the previous terminology of Approved Enterprise), such as a provision requiring that at least 25% of the "Beneficiary Enterprise's" income will be derived from export.

Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- INCOME TAXES (Cont.)

The period of tax benefits for a new "Beneficiary Enterprise" commences in the "Year of Commencement". This year is the later of: (1) the year in which taxable income is first generated by the company, or (2) a year selected by the company for commencement, on the condition that the company meets certain provisions provided by the Law ("Year of Election").

However, the Law provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the Law as they were on the date of such approval. Therefore, the Company's existing "Approved Enterprises" programs will generally not be subject to the provisions of the Amendment. As a result of the Amendment, tax-exempt income generated under the provisions of the Amendment, will subject the Company to taxes upon distribution or liquidation and the Company may be required in the future to record deferred tax liability with respect to such tax-exempt income. As of December 31, 2011, the Company did not generate income under the provisions of the new law.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the law, regulations published there under and the letters of approval for the specific investments in "Approved Enterprises" or "Beneficiary Enterprise". In the event of failure to comply with these conditions, in whole or in part, the Company may be required to pay additional taxes for the period in which it benefited from the tax exemption and would likely be denied these benefits in the future.

In the event of a dividend distribution (including withdrawals and charges that are deemed to be dividends) out of the income originating from the "Approved Enterprises", income from such distributed dividend will be subject to the corporate tax rate applicable to such profits as if the Company had not elected the alternative benefits programs.

Income from sources other than the "Approved Enterprise" or "Beneficiary Enterprise" during the benefit period will be subject to tax at the Company's tax rate.

The Company elected 2009 to be the year of election under the new "Beneficiary Enterprise" (Green track).

In January 2011, the Knesset enacted a reform to the Investment Law, effective January 2011. According to the reform, a flat rate tax would apply to companies eligible for the "Preferred Enterprise" status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements to establish that it contributes to the country's economic growth and is a competitive factor for the Gross Domestic Product (a competitive enterprise). Certain activities such as mining are excluded from the scope of a Preferred Enterprise, as are government-owned businesses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- INCOME TAXES (Cont.)

Israeli companies which currently benefit from an Approved or Beneficiary Enterprise status and meet the criteria for qualification as a Preferred Enterprise can elect to apply the new Preferred Enterprise benefits by waiving their benefits under the Approved and Beneficiary Enterprise status.

Benefits granted to a Preferred Enterprise include reduced and gradually decreasing tax rates. In peripheral regions (Development Area A) the reduced tax rate will be 10% in 2011 and 2012, 7% in 2013 and 2014 and 6% starting from 2015. In other regions the tax rate will be 15% in 2011 and 2012, 12.5% in 2013 and 2014 and 12% starting from 2015. Preferred Enterprises in peripheral regions will be eligible for Investment Center grants, as well as the applicable reduced tax rates.

A distribution from a Preferred Enterprise out of the "Preferred Income" would be subject to 15% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates). A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company. A company electing to waive its Beneficiary Enterprise or Approved Enterprise status through June 30, 2015 may distribute "Approved Income" or "Beneficiary Income" subject to 15% withholding tax for Israeli resident individuals and non-Israeli residents (subject to applicable treaty rates) and exempt from withholding tax for an Israeli-resident company. Nonetheless, a distribution from income exempt under Beneficiary Enterprise and Approved Enterprise programs will subject the exempt income to tax at the reduced corporate income tax rates pertaining to the Beneficiary Enterprise and Approved Enterprise programs upon distribution, or complete liquidation in the case of a Beneficiary Enterprise's exempt income.

b. Tax assessments:

The Company has obtained final tax assessments from the Israeli Tax Authorities for the tax years through 2006.

c. Net operating carryforward losses:

The Company has accumulated losses for tax purposes as of December 31, 2011, in the amount of approximately \$ 8,000 which may be carried forward and offset against taxable income in the future for an indefinite period.

The carryforward losses of the Israeli subsidiary, amount to approximately \$ 1,200.

Foreign:

The carryforward losses of the French subsidiary as of December 31, 2011 amount to approximately \$ 12,367 which may be carried forward and offset against taxable income in the future, for an indefinite period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- INCOME TAXES (Cont.)

The carryforward losses of the U.S. subsidiary as of December 31, 2011 amount to approximately \$ 8,326 as of December 31, 2011. 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 other subsidiaries as of December 31, 2011 amount to approximately \$ 5,743 as of December 31, 2011. The majority of these carryforward losses can be utilized indefinitely.

d. 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 Group's deferred tax assets are as follows:

	December 31,	
	2011	2010
Deferred tax asset in respect of carryforward losses	\$ 8,785	\$ 11,408
Valuation allowance	(7,685)	(10,799)
Net deferred tax asset	\$ 1,100	\$ 609

Management currently believes that it is more likely than not that the carryforward losses for which a valuation allowance was provided will not be realized in the foreseeable future.

e. Reconciliation of the theoretical tax expense to the actual tax benefit:

In 2011 and 2010, the main reconciling items between the statutory tax rate applied to income before income tax benefit of the Company and the income for benefit recorded in the statement of income are recognition of a deferred tax asset for carryforward tax losses and utilization of carryforward losses, for which a valuation allowance was provided in prior years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- INCOME TAXES (Cont.)

- f. Income before income tax benefit from continuing operations:

	Year ended December 31,		
	2011	2010	2009
Domestic	\$ 1,289	\$ 912	\$ 479
Foreign	1,764	1,821	1,679
	\$ 3,053	\$ 2,733	\$ 2,158

NOTE 12:- TRANSACTIONS WITH RELATED PARTIES

During the years 2011 and 2010 the Company recorded expenses in the amount of \$ 37 and \$ 68, respectively to a company owned by a shareholder that renders the Company consulting services for business development.

NOTE 13:- 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,		
	2011	2010	2009
Europe	\$ 16,920	\$ 11,859	\$ 11,342
Asia	7,117	6,736	6,424
Americas	10,485	10,097	8,860
Other	814	467	241
	\$ 35,336	\$ 29,159	\$ 26,867

- b. Long-lived assets by geographic region:

	December 31,	
	2011	2010
Israel	\$ 886	\$ 834
Europe	396	266
Americas	23	15
Other	17	17
	\$ 1,322	\$ 1,132

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 14:- FINANCIAL INCOME (EXPENSES), NET

	Year ended December 31,		
	2011	2010	2009
Financial income:			
Interest on bank deposits	\$ 150	\$ 126	\$ 56
Financial expenses:			
Foreign currency transaction adjustments, net	(118)	(429)	(209)
Bank charges	(88)	(66)	(70)
	(206)	(495)	(279)
	\$ (56)	\$ (369)	\$ (223)

NOTE 15:- SUBSEQUENT EVENTS

- a. On February 29, 2012, the Company's Board of Directors approved the distribution of earnings to the Company's shareholders in the amount of \$ 2,000.

- b. As discussed in Note 8b above, on January 30, 2012, the Company signed a supplement to the existing office rental agreement from May 2000. According to the supplement the rent period is extended till August 2017 with an option for additional 5 years. The minimum rental commitment relating to the new agreement amounts to \$ 2,583.
