



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

Results for the fourth quarter and full year of 2010

- **Revenues for 2010 increased by 9% to US\$29 million compared to US\$27 million in 2009.**
- **Gross margin for 2010 improved to 70% compared to 67% during 2009.**
- **Net profit of 2010 increased by 27% to US\$ 2.7 million compared to US\$2.2 million in 2009**
- **Cash climbed to US\$19.1 million with a net cash flow of US\$3.7 million in 2010 (excluding dividends).**
- **During 2010 Orad decided on a dividend policy to distribute 1/3 of its annual net profits.**
- **For 2010, the company will distribute a dividend in the amount of \$911K.**
- **During 2010, Orad entered a new and much larger product segment in the broadcast market – the video servers, with its first successful sales during 2010.**

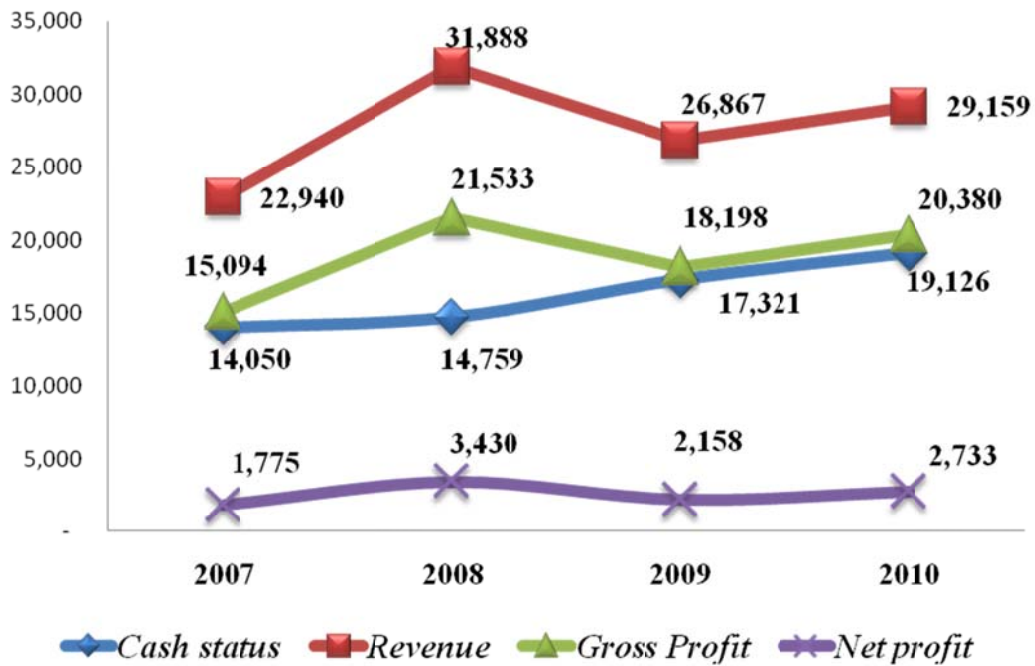
“We believe that 2011 will be a stronger year than 2010 as we see the industry recovering, diversification of new products, and improvement in the sales and marketing force”, said Avi Sharir, Orad’s President and Chief Executive Officer. Mr. Sharir also commented: “2010 was a year of transition from global financial crisis to a recovery environment in most of the territories. The recovery is reflected in revenue growth, better profitability and a positive cash flow. The initial market adoption of our new server is very encouraging with already some repeat orders from clients around the world. I expect the server will lead the growth of the company in 2011. In terms of geographical coverage, strong contribution to the growth came from Asia and North -America. One of the important factors is the gross margin. During 2010 we managed to improve our gross margin from 67% in 2009 to 70% in 2010. This led to an improvement in operating profits from 9% in 2009 to 11% in 2010. The strong cash flow in the years 2009 and 2010 allows us to distribute a dividend in 2010. The company adopted a policy to distribute at least 1/3 of its yearly net earnings and we will continue to do so during 2011.”

Financial analysis of Q4/2010 and the year 2010:

- Revenues for Q4/10 increased by 6% from US\$7.7M in Q3/10 to US\$8.1M in Q4/10 but were down by 10% compared to US\$9M in Q4/09.
- Gross margin for 2010 improved to 70% compared to 67% during 2009.
- Gross margin in Q4/09 improved to 64% compared to 63% in Q4/09. Gross margin went down from 73% in Q3/10 to 64% in Q4/10. This is mainly due to a very different product mix and large deals with higher costs of material.
- Net Profit in Q4/10 decreased by 38% to US\$ 0.7M compared to net profit of US\$1.1M in Q4/09. Net profits decreased by 36% in Q4/10 compared to US\$1.1M in Q3/10. Net profits in Q4/10 went down compared to Q3/10 mainly due to the decrease in gross profits as explained above.
- Net profits of 2010 improved by 27% to US\$2.7M compared to US\$2.2M in 2009 mainly due to the increase in sales and improved gross margin.

Financial summary for the relevant periods:

	<u>Q4/10</u>	<u>Q4/09</u>	<u>Q3/10</u>	<u>2010</u>	<u>2009</u>
Sales	8,139	9,002	7,678	29,159	26,867
Gross Profits	5,216	5,630	5,609	20,380	18,198
Gross margin	64%	62.54%	73%	70%	67.73%
R&D Expenses	1,205	964	1,078	4,297	3,633
S&M Expenses	2,496	2,509	2,704	10,092	9,467
G&A Expenses	776	791	793	2,902	2,711
Net Profit	706	1,133	1,095	2,733	2,158
Cash Status	19,126	17,321	18,421	19,126	17,321



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ORAD HI-TEC SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

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, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. 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 a certain wholly-owned subsidiary, whose assets constitute 3% and 8% of total consolidated assets as of December 31, 2010 and 2009, respectively and whose revenues constitute 5%, 9% and 10% of total consolidated revenues for the years ended December 31, 2010, 2009 and 2008, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for that subsidiary, is based solely on the report 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 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 1, 2011KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

ORAD HI-TEC SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,912	\$ 16,949
Restricted cash	214	372
Trade receivables (net of allowance for doubtful accounts of \$ 208 and \$ 184 at December 31, 2010 and 2009, respectively)	3,256	3,155
Other accounts receivable and prepaid expenses	1,622	1,306
Inventories	3,146	1,912
<u>Total</u> current assets	27,150	23,694
SEVERANCE PAY FUND	2,324	1,836
PROPERTY AND EQUIPMENT, NET	1,132	1,442
<u>Total</u> assets	\$ 30,606	\$ 26,972

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

ORAD HI-TEC SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2010	2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 3,155	\$ 1,532
Deferred revenues	1,509	1,454
Other accounts payable and accrued expenses	4,490	4,463
<u>Total</u> current liabilities	9,154	7,449
ACCRUED SEVERANCE PAY	2,991	2,380
<u>Total</u> liabilities	12,145	9,829
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.01 par value -		
Authorized: 27,000,000 shares as of December 31, 2010 and 2009;		
Issued: 11,749,304 shares as of December 31, 2010 and 2009;		
Outstanding: 10,978,621 as of December 2010 and 10,820,550		
shares as of December 31, 2009	30	29
Additional paid-in capital	76,366	75,917
Foreign currency translation adjustments	(547)	(547)
Accumulated deficit	(57,388)	(58,256)
<u>Total</u> shareholders' equity	18,461	17,143
<u>Total</u> liabilities and shareholders' equity	\$ 30,606	\$ 26,972

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

March 1, 2011

Date of approval of the
financial statements

Avi Sharir
Director and
Chief Executive Officer

Ehud Ben Yair
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,		
	2010	2009	2008
Revenues	\$ 29,159	\$ 26,867	\$ 31,888
Cost of revenues	8,779	8,669	10,355
Gross profit	<u>20,380</u>	<u>18,198</u>	<u>21,533</u>
Operating expenses:			
Research and development	4,297	3,633	4,063
Sales and marketing	10,092	9,467	10,444
General and administrative	2,902	2,711	3,353
<u>Total operating expenses</u>	<u>17,291</u>	<u>15,811</u>	<u>17,860</u>
Operating income	3,089	2,387	3,673
Financial expenses, net	(369)	(223)	(257)
Other income (expenses), net	13	(6)	14
Net income	<u>\$ 2,733</u>	<u>\$ 2,158</u>	<u>\$ 3,430</u>
Basic net earnings per share	<u>\$ 0.25</u>	<u>\$ 0.20</u>	<u>\$ 0.32</u>
Weighted average number of shares used in computing basic net earnings per share (in thousands)	<u>10,850</u>	<u>10,821</u>	<u>10,821</u>
Diluted net earnings per share	<u>\$ 0.25</u>	<u>\$ 0.20</u>	<u>\$ 0.31</u>
Weighted average number of shares used in computing diluted net earnings per share (in thousands)	<u>10,999</u>	<u>10,943</u>	<u>11,022</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 SHAREHOLDERS' EQUITY

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

	Number of outstanding Ordinary shares	Share capital	Additional paid-in capital	Foreign currency translation adjustments	Accumulated deficit	Total comprehensive income	Total
Balance as of January 1, 2008	10,820,550	\$ 29	\$ 75,475	\$ (547)	\$ (63,844)		\$ 11,113
Net income	-	-	-	-	3,430	\$ 3,430	3,430
Stock-based compensation	-	-	197	-	-	-	197
Total comprehensive income						<u>\$ 3,430</u>	
Balance as of December 31, 2008	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 (\$0.17 per share)	-	-	-	-	(1,865)	-	(1,865)
Stock-based compensation	-	-	241	-	-	-	241
Total comprehensive income						<u>\$ 2,733</u>	
Balance as of December 31, 2010	<u>10,978,621</u>	<u>\$ 30</u>	<u>\$ 76,366</u>	<u>\$ (547)</u>	<u>\$ (57,388)</u>		<u>\$ 18,461</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,		
	2010	2009	2008
<u>Cash flows from operating activities:</u>			
Net income	\$ 2,733	\$ 2,158	\$ 3,430
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	723	780	740
Stock-based compensation	241	245	197
Decrease (increase) in trade receivables, net and other accounts receivable and prepaid expenses	(417)	686	(2,115)
Decrease (increase) in inventories	(1,395)	639	46
Decrease in work in progress, net of advances from customers	-	-	78
Increase (decrease) in trade payables, other accounts payable and accrued expenses and accrued severance pay, net	1,773	(1,012)	(889)
Revaluation of restricted cash	(15)	(4)	-
Increase (decrease) in deferred revenues	55	(760)	(66)
Net cash provided by operating activities	<u>3,698</u>	<u>2,732</u>	<u>1,421</u>
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(258)	(178)	(727)
Proceeds from sale of property and equipment	6	4	15
Decrease in restricted cash	173	-	701
Net cash used in investing activities	<u>(79)</u>	<u>(174)</u>	<u>(11)</u>
<u>Cash flows from financing activities:</u>			
Distribution of earnings to shareholders	(1,865)	-	-
Issuance of shares upon exercise of employee share options	209	-	-
Net cash used in financing activities	<u>(1,656)</u>	<u>-</u>	<u>-</u>
Increase in cash and cash equivalents	1,963	2,558	1,410
Cash and cash equivalents at beginning of year	<u>16,949</u>	<u>14,391</u>	<u>12,981</u>
Cash and cash equivalents at end of year	<u>\$ 18,912</u>	<u>\$ 16,949</u>	<u>\$ 14,391</u>
<u>Supplemental disclosure of cash flows activities:</u>			
Reclassification between property and equipment and inventories	\$ 161	\$ 99	\$ 224
Cash paid for income taxes	<u>\$ 96</u>	<u>\$ 131</u>	<u>\$ 82</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

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".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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 Group is the U.S. dollar.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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" (formerly: Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation"). 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.

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.

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 from acquisition date.

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, 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 2010, 2009 and 2008 amounted to \$ 165, \$ 269 and \$ 624, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 , 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

The Company leases computers and peripheral equipment and mobile broadcasting ("leased equipment") to its customers under short-term (less than one year) 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).

h. Impairment of long-lived assets:

The Group's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" (formerly: SFAS No. 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. 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. Assets to be disposed of are reported at the lower of the carrying amount of fair value less selling costs. As of December 31, 2010, 2009 and 2008, no impairment losses have been identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Revenue recognition:

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

The Group implements ASC 985, "Software (formerly: SFAS No. 97-2, "Software Revenue Recognition"), 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 from training and installation included in multiple element arrangements are recognized at the time they are rendered.

Revenues from operating leases of equipment are recognized ratably over the lease period, in accordance with ASC 840, "Leases" (formerly: SFAS No. 13, "Accounting for Leases").

The Group generally does not grant a right of return to its customers.

Deferred revenue represents amounts received by the Company when the criteria for revenue recognition as described above are not met. In general, when deferred revenue is recognized as revenue, the associated deferred costs are also recognized as cost of sales.

j. Warranty costs:

The Company 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.

k. Research and development costs:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. 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 2010, 2009 and 2008, no grants were received from the Government of Israel.

m. Income taxes:

The Group accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740") (formerly: SFAS No. 109 "Accounting for Income Taxes"). 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.

ASC 740-10, "Income Taxes" ("ASC 740-10") (formerly: FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48")) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. 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.

o. 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, 2010, 2009 and 2008 amounted to approximately \$ 387, \$ 231 and \$ 343, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. 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" (formerly: SFAS No. 128, "Earnings per Share").

q. Derivatives and hedging activities:

ASC 815, "Derivatives and Hedging" ("ASC 815") (formerly: SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"), 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 in order to reduce the Company's exposure to foreign currency risks.

r. 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.

s. Accounting for share-based compensation:

The Company accounts for stock based compensation in accordance with ASC 718, "Compensation Stock-Compensation" (formerly SFAS No. 123(R), "Share-Based Payment") which is a revision of FASB Statement No. 123 "Accounting for Stock Based Compensation" 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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") (formerly: EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services"). 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 9.

t. Impact of Recently Issued Accounting Standards:

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. 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. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. As the deferred revenues of the Company have not been significant in the past, the Company does not expect that adoption of these ASUs in 2011 will have a material impact on the timing of the recognition of revenues from sales of multiple deliverables.

NOTE 3: - OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2010	2009
Government authorities	\$ 311	\$ 177
Prepaid expenses	382	299
Deferred tax assets	609	513
Other	320	317
	<u>\$ 1,622</u>	<u>\$ 1,306</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- INVENTORIES

	December 31,	
	2010	2009
Raw materials parts and supplies	\$ 1,836	\$ 771
Products in process and finished products	1,310	1,141
	<u>\$ 3,146</u>	<u>\$ 1,912</u>

NOTE 5:- PROPERTY AND EQUIPMENT

- a. Comprised as follows:

	December 31,	
	2010	2009
Cost:		
Computers, software and peripheral equipment	\$ 3,602	\$ 3,290
Office furniture and equipment	296	440
Motor vehicles	39	59
Leasehold improvements	2,224	2,211
	<u>6,161</u>	<u>6,000</u>
Accumulated depreciation:		
Computers, software and peripheral equipment	2,698	2,388
Office furniture and equipment	229	296
Motor vehicles	32	26
Leasehold improvements	2,070	1,848
	<u>5,029</u>	<u>4,558</u>
Depreciated cost	<u>\$ 1,132</u>	<u>\$ 1,442</u>

- b. Depreciation expense amounted to \$ 723, \$ 780 and \$ 740 for the years ended December 31, 2010, 2009 and 2008, respectively.
- c. During 2010 and 2009 the Company disposed of fully depreciated assets in the amount of approximately \$243 and \$ 4,700 respectively, constituting mostly computers, software and peripheral equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 6:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2010	2009
Employees and payroll accruals	\$ 810	\$ 335
Accrued expenses	3,251	3,725
Government authorities	181	43
Warranty provision	221	350
Other	27	10
	<u>\$ 4,490</u>	<u>\$ 4,463</u>

NOTE 7:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

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 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 \$ 279, \$ 277 and \$ 227 for the years ended December 31, 2010, 2009 and 2008, respectively, relating to the accrual and repayment of such grants.

As of December 31, 2010 and 2009, the Company had a contingent obligation to pay royalties in the principal amount of \$ 1,481 and \$ 1,579, respectively.

b. Operating leases:

The Group leases their facilities under various operating lease agreements, which expire on various dates. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2010, are as follows:

2011	688
2012	438
2013	166
2014	128
2015 and thereafter	<u>284</u>
	<u>1,703</u>

Total rental expense for the years ended December 31, 2010, 2009 and 2008, amounted to \$ 768, \$ 634 and \$ 557, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 7:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

c. Liens:

As of December 31, 2010, fixed pledges on cash deposits in the amount of \$ 170 were recorded on office lease agreements. The Company has also several cash deposits in the amount of \$ 44 against guaranties to several sales agreements.

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 8:- HEDGING INSTRUMENTS

To protect against changes in value of forecasted foreign currency cash flows resulting from salaries that are denominated in NIS, the Company has entered into foreign currency forward contracts and put and call options contracts. These contracts are designated as cash flows hedges, as defined by ASC 815 (formerly SFAS No. 133), as amended, and are considered highly effective as hedges of these expenses.

During the years ended December 31, 2010, 2009 and 2008 the Company recognized a net income of \$ 210 and net expenses of \$ 16 and \$ 77, 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 in the statement of income.

As of December 31, 2010 the Company had no outstanding hedging instruments to protect against changes in value of forecasted foreign currency cash flows resulting from salaries that are denominated in NIS.

NOTE 9:- SHAREHOLDERS' 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share data****NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)**

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, 2010, 2009 and 2008 was estimated using the following weighted average assumptions:

	Year ended		
	December 31,		
	2010	2009	2008
Risk free interest	1.41%	-	1.91%
Dividend yields	0%	-	0%
Volatility	69%	-	69%
Expected term (in years)	4	-	4.25

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share data****NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)**

During the years ended December 31, 2010, 2009 and 2008, the Company recognized stock-based compensation expenses related to employee stock options in the amount of \$ 241, \$ 245 and \$ 197, respectively.

A summary of the Company's option activity as of December 31, 2010, 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	986,035	\$ 3.95		
Granted	50,000	3.09		
Exercised	(158,071)			
Expired or forfeited	<u>(79,750)</u>			
Outstanding at end of year	<u>798,214</u>	<u>\$ 2.43</u>	<u>2.35</u>	<u>\$ 995</u>
Exercisable at end of year	<u>659,881</u>	<u>\$ 2.32</u>	<u>2.56</u>	<u>\$ 817</u>
Vested at the end of the year and expected to be vested	<u>798,214</u>	<u>\$ 2.43</u>	<u>2.35</u>	<u>\$ 995</u>

The weighted-average grant-date fair value of options granted during the years ended December 31, 2010, 2009 and 2008 was \$ 1.63, \$ 0 and \$ 1.41, 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 2010 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, 2010. This amount changes, based on the fair market value of the Company's stock.

As of December 31, 2010, there was approximately \$ 299 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 1.51 years. Total grant-date fair value of options vested as of December 31, 2010 was \$ 731.

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

The following table summarizes information about options outstanding and exercisable as of December 31, 2010:

Range of exercise price	Options outstanding as of December 31, 2010	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2010	Weighted average Exercise price of Options Exercisable
\$ 1.28 - 1.90	250,000	1.27	\$ 1.77	250,000	\$ 1.77
\$ 2.14 - 3.38	543,214	2.84	\$ 2.71	406,131	\$ 2.63
\$ 4.60	<u>5,000</u>	2.36	\$ 4.60	<u>3,750</u>	\$ 4.60
	<u>798,214</u>		<u>\$ 2.43</u>	<u>659,881</u>	<u>\$ 2.32</u>

All of the options granted to employees, officers and non employee directors in 2010 and 2009 have an exercise price equal to the fair market value of the share at date of grant.

c. Dividends:

During 2010 the Company paid dividends in the amount of \$ 1,865.

NOTE 10:- INCOME TAXES

a. Domestic - Israeli income taxes:

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

According to the law, until 2007, the results for tax purposes were measured based on the changes in the Israeli CPI.

In February 2008, the Knesset (Israel's parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

NOTE 10:- INCOME TAXES (Cont.)

2. Tax rates:

On July 25, 2005, the Knesset approved the Law of 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 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%.

In July 2009, the Knesset passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

3. 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 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 implemented the year 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 to such profits as if the Company had not elected the alternative system of benefits, currently between 20%-25% for an "Approved Enterprise" and "Beneficiary Enterprise".

NOTE 10:- INCOME TAXES (Cont.)

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. 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 new law, 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, 2010, 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 above law, regulations published thereunder 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 system of benefits.

NOTE 10:- INCOME TAXES (Cont.)

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

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

b. Tax assessments:

The Company has obtained final tax assessments from the Israeli Tax Authorities for the tax years through 2005.

c. Net operating carryforward losses:

The Company has accumulated losses for tax purposes as of December 31, 2010, in the amount of approximately \$ 8,418 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 \$ 1,326.

Foreign:

The carryforward losses of the French subsidiary, amounting to approximately \$ 13,217 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, amount to approximately \$ 9,002 as of December 31, 2010. 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 amount to approximately \$ 6,676 as of December 31, 2010. The majority of these carryforward losses can be utilized indefinitely.

NOTE 10:- INCOME TAXES (Cont.)

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,	
	2010	2009
Deferred tax asset in respect of carryforward losses	\$ 11,408	\$ 13,628
Valuation allowance	(10,799)	(13,115)
Net deferred tax asset	<u>\$ 609</u>	<u>\$ 513</u>

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

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

In 2010, 2009 and 2008, the main reconciling item between the statutory tax rate of the Company and the effective tax rate (0%) is recognition of a deferred tax asset for carryforward tax losses, for which a valuation allowance was provided in prior years

NOTE 11:- TRANSACTIONS WITH RELATED PARTIES

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

NOTE 12:- 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,		
	2010	2009	2008
Europe	\$ 11,859	\$ 11,342	\$ 15,464
Asia	6,736	6,424	5,784
Americas	10,097	8,860	8,749
Other	467	241	1,891
	<u>\$ 29,159</u>	<u>\$ 26,867</u>	<u>\$ 31,888</u>

NOTE 12:- GEOGRAPHIC INFORMATION (Cont.)

b. Long-lived assets by geographic region:

	December 31,	
	2010	2009
Israel	\$ 834	\$ 1,205
Europe	266	171
Americas	15	31
Other	17	35
	<u>\$ 1,132</u>	<u>\$ 1,442</u>

NOTE 13:- FINANCIAL INCOME (EXPENSES), NET

	Year ended		
	December 31,		
	2010	2009	2008
Financial income:			
Interest on bank deposits, net	126	56	158
	<u>\$ 126</u>	<u>\$ 56</u>	<u>\$ 158</u>
Financial expenses:			
Foreign currency transaction adjustments, net	(429)	(209)	(326)
Bank charges	(66)	(70)	(89)
	<u>(495)</u>	<u>(279)</u>	<u>(415)</u>
	<u>\$ (369)</u>	<u>\$ (223)</u>	<u>\$ (257)</u>

NOTE 14:-SUBSEQUENT EVENTS

On March 1, 2011, the Company's Board of Directors approved the distribution of earnings to the Company's shareholders in the amount of \$911.
