

ORBIT TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

U.S. DOLLARS IN THOUSANDS

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AUDITORS' REPORT**To the Shareholders of****Orbit Technologies Ltd.**

We have audited the consolidated balance sheets of Orbit Technologies Ltd. ("the Company") as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2013, 2012 and 2011 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated February 23, 2014, expressed an unqualified opinion on those statements.

The accompanying consolidated information, which are derived from the abovementioned financial statements, do not include disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the accompanying financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel
February 23, 2014


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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,197	2,714
Sort-term deposits	619	-
Accounts receivable	11,300	12,374
Other accounts receivable	619	1,108
Inventories	15,367	15,465
Amounts due for construction contracts	3,520	3,029
	<u>34,622</u>	<u>34,690</u>
NON-CURRENT ASSETS:		
Long-term prepaid receivables	49	41
Fixed assets	2,795	2,571
Intangible assets	6,791	3,034
Employee benefit assets	-	5
Deferred taxes	731	552
	<u>10,366</u>	<u>6,203</u>
	<u>44,988</u>	<u>40,893</u>


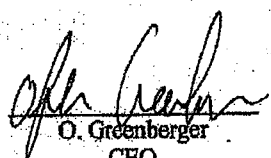
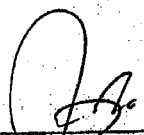
The accompanying note is an integral part of the consolidated financial statements.

ORBIT TECHNOLOGIES LTD.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	9,325	8,975
Trade payables	7,200	6,998
Income taxes payable	285	257
Other accounts payable	10,755	6,702
	<u>27,565</u>	<u>22,932</u>
NON-CURRENT LIABILITIES:		
Loans from banks	447	1,209
Employee benefit liability	134	-
Liability for Government grants	839	542
Excess of losses over investment in jointly controlled entity	79	17
	<u>1,499</u>	<u>1,768</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	3,832	3,801
Paid-in capital	6,314	6,139
Retained earnings	5,330	5,918
Reserve for share-based payment	704	624
Foreign currency translation adjustments	(24)	(68)
Reserve form hedges	-	-
Reserve for defined benefit plans	635	646
Treasury shares	(867)	(867)
	<u>15,924</u>	<u>16,193</u>
Total equity	<u>44,988</u>	<u>40,893</u>

The accompanying note is an integral part of the consolidated financial statements.

<p>February 23, 2014 Date of approval of the financial statements</p>	 <hr/> <p>Z. Stern Chairman of the Board</p>	 <hr/> <p>O. Greenberger CEO</p>	 <hr/> <p>A. Rozenshein CFO</p>
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CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
	(except per share data)		
Revenues from sales and contracts performed	46,626	41,198	51,378
Cost of sales and contracts performed	<u>32,757</u>	<u>28,658</u>	<u>32,527</u>
Gross profit	13,869	12,540	18,851
Research and development costs	3,728	4,205	5,939
Selling and marketing expenses	5,426	4,970	6,614
General and administrative expenses	3,991	3,765	4,515
Restructuring expenses	-	83	220
Expenses relating to deferred issuance	-	-	800
Other expenses (income), net	<u>90</u>	<u>74</u>	<u>95</u>
Operating income (loss)	634	(557)	668
Finance income	-	102	61
Finance expenses	1,264	633	698
Group's share of earnings (losses) of jointly controlled entity	<u>(62)</u>	<u>(11)</u>	<u>(49)</u>
Loss before taxes on income	(692)	(1,099)	(18)
Tax benefit	<u>(104)</u>	<u>(312)</u>	<u>(12)</u>
loss	<u>(588)</u>	<u>(787)</u>	<u>(6)</u>
loss per share attributable to equity holders of the Company (in U.S. dollars):			
Basic and Diluted loss	<u>(0.06)</u>	<u>(0.09)</u>	<u>(0.01)</u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
loss	(588)	(787)	(6)
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	-	64	(64)
Profit from cash flow hedges	-	(14)	14
Actuarial profit (loss) from defined benefit plans	(11)	(107)	176
Foreign currency translation adjustments of foreign operation	44	40	8
Total other comprehensive income (loss)	33	(17)	134
Total comprehensive income (loss)	(555)	(804)	128

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company							Total equity	
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	Reserve for hedges	Reserve for defined benefit plans		Treasury shares
Balance at January 1, 2011	3,756	5,768	8,727	742	(116)	-	577	(656)	18,798
Net income	-	-	(6)	-	-	-	-	-	(6)
Other comprehensive income (loss)	-	-	-	-	8	(50)	176	-	134
Total comprehensive income (loss)	-	-	(6)	-	8	(50)	176	-	128
Exercise of warrants into shares	42	356	-	(78)	-	-	-	-	320
Repurchase of shares	-	-	-	-	-	-	-	(211)	(211)
Dividend declared and paid	-	-	(1,162)	-	-	-	-	-	(1,162)
Cost of share based-payment	-	-	-	(14)	-	-	-	-	(14)
Balance at December 31, 2011	3,798	6,124	7,559	650	(108)	(50)	753	(867)	17,859
Loss	-	-	(787)	-	-	-	-	-	(787)
Other comprehensive income (loss)	-	-	-	-	40	50	(107)	-	(17)
Total comprehensive income (loss)	-	-	(787)	-	40	50	(107)	-	(804)
Exercise of warrants into shares	3	15	-	-	-	-	-	-	18
Dividend declared and paid	-	-	(854)	-	-	-	-	-	(854)
Cost of share based-payment	-	-	-	(26)	-	-	-	-	(26)
Balance at December 31, 2012	3,801	6,139	5,918	624	(68)	-	646	(867)	16,193
Loss	-	-	(588)	-	-	-	-	-	(588)
Other comprehensive income (loss)	-	-	-	-	44	-	(11)	-	(33)
Total comprehensive income (loss)	-	-	(588)	-	44	-	(11)	-	(555)
Exercise of warrants into shares	31	127	-	(2)	-	-	-	-	156
Forfeiture of Options	-	48	-	(48)	-	-	-	-	-
Cost of share based-payment	-	-	-	130	-	-	-	-	130
Balance at December 31, 2013	3,832	6,314	5,330	704	(24)	-	635	(867)	15,924

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	(588)	(787)	(6)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	877	738	974
Share of losses (earnings) of jointly controlled entity	62	11	49
Cost of share-based payment	130	(26)	(14)
Capital gain from sale of fixed assets	-	-	(5)
Tax benefit	(104)	(312)	(12)
Interest expenses, net	628	539	283
Change in employee benefit assets, net	128	67	147
Adjustment to current accounts with foreign operation	109	(5)	(22)
	<u>1,830</u>	<u>1,012</u>	<u>1,400</u>
Changes in asset and liability items:			
Decrease in trade receivables	1,079	3,368	239
Decrease (increase) in amounts due for construction contracts	(491)	115	(1,513)
Decrease (increase) in other accounts receivable	485	(279)	234
Decrease (increase) in inventories	113	1,129	(3,422)
Increase (decrease) in trade payables	292	427	(1,375)
Increase (decrease) in other accounts payable	4,036	(125)	(3,081)
	<u>5,514</u>	<u>4,635</u>	<u>(8,918)</u>
Cash paid and received during the year for:			
Interest paid	(550)	(405)	(265)
Interest received	-	14	-
Taxes paid	(55)	(74)	(19)
Taxes received	8	140	-
	<u>(597)</u>	<u>(325)</u>	<u>(284)</u>
Net cash provided by (used in) operating activities	<u>6,159</u>	<u>4,535</u>	<u>(7,808)</u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
<u>U.S. dollars in thousands</u>			
<u>Cash flows from investing activities:</u>			
Purchase of intangible assets and capitalization of research and development costs	(3,988)	(2,257)	(178)
Purchase of fixed assets	(962)	(819)	(1,024)
Deposit to short-term deposits	(619)	-	-
Proceeds from sale of fixed assets	-	-	5
Net cash provided by investing activities	<u>(5,569)</u>	<u>(3,076)</u>	<u>(1,197)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	1,438	(1,005)	8,059
Repurchase of shares	-	-	(211)
Dividend declared and paid to equity holders of the Company	-	(854)	(1,162)
Receipt of Government grants	327	394	22
Payments for Government grants	(77)	(73)	(58)
Receipt of loans from banks	78	1,500	-
Payments of loans from banks	(1,928)	(1,369)	-
Exercise of warrants into shares	158	18	320
Net cash provided by (used in) financing activities	<u>(4)</u>	<u>(1,389)</u>	<u>6,970</u>
Translation differences on balances of cash and cash equivalents	<u>(103)</u>	<u>(2)</u>	<u>(2)</u>
Increase (decrease) in cash and cash equivalents	483	68	(2,037)
Cash and cash equivalents at the beginning of the year	<u>2,714</u>	<u>2,646</u>	<u>4,683</u>
Cash and cash equivalents at the end of the year	<u><u>3,197</u></u>	<u><u>2,714</u></u>	<u><u>2,646</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>77</u>	<u>167</u>	<u>-</u>

The accompanying note is an integral part of the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS AND GEOGRAPHICAL SEGMENTS

a. Operating segments:

The operating segments are identified on the basis of information that is regularly reviewed by the Company's CEO which has been identified as the strategic steering committee to make strategic decisions in the Company (chief operating decision maker, "CODM").

The CODM decided that there is one internally reportable operation segments-development, marketing and manufacturing of superior performance communication equipment solutions.

b. Secondary reporting on geographical segments:

The geographical segments are presented based on the location of customers:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Israel	10,858	9,827	15,809
Europe	13,257	12,243	8,965
America	17,895	13,257	11,809
East Asia	4,616	5,871	14,795
	<u>46,626</u>	<u>41,198</u>	<u>51,378</u>

c. Major customers:

Revenues from major customers each of whom amount to 10% or more of total revenues (in percentages):

	Year ended December 31,		
	2012	2012	2011
	%		
Customer A	23	17	8
Customer B	0.2	9	17
Customer C	4	7	16
