PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 2010 (Unaudited)

Contents

The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the nine months ended on September 30, 2010.

***Notice**: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events. Management emphasizes that the assumptions do not, in any way, imply commitment towards realization. The outcome of which is subject to certain risks and other factors, which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.*

Reference in this report to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

1. A concise description of the corporation and its business environment

A. The Group

Payton Planar Magnetics Ltd. ("the Company") and its consolidated subsidiaries: Payton America Inc. ("Payton America"), Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to September 2010

The Company, an Israeli High-Tech enterprise, develops, manufactures and markets Planar transformers worldwide. The Company was founded in order to revolutionize the traditional approach to the design and manufacture of transformers through the concept of Planar transformers. The Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

- **Signing MOU licensing mass production - January 13, 2010 -** The Company signed a Memorandum of Understanding ("MOU") with the Korean company Bujeon Electronics Co. ("Bujeon"). Under the terms of the MOU, Bujeon will be licensed to manufacture Planar Transformers for the TV and monitor markets.

Bujeon has mass production capabilities and specializes in manufacturing conventional inductive components to telecom, acoustic and computing markets.

A principal customer of Payton (Customer D), a major global electronics company in Korea, has introduced both companies to each other in order to enable it to integrate the Planar Transformers in its mass consumer electronic products.

By the date of signing these financial statements, it seems that this project of which Payton-Bujeon handled together is slowing down and expected to reach its E.O.L (End of Life) by mid 2011. However, only about 7.5% of the whole backlog as of 30.9.10, represents open order for this project.

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[1] The financial statements as at September 30, 2010 form an integral part thereof.

C. Principal customers

The consolidated sales revenues include sales to major customers (which make up in excess of 10% of the sales of the Group).

	For the nine-month period ended September 30	For the year ended December 31	For the nine-month period ended September 30
	2010	2009	2009
Customer A	26.0%	*	*
Customer B	*	**16.7%	**22.5%
Customer C	*	11.9%	11.5%
Customer D	24.4%***	*	*

* Less than 10% of the Group's consolidated sales.

** It is noted that the major project of this customer ended on September 2009.

*** It is noted that the major project of this customer is slowing down and expected to reach its E.O.L (End of Life) by mid 2011.

D. Marketing

During 2010 the Group participated in the following exhibitions:

- January 2010, "Hespek & Bakara, New-tech 2010" exhibition in Tel-Aviv, Israel.
- February 2010, "APEC 2010" exhibition in California, U.S.A.
- March 2010, "Technology Hi-tech 2010" exhibition in Tel-Aviv, Israel.
- May 2010, "Technology & Military" exhibition in Airport City, Israel.
- May 2010, "PCIM" exhibition in Nurnberg, Germany.
- June 2010, "EP&T Electronic products & Technology magazine" exhibition in Vancouver, Canada.
- September 2010, MDDI exhibition in Haifa, Israel.
- October 2010, SAE Convergence conference & exhibition in Michigan, USA.
- November 2010, "Electronica" exhibition in Munich, Germany.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2010 were USD 12,413 thousand (December 31, 2009 - USD 6,400 thousand). The backlog is composed only of firm orders.

However, it is noted, that out of the USD 12,413 thousands backlog (30.9.10), only about USD 900 thousands are of "customer D" (which his major project is expected to reach its end of life by mid 2011).

Management estimates that most of the backlog as of 30.9.10 will be supplied by September 30, 2011.

2. Financial position

A. Statement of Financial Position as at September 30, 2010

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 16,008 thousand as at September 30, 2010 compared to USD 14,176 thousand as at December 31, 2009 and USD 15,235 thousand as at September 30, 2009. The increase in these items is explained by the materialization of Marketable securities available for sale and by the profitable results of the business activity, covering up the increase in working capital and the dividend payment made on January 2010 (USD 1,679 thousand).

Trade accounts receivable - these amounted to USD 7,087 thousand as at September 30, 2010 compared to USD 2,487 thousand as at December 31, 2009 and USD 3,262 thousand as at September 30, 2009. The increase in this item at September 30, 2010, is explained by the significant sales volume increase.

Long term deposits - these amounted to USD 2,051 thousand as at September 30, 2010 compared to USD 2,014 thousand as at December 31, 2009 and USD 0 thousand as at September 30, 2009. The long-term deposits consist of 3 years time deposits; enable a penalty free exit point after each year.

Marketable securities available for sale (non- current assets) - these amounted to USD 957 thousand as at September 30, 2010 compared to USD 2,813 thousand as at December 31, 2009 and USD 2,783 thousand as at September 30, 2009. The decrease in this item, during the period of nine months ended September 30, 2010, resulted by the sales of two (out of three) ARS securities, at USD 1,886 thousand (Par value - USD 1,975 thousand).

The remaining balance represents Company's holding of securities with an Auction Reset feature ("ARS"), which their fair value was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

Trade payables - these amounted to USD 3,303 thousand as at September 30, 2010 compared to USD 1,128 thousand as at December 31, 2009 and USD 1,642 thousand as at September 30, 2009. The increase at September 30, 2010 is explained by the increase in business activity.

Other payables - these amounted to USD 1,719 thousand as at September 30, 2010 compared to USD 1,238 thousand as at December 31, 2009 and USD 875 thousand as at September 30, 2009. The increase at September 30, 2010 is mainly explained by increase in commission liability to Company's rep's and in current liabilities to related parties.

B. Fair value analysis of Marketable Securities available for sale

The Company invested in U.S. Auction Rate Securities (“ARS”), a debt instrument issued by local authorities, high education institutions and others, with a long-term nominal maturity (much more than 10 years), for which the interest rate is regularly reset through an auction. In the said auction, broker-dealers submit bids on behalf of potential buyers and sellers of the bond. Based on the submitted bids, the auction agent will set the next interest rate as the lowest rate to match supply and demand. Auctions are typically held every 7 or 28 days; interest on these securities is paid at the end of each auction period.

Starting year 2008 and in light of the liquidity crisis in the American market, the Company appealed for a valuation regarding the fair value of the ARS it holds.

During the first and the second quarters of 2010 the Company accepted offers to materialize two of its ARS securities at a rate of 96% and 95% respectively, from their par value, (Par value - USD 1,975 thousand). In exchange for these sales of ARS the Company received USD 1,886 thousand.

As at September 30, 2010 the fair value of the remaining ARS was assessed at the amount of USD 957 thousand, compared to USD 949 thousand as at December 31, 2009 (Par value - USD 1,000 thousand). The valuation was prepared by an external, independent appraiser (Houlihan Smith & Company Inc.) having suitable professional skills.

The Company included the total of this fair value decline in a capital reserve. It is noted that, according to that valuation, the change in fair value of the aforementioned securities is due to changes in current market conditions and in the liquidity of the markets, and is not due to financial difficulties or liquidity problems of the instrument’s issuer.

Furthermore, management of the Company estimated that it will not be possible to materialize the said securities at their stated value in the short-term, therefore it intends to hold them for a long-term or until their value rises back to their par value or near to it.

The balance of the securities as at September 30, 2010 and 2009 and as at December 31, 2009 was presented as long-term available for sale securities.

C. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 7-9/10	Quarter 4-6/10	Quarter 1-3/10	Quarter 10-12/09	Quarter 7-9/09
Sales revenues	7,685	7,059	3,944	3,603	4,017
Cost of sales	4,276	3,764	2,533	2,201	2,451
Gross profit	*3,409*	*3,295*	*1,411*	*1,402*	*1,566*
Development costs	(170)	(158)	(164)	(151)	(162)
Selling & marketing expenses	(580)	(569)	(368)	(342)	(306)
General & administrative expenses	(700)	(661)	(511)	(641)	(503)
Other income (expenses)	-	(2)	-	-	-
Operating income	*1,959*	*1,905*	*368*	*268*	*595*
Finance income (expenses), net	259	(142)	(40)	54	248
Profit before income taxes	*2,218*	*1,763*	*328*	*322*	*843*
Income taxes	(507)	(16)	(92)	(65)	(228)
Net profit for the period	*1,711*	*1,747*	*236*	*257*	*615*

General Note: The Group is exposed to the erosion of the USD in relation to the NIS and to the Euro.
Most of the Group's salaries and other operating costs are fixed in NIS. Revaluation/devaluation of the local Israeli currency drives to an increase/decrease (respectively) in labor costs and other operating costs, thus, affects the operating results of the Company. The average rate of the USD with relation to the NIS, during the first nine months of 2010, went down by 4.1% compared with average rate of year 2009, and by 5.5% compared with average rate of the first nine months of 2009, reflecting an increase in the above-mentioned costs when they are presented in USD.

***Sales revenues* -** The Group's sales revenue for the nine-month period ended September 30, 2010 were USD 18,688 thousand compared with USD 10,402 thousand in the nine-month period ended September 30, 2009. The Group's sales revenues for the three-month period ended September 30, 2010 were USD 7,685 thousand compared with USD 4,017 thousand in the three-month period ended September 30, 2009.
The sales growth is an outcome of few new projects matured and transferred to production. The sales were also affected by the global upturn.

***Gross profit* -** The Group's gross profit for the nine-month period ended September 30, 2010 amounted USD 8,115 thousand (43.4% of sales) compared with USD 3,917 thousand (37.7% of sales) in the nine-month period ended September 30, 2009. The Group's gross profit for the three-month period ended September 30, 2010 amounted USD 3,409 thousand (44.4% of sales) compared with USD 1,566 thousand (39.0% of sales) in the three-month period ended September 30, 2009.

The increase in the gross profit relates to the growth in sales, whereas, part of the expenses included in the cost of sales did not increase in a similar proportion.

Development costs - Payton’s R&D strategy is aimed on maintaining the leadership of the Planar Technology. The R&D department works in conjunction with R&D departments of the forerunners of today’s global technology, and together they define tomorrow’s technological needs. Costs were based upon time expended by the department’s employees. The group’s development costs for the nine months ended September 30, 2010 were USD 492 thousand.

Selling & marketing expenses - The Group’s selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps’ and Marketing Personnel, which are calculated as a portion of sales. The Group’s marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.
The Group’s Selling & marketing expenses for the nine-month period ended September 30, 2010 amounted USD 1,517 thousand compared with USD 718 thousand in the nine-month period ended September 30, 2009. The increase in these expenses is inline with the increase in sales.

General & Administrative expenses - The increase in these expenses in the nine-month period ended September 30, 2010 compared with the nine-month period ended September 30, 2009 stemmed of increase in Parent Company’s joint G&A expenses mainly due to management incentives derived of the Group’s improved profitability.

Finance income (expenses), net - The Group’s finance income, net, for the nine-month period ended September 30, 2010 amounted USD 77 thousand. The finance income stemmed from interest on deposits and form increase in marketable securities market value, was shorten by erosion of financial assets (in Euro and in NIS), and by loss from selling the ARS Marketable Securities available for sale.

Income Taxes - Tax expenses for the nine-month period ended September 30, 2010 amounted to USD 615 thousand (14%). Tax expenses for the nine-month period ended September 30, 2009 amounted to USD 450 thousand (25%). The decrease in tax expenses percentage resulted mainly from local tax benefits and recognition of tax assets (deferred taxes) on losses.

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the Statement of Financial Position:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	September 30, 2010*	**December 31, 2009***	**September 30, 2009**
Current ratio[2]	3.98	3.61	5.53
Quick ratio[3]	3.64	3.22	4.97

* As at September 30, 2010 and as at December 31, 2009 - USD 2,051 thousand and USD 2,014 thousand, respectively, are presented as Long-term Deposits consisted of 3 years time deposits; enable a penalty free exit point after each year.

B. Operating activities

Cash flow generated from operating activities for the nine-month period ended September 30, 2010 amounted USD 1,904 thousand, compared with Cash flow generated from operating activities of USD 1,404 thousand for the nine-month period ended September 30, 2009. The cash flow for the first nine months of 2010, compared with the same period last year, was mostly affected by: increase in the net profit, trade receivables and trade payables - as result of the significant growth in business activity.

C. Investing activities

Cash flow generated from investing activities in the nine-month period ended September 30, 2010, amounted USD 1,153 thousand, compared with USD 2,131 thousand in the nine-month period ended September 30, 2009.
Cash flow generated from investing activities in the first nine months of 2010 resulted mainly from proceed from sale of marketable securities offset by investment in short-term deposits and in fixed-assets.
Cash flows generated from investing activities in the first nine-months of previous year (2009) resulted mainly from proceeds from short-term bank deposits.

D. Financing activities

Cash flow used for financing activities in the nine-month period ended September 30, 2010, amounted USD 1,679 thousand representing a payment of dividend.

4. Financing sources

The Group financed its activities during the reported period from its own resources.

[2] Current ratio calculation – Current assets / Current liabilities
[3] Quick ratio calculation – (Current assets – Inventories) / Current liabilities

5. External factors effects

5.1 Revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Group's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.

5.2 Devaluation of the Euro in relation to the U.S. Dollar leads to a decrease in company's assets in Euro.

To the best of the Board of Directors' and management's knowledge, except the above mentioned, there have been no significant changes in external factors that may materially affect the Company's financial position or results of operations.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.

The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

David Yativ
Chairman of the Board of Directors
and C.E.O.

Rishon Lezion, November 18, 2010.

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Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Planar Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of September 30, 2010 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a subsidiary whose assets constitute 8% of the total consolidated assets as at September 30, 2010, and whose revenues constitute 11% and 9% of the total consolidated revenues for the nine and three-month periods then ended, respectively. The condensed interim financial information of the subsidiary was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such company, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Somekh Chaikin
Certified Public Accountants (Isr.)
(A Member of KPMG International)

November 18, 2010

Condensed Consolidated Interim Statement of Financial Position as at

	September 30 2010	September 30 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	**9,292**	11,802	7,961
Marketable securities held for trading	**1,775**	1,183	1,683
Short-term deposits	**4,941**	2,250	4,532
Trade accounts receivable	**7,087**	3,262	2,487
Other accounts receivable	**172**	202	111
Inventory	**2,204**	2,111	2,004
Total current assets	**25,471**	20,810	18,778
Non-current assets			
Long-term deposits	**2,051**	-	2,014
Marketable securities available for sale	**957**	2,783	2,813
Other investment	**348**	348	348
Property, plant and equipment, net	**1,810**	1,689	1,758
Deferred taxes	**164**	59	71
Total non-current assets	**5,330**	4,879	7,004
Total assets	**30,801**	25,689	25,782

David Yativ
Chief Executive Officer and
Chairman of the Board of Directors

Michal Lichtenstein
V.P. Finance & CFO

November 18, 2010

Condensed Consolidated Interim Statement of Financial Position as at (cont'd)

	September 30 2010	September 30 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**3,303**	1,642	1,128
Other payables	**1,719**	875	1,238
Dividend payable	**-**	-	1,679
Current tax liability	**1,371**	1,245	1,158
Total current liabilities	**6,393**	3,762	5,203
Non-current liabilities			
Employee benefits	**211**	150	194
Total non-current liabilities	**211**	150	194
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Capital fund for available-for-sale assets	**(44)**	(192)	(162)
Accumulated earnings	**10,412**	8,140	6,718
Total equity	**24,197**	21,777	20,385
Total liabilities and equity	**30,801**	25,689	25,782

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the nine months ended September 30		For the three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**18,688**	10,402	**7,685**	4,017	14,005
Cost of sales	**(10,573)**	(6,485)	**(4,276)**	(2,451)	(8,686)
Gross profit	**8,115**	3,917	**3,409**	1,566	5,319
Development costs	**(492)**	(456)	**(170)**	(162)	(607)
Selling and marketing expenses	**(1,517)**	(718)	**(580)**	(306)	(1,060)
General and administrative expenses	**(1,872)**	(1,431)	**(700)**	(503)	(2,072)
Other expenses	**(2)**	-	-	-	-
Operating income	**4,232**	1,312	**1,959**	595	1,580
Finance income	**247**	538	**274**	258	599
Finance expenses	**(170)**	(22)	**(15)**	(10)	(29)
Finance income, net	**77**	516	**259**	248	570
Profit before income taxes	**4,309**	1,828	**2,218**	843	2,150
Income taxes (Note 4)	**(615)**	(450)	**(507)**	(228)	(515)
Net profit for the period	**3,694**	1,378	**1,711**	615	1,635
Other comprehensive income					
Net change in fair value of available-for-sale assets transferred to profit or loss	**89**	-	-	-	-
Net change in fair value of available-for-sale assets	**29**	123	**19**	9	153
Total comprehensive income for the period	**3,812**	1,501	**1,730**	624	1,788
Basic earnings per ordinary share (in $)	**0.21**	0.08	**0.10**	0.03	0.09

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital		Share premium	Capital fund for available-for-sale assets	Accumulated earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the nine months ended September 30, 2010 (Unaudited)						
Balance at January 1, 2010	**17,670,775**	**4,836**	**8,993**	**(162)**	**6,718**	**20,385**
Total comprehensive income for the period						
Net profit for the period	**-**	**-**	**-**	**-**	**3,694**	**3,694**
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	**-**	**-**	**-**	**89**	**-**	**89**
Net change in fair value of available-for-sale assets	**-**	**-**	**-**	**29**	**-**	**29**
Total comprehensive income for the period	**-**	**-**	**-**	**118**	**3,694**	**3,812**
Balance at September 30, 2010	**17,670,775**	**4,836**	**8,993**	**(44)**	**10,412**	**24,197**
For the nine months ended September 30, 2009 (Unaudited)						
Balance at January 1, 2009	17,670,775	4,836	8,993	(315)	6,762	20,276
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	1,378	1,378
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	123	-	123
Total comprehensive income for the period	-	-	-	123	1,378	1,501
Balance at September 30, 2009	17,670,775	4,836	8,993	(192)	8,140	21,777
For the three months ended September 30, 2010 (Unaudited)						
Balance at July 1, 2010	**17,670,775**	**4,836**	**8,993**	**(63)**	**8,701**	**22,467**
Total comprehensive income for the period						
Net profit for the period	**-**	**-**	**-**	**-**	**1,711**	**1,711**
Other comprehensive income						
Net change in fair value of available-for-sale assets	**-**	**-**	**-**	**19**	**-**	**19**
Total comprehensive income for the period	**-**	**-**	**-**	**19**	**1,711**	**1,730**
Balance at September 30, 2010	**17,670,775**	**4,836**	**8,993**	**(44)**	**10,412**	**24,197**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity (cont'd)

	Share capital		Share	Capital fund for available-	Accumulated	
	Number of shares	$ thousands	premium $ thousands	for-sale assets $ thousands	earnings $ thousands	Total $ thousands
For the three months ended September 30, 2009 (Unaudited)						
Balance at July 1, 2009	17,670,775	4,836	8,993	(201)	7,525	21,153
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	615	615
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	9	-	9
Total comprehensive income for the period	-	-	-	9	615	624
Balance at September 30, 2009	17,670,775	4,836	8,993	(192)	8,140	21,777
For the year ended December 31, 2009 (Audited)						
Balance at January 1, 2009	17,670,775	4,836	8,993	(315)	6,762	20,276
Total comprehensive income for the year						
Net profit for the year	-	-	-	-	1,635	1,635
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	153	-	153
Total comprehensive income for the year	-	-	-	153	1,635	1,788
Transactions with owners, recorded directly in equity, contributions by and distribution to owners						
Dividend to equity holders	-	-	-	-	(1,679)	(1,679)
Balance at December 31, 2009	17,670,775	4,836	8,993	(162)	6,718	20,385

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

	For the nine months ended September 30		For the three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Net Operating activities					
Net profit for the period	**3,694**	1,378	**1,711**	615	1,635
Adjustments to reconcile net profit to net cash generated from operating activities:					
Depreciation	**206**	192	**71**	61	256
Capital loss on sale of equipment	**2**	-	**-**	-	-
Increase (decrease) in employee benefits	**17**	(2)	**14**	6	42
(Increase) decrease in trade receivables	**(4,600)**	454	**(961)**	520	1,229
(Increase) decrease in other accounts receivable	**(31)**	(144)	**4**	(134)	(53)
(Increase) decrease in inventory	**(200)**	(39)	**4**	59	68
Increase (decrease) in trade payables	**2,189**	188	**444**	41	(344)
Increase (decrease) in other payables and tax liability	**664**	(537)	**480**	39	(261)
(Increase) decrease in deferred taxes	**(93)**	31	**17**	28	19
Finance expenses (income), net	**56**	(117)	**(184)**	(129)	(112)
Cash flows generated from operating activities	**1,904**	1,404	**1,600**	1,106	2,479
Investing activities					
Investments in marketable securities held for trading	**-**	(84)	**-**	(84)	(784)
Proceeds from sale of marketable securities held for trading	**-**	236	**-**	96	442
Proceeds from sale of marketable securities available for sale	**1,886**	-	**-**	-	-
(Investments in) proceeds from short-term deposits, net	**(409)**	2,249	**254**	2,238	(33)
Investments in long-term deposits	**(50)**	-	**(50)**	-	(2,014)
Investment in property, plant and equipment	**(302)**	(277)	**(99)**	(23)	(392)
Proceeds from sale of equipment	**28**	7	**6**	-	7
Cash flows generated from (used for) investing activities	**1,153**	2,131	**111**	2,227	(2,774)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows (cont'd)

	For the nine months ended September 30		For the three months ended September 30		Year ended December 31
	2010	**2009**	**2010**	**2009**	**2009**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Financing activities					
Dividend paid	**(1,679)**	-	**-**	-	-
Cash flows used for financing activities	**(1,679)**	-	**-**	-	-
Net increase (decrease) in cash and cash equivalents	**1,378**	3,535	**1,711**	3,333	(295)
Cash and cash equivalents at beginning of the period	**7,961**	8,230	**7,449**	8,429	8,230
Effect of exchange rate fluctuations on cash held	**(47)**	37	**132**	40	26
Cash and cash equivalents at end of the period	**9,292**	11,802	**9,292**	11,802	7,961
Supplementary disclosure					
Interest received included in cash flows generated from operating activities	**169**	229	**93**	102	309
Tax paid included in cash flows generated from operating activities	**525**	778	**230**	113	943

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Note 1 - Reporting Entity

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992 and its headquarters are located at 14 Hahoma Street, Rishon Le Zion. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). In June 1998, the Company completed its initial public offering in the Euro NM.

B. The Company develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiary and distributors. Its manufacturing includes the manufacture of printed circuits.

Note 2 - Basis of Preparation

A. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2009 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on November 18, 2010.

B. The preparation of interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements.

Note 3 - Significant Accounting Policies

Except as described below in Item (1), the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

Presented hereunder is a description of the changes in accounting policies that were applied in these condensed consolidated interim financial statements and their effect:

(1) Initial implementation of new standards

Business combinations and transactions with non-controlling interests

As from January 1, 2010 the Group implements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – IFRS 3 and IAS 27, respectively).

Note 3 - Significant Accounting Policies (cont'd)

(1) Initial implementation of new standards (cont'd)

Business combinations and transactions with non-controlling interests (cont'd)

The principal revisions are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- Transactions resulting in the parent company losing control over a subsidiary are to be accounted for so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
- In business combinations achieved in stages, the difference between the fair value at the first date of consolidation and the carrying amount of the original investment at that date, is recognized in profit or loss.
- Non-controlling interests will be measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Transactions with non-controlling interests while retaining control are accounted for as equity transactions, so that any difference between the consideration paid or received and the change in non-controlling interests is included in the share of the Company’s owners in equity.
- Costs associated with the acquisition that were incurred by the acquirer in respect of the business combination are accounted for as an expense in the period they are incurred and the services are received.
- Contingent consideration is measured at fair value at the date of the business combination. Subsequent to the date of acquisition, changes in the fair value of a contingent consideration classified as a financial liability are recognized in profit or loss.
- Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.
- Profit or loss and any part of other comprehensive income are allocated to the equity holders of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.
- The discounted exercise price of a put option granted by the Group to non-controlling interests is recognized as a financial liability. In subsequent periods, changes in value of the liability are recognized in profit or loss.
- On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination, even if it is not included in the financial statements of the acquiree, if there is a present obligation resulting from past events and its fair value can be reliably measured.
- The definition of non-controlling interests has been broadened and includes in it additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

The revisions to the accounting policies that are described above are applied on a prospective basis, and did not have any effect on the financial statements.

Note 3 - Significant Accounting Policies (cont'd)

(2) New standards and interpretations not yet adopted

A. IFRS 9 (2010), *Financial Instruments* (hereinafter – the Standard) – This Standard is one of the stages in a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities. In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability be presented in other comprehensive income, with the remaining amount being included in profit or loss. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

The Standard is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the appendix to the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods.

The Group has not yet commenced examining the effect of adopting the Standard on the financial statements.

Note 3 - Significant Accounting Policies (cont’d)

(2) New standards and interpretations not yet adopted (cont’d)

B. In the framework of *Improvements to IFRSs* 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and to one interpretation on various accounting issues. Most of the amendments shall apply to periods beginning on or after January 1, 2011 and permit early adoption, subject to the specific conditions of each amendment.

Presented hereunder are the amendments that have not been early adopted and may be relevant to the Group, and which are expected to have an effect on the financial statements:

- Amendment to IAS 34 *Interim Financial Reporting* - Significant events and transactions (hereinafter - "the Amendment") - The Amendment expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment of financial assets and changes in the classification of assets as a result of changes in their purpose or use.
  In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
- Amendment to IAS 1 *Presentation of Financial Statements* - Presentation of statement of changes in equity (hereinafter - "the Amendment") - In accordance with the Amendment a reconciliation between the carrying amount at the beginning of the period and the carrying amount at its end for each component of equity is required to be presented in the statement of changes in equity, while separately disclosing changes arising from profit or loss, other comprehensive income and transactions with the owners in their capacity as owners. Such a reconciliation should also be presented for each component of other comprehensive income either in the statement of changes in equity or in the notes. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

Note 4 - Income Taxes

Non-application of International Financial Reporting Standards (IFRS) for tax purposes

On February 4, 2010 Amendment 174 to the Income Tax Ordinance – Temporary Order for Tax Years 2007, 2008 and 2009 was published in the official gazette (hereinafter – “the Amendment to the Ordinance”). In accordance with the Amendment to the Ordinance, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) shall not apply when determining the taxable income for those years even if it was applied when preparing the financial statements.

As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) with respect to the taxable income for 2010.

The effect on the financial statements of the Amendment to the Ordinance with respect to the taxable income for the years 2007-2009 is immaterial.

Note 5 - Dividend Paid

A dividend in the amount of USD 1,679 (USD 0.095 per share) announced in November 2009 was paid off in January 2010.