PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 2009 (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, 2009.

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 2009

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 invention is patented in North America, Europe and Japan. The Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

- **Qualifications of Automotive International Standard "ISO/TS 16949 : 2002" & Aerospace and Avionics International Standard "AS 9100" -** in the first half of 2009 the Company successfully passed all tests and was awarded with both certifications.
  Payton management believes that those two important certifications will help to further penetrate the Automotive and Space/Avionic markets giving Payton a competitive advantage in the global market.

- **Global Environment and External factors effect on the Group's activity -** The downturn in the global financial markets that started in 2008 didn't end by the third quarter of 2009. A credit crisis is still effective.
  The global economic crisis affects the business positions of the Group's customers resulting in orders and sales slowdown. Due to the fact that the exact course the crisis is expected to follow cannot be foreseen, it is not possible to assess its consequences to the Group. The Company Management is closely monitoring the situation and will continue to track its developments and effects. In addition, the Company Management is taking all necessary actions in order to cope with the situation, to the greatest extent possible.

[1] The financial statements as at September 30, 2009 form an integral part thereof.

- **A possible purchase of a real-estate property -** On July 2, 2009 Payton Industries, the parent company, informed that it is negotiating a possible purchase of a real-estate property located in the central area of Israel, at a value of NIS 13 Millions +V.A.T (€ 2.4 Millions + V.A.T).

  On November 5, 2009 Payton Industries reported that, due to circumstances that do not depend on it, these negotiations ended without reaching an agreement.

- **Dividend Policy -** On November 26, 2009 the Company's Board of Directors decided to pay the members an interim dividend on account of the dividend for the financial year 2008, at the amount of USD 1,679 thousands (USD 0.095 per share, to be paid on January 12, 2010). The Board shall recommend the General Meeting to approve the said amount as final.

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**
	2009	**2008**	**2008**
Customer A	*	19.0%	20.5%
Customer B	11.5%	15.0%	16.9%
Customer C	22.5% **	*	*

* Less than 10% of the Group's consolidated sales.
** It is noted that the major project of this customer ended on September 2009.

D. Marketing

During the period from January to September 2009 the Group participated in the following exhibitions:

- February 2009, "APEC 2009" exhibition in Washington, U.S.A.
- March 2009, "Technology Hitech 2009" exhibition in Tel-Aviv, Israel.
- May 2009, "Technology & Military" exhibition in Airport City, Israel and "PCIM" exhibition in Nuremberg, Germany.
- June 2009, "The 36th international conference of the Audio Engineering Society" exhibition in Michigan, USA; and, "Electronic Americans" exhibition in São Paulo Anhembi Park, Brazil.
- September 2009, "Technology & Aviation" exhibition in Airport City, Israel; and, "Automotive Hybrid Power Conference" in Detroit, USA.
- October 2009, "Audio Engineering Society Conference" in New York, USA.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2009 were USD 4,317 thousand (December 31, 2008 - USD 4,045 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 30.9.09 will be supplied until June 30, 2010.

2. Financial position

A. Statement of Financial Position as at September 30, 2009

Cash and cash equivalents, Marketable securities and Short-term Deposits **-** these three items amounted to a total of USD 15,235 thousand as at September 30, 2009 compared to USD 13,984 thousand as at December 31, 2008 and USD 13,306 thousand as at September 30, 2008. The increase resulted mainly of the net profit for the period.
It is noted that Company’s holding of securities with an Auction Reset feature (“ARS”), are presented as a long-term investment among the non-current assets.

Trade accounts receivable **-** these amounted to USD 3,262 thousand as at September 30, 2009 compared to USD 3,716 thousand as at December 31, 2008 and USD 4,000 thousand as at September 30, 2008. Though the quarterly sales of Q3/2009 compared to Q4/2008 increased, a decrease in this item was noted, mainly due to a decrease in the average credit period.

Marketable securities available for sale (non- current assets) - these amounted to USD 2,783 thousand as at September 30, 2009 compared to USD 2,660 thousand as at December 31, 2008 and USD 2,857 thousand as at September 30, 2008. The said amounts represent 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.

Deferred Taxes **-** these amounted to USD 59 thousand as at September 30, 2009 compared to USD 90 thousand as at December 31, 2008 and USD 239 thousand as at September 30, 2008. The decrease in this item as of September 30, 2009 compared to September 30, 2008, resulted mainly from using its tax assets. It is noted that, in order to avoid exchange rate exposure in the Company’s tax reports, starting year 2009 the Company edits its tax reports in USD instead of in New Israeli Shekel (“NIS”) it used in the past. (See also note 4 to the financial statements as at 30.9.09).

Other payables **-** these amounted to USD 875 thousand as at September 30, 2009 compared to USD 1,053 thousand as at December 31, 2008 and USD 1,198 thousand as at September 30, 2008. The decrease in this item resulted mainly due to a decrease in current liabilities to related parties and in payable expenses.

Current tax liability **-** these amounted to USD 1,245 thousand as at September 30, 2009 compared to USD 1,625 thousand as at December 31, 2008 and USD 1,358 thousand as at September 30, 2008. The decrease in this item as of September 30, 2009 compared to December 31, 2008 is mainly due to tax payment made during 2009.

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.

In the first quarter of previous year (2008), these ARS securities were classified as short-term held for trading securities. During the second quarter of 2008 the Company reexamined their classification and reached the conclusion that the aforementioned securities should have been classified on the date of purchase as short-term available for sale securities.

By the end of the first quarter of 2008 these ARS were presented at their par value. Starting the second quarter of 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. As at September 30, 2009 the fair value of ARS was assessed at the amount of USD 2,783 thousand, compared to USD 2,660 thousand as at December 31, 2008 and compare to USD 2,857 thousand as at September 30, 2008 (Par value - USD 2,975 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, amounting USD 192 thousand 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 believes that it will not be possible to materialize the said securities at their stated value in the short-term, and intends to hold them for a long-term or until their value rises back to their par value. Therefore and in accordance with IAS 39, the Company did not recognize impairment of the securities. The balance of the securities as at September 30, 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 7-9/09	Quarter 4-6/09	Quarter 1-3/09	Quarter 10-12/08	Quarter 7-9/08
Sales revenues	4,017	3,673	2,712	3,554	4,246
Cost of sales	2,451	2,318	1,716	2,083	2,655
Gross profit	*1,566*	*1,355*	*996*	*1,471*	*1,591*
Development costs	(162)	(148)	(146)	(151)	(193)
Selling & marketing expenses	(306)	(227)	(185)	(316)	(362)
General & administrative expenses	(503)	(502)	(426)	(496)	(545)
Other income (expenses)	-	1	(1)	*2*	3
Operating income	*595*	*479*	*238*	*510*	*494*
Finance income (expenses), net	248	353	(85)	205	(104)
Profit before income taxes	*843*	*832*	*153*	*715*	*390*
Income taxes	(228)	(270)	48	(484)	(218)
Net profit for the period	*615*	*562*	*201*	*231*	*172*

General Note: The Group is exposed to exchange rate fluctuations 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 2009, went up by 11% compared to average rate of year 2008, reflecting a decrease in the above-mentioned costs when they are presented in USD.

***Sales revenues* -** The Group's sales revenues for the nine-month period ended September 30, 2009 were USD 10,402 thousand compared to USD 11,701 thousand in the nine-month period ended September 30, 2008.
The Group's sales revenues for the three-month period ended September 30, 2009 were USD 4,017 thousand compared to USD 4,246 thousand in the three-month period ended September 30, 2008.

***Gross profit* -** The Group's gross profit for the nine-month period ended September 30, 2009 was USD 3,917 thousand (38% of sales) compared to USD 4,420 thousand (38% of sales) in the nine-month period ended September 30, 2008. The company succeeded to maintain its gross profit margins.
The Group's gross profit for the three-month period ended September 30, 2009 amounted to USD 1,566 thousand (39% of sales) compared to USD 1,591 thousand (38% of sales) in the three-month period ended September 30, 2008.

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-month period ended September 30, 2009 were USD 456 thousand (See also "General Note" above).

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.

Finance income (expenses), net - The Group's net finance income for the nine-month period ended September 30, 2009 amounted to USD 516 thousand compared to an expense of USD 26 thousand in the nine-month period ended September 30, 2008. Exchange rate fluctuations of financial assets (in Euro and in NIS) and increase in marketable securities, caused most of the increase in the net finance income.

Income Taxes - In 2008, the report to the Israeli tax authorities was according to the financial statements in NIS. Starting from the 2009 tax year report, the Company will report to the Israeli tax authorities according to the financial statements in US Dollars.

The Group's net income taxes expenses for the nine-month period ended September 30, 2009 amounted to USD 450 thousand. It is noted that, last year during the same nine-month period, the Company accumulated losses in its tax reports; thus, the net tax expenses amounted to USD 68 thousand.

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, 2009	**December 31, 2008**	**September 30, 2008**
Current ratio[2]	5.53	4.77	4.70
Quick ratio[3]	4.97	4.27	4.23

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

B. Operating activities

Cash flows generated from operating activities for the nine-month period ended September 30, 2009 amounted to USD 1,404 thousand, compared to the cash flows generated from operating activities of USD 1,078 thousand for the nine-month period ended September 30, 2008. The increase in cash flows generated from operating activities resulted mainly from the increase in the net profit for the period and of additional cash flow adjustments made to reconcile net profit to net cash generated from operating activities - as detailed in the Condensed Consolidated Interim Statements of Cash Flows.

C. Investing activities

Cash flows generated from investing activities in the nine-month period ended September 30, 2009, amounted to USD 2,131 thousand, compared to cash flows generated from investing activities of USD 92 thousand in the nine-month period ended September 30, 2008.
Cash flows generated from investing activities in the first nine-months of year 2009 resulted mainly from proceeds from bank deposits.

4. Financing sources

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

5. External factors effects

5.1 The global financial markets crisis - see paragraph B above under: “Global Environment and External factors effect on the Group’s activity”.

5.2 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.

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 26, 2009.

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

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, 2009 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month and the 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 9% of the total consolidated assets as at September 30, 2009, and whose revenues constitute 20% and 22% of the total consolidated revenues for the nine-month and the three-month periods then ended. 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 26, 2009

Condensed Consolidated Interim Statement of Financial Position as at

	September 30 2009	September 30 2008	December 31 2008
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	**11,802**	10,217	8,230
Marketable securities held for trading	**1,183**	1,184	1,255
Short-term deposits	**2,250**	1,905	4,499
Trade accounts receivable	**3,262**	4,000	3,716
Other accounts receivable	**202**	171	79
Inventory	**2,111**	1,937	2,072
Total current assets	**20,810**	19,414	19,851
Non-current assets			
Deposits	**-**	5	-
Marketable securities available for sale	**2,783**	2,857	2,660
Other investment	**348**	348	348
Property, plant and equipment, net	**1,689**	1,657	1,639
Deferred taxes	**59**	239	90
Total non-current assets	**4,879**	5,106	4,737
Total assets	**25,689**	24,520	24,588

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

Michal Lichtenstein
V.P. Finance & CFO

November 26, 2009

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

	September 30 2009	September 30 2008	December 31 2008
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and shareholder's equity			
Current liabilities			
Trade payables	**1,642**	1,575	1,482
Other payables	**875**	1,198	1,053
Current tax liability	**1,245**	1,358	1,625
Total current liabilities	**3,762**	4,131	4,160
Non-current liabilities			
Employee benefits	**150**	147	152
Total non-current liabilities	**150**	147	152
Shareholders' equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Capital fund for available-for-sale assets	**(192)**	(118)	(315)
Accumulated earnings	**8,140**	6,531	6,762
Total shareholders' equity	**21,777**	20,242	20,276
Total liabilities and shareholders' equity	**25,689**	24,520	24,588

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**10,402**	11,701	**4,017**	4,246	15,255
Cost of sales	**(6,485)**	(7,281)	**(2,451)**	(2,655)	(9,364)
Gross profit	**3,917**	4,420	**1,566**	1,591	5,891
Development costs	**(456)**	(557)	**(162)**	(193)	(708)
Selling and marketing expenses	**(718)**	(964)	**(306)**	(362)	(1,280)
General and administrative expenses	**(1,431)**	(1,543)	**(503)**	(545)	(2,039)
Other income	**-**	5	**-**	3	7
Operating income	**1,312**	1,361	**595**	494	1,871
Finance income	**538**	398	**258**	110	449
Finance expenses	**(22)**	(424)	**(10)**	(214)	(270)
Finance income (expenses), net	**516**	(26)	**248**	(104)	179
Profit before income taxes	**1,828**	1,335	**843**	390	2,050
Income taxes (Note 4)	**(450)**	(68)	**(228)**	(218)	(552)
Net profit for the period	**1,378**	1,267	**615**	172	1,498
Other comprehensive income (expenses)					
Net change in fair value of available-for-sale assets	**123**	(118)	**9**	4	(315)
Total comprehensive income for the period	**1,501**	1,149	**624**	176	1,183
Basic and diluted earnings per ordinary share (in $)	**0.08**	0.07	**0.03**	0.01	0.08

The presentation of the statement of comprehensive income was changed as a result of the initial implementation of revised IAS 1 in these financial statements. See also Note 3(1)A regarding the initial implementation of new standards.

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital		Share	Capital fund for available-	Accumulated	
	Number of shares	$ thousands	premium $ thousands	for-sale assets $ thousands	earnings $ thousands	Total $ thousands
Balance at January 1, 2009 (Audited)	**17,670,775**	**4,836**	**8,993**	**(315)**	**6,762**	**20,276**
Comprehensive income for the period (Unaudited)	-	-	-	**123**	**1,378**	**1,501**
Balance at September 30, 2009 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**(192)**	**8,140**	**21,777**
Balance at January 1, 2008 (Audited)	17,670,775	4,836	8,993	-	5,264	19,093
Comprehensive income (expenses) for the period (Unaudited)	-	-	-	(118)	1,267	1,149
Balance at September 30, 2008 (Unaudited)	17,670,775	4,836	8,993	(118)	6,531	20,242
Balance at July 1, 2009 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**(201)**	**7,525**	**21,153**
Comprehensive income for the period (Unaudited)	**-**	**-**	**-**	**9**	**615**	**624**
Balance at September 30, 2009 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**(192)**	**8,140**	**21,777**
Balance at July 1, 2008 (Unaudited)	17,670,775	4,836	8,993	(122)	6,359	20,066
Comprehensive income for the period (Unaudited)	-	-	-	4	172	176
Balance at September 30, 2008 (Unaudited)	17,670,775	4,836	8,993	(118)	6,531	20,242
Balance at January 1, 2008 (Audited)	17,670,775	4,836	8,993	-	5,264	19,093
Comprehensive income (expenses) for the year (Audited)	-	-	-	(315)	1,498	1,183
Balance at December 31, 2008 (Audited)	17,670,775	4,836	8,993	(315)	6,762	20,276

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Net Operating activities					
Net profit for the period	**1,378**	1,267	**615**	172	1,498
Adjustments to reconcile net profit to net cash generated from operating activities:					
Depreciation	**192**	167	**61**	59	227
Capital gain on sale of equipment	**-**	(5)	**-**	(3)	(7)
(Decrease) increase in employee benefits	**(2)**	23	**6**	(1)	28
Decrease (increase) in trade receivables	**454**	277	**520**	(609)	561
(Increase) decrease in other accounts receivable	**(144)**	(26)	**(134)**	(28)	66
(Increase) decrease in inventory	**(39)**	45	**59**	171	(90)
Increase (decrease) in trade payables	**188**	(10)	**41**	(71)	(118)
(Decrease) increase in other payables and tax liability	**(537)**	(735)	**39**	(155)	(613)
Decrease (increase) in deferred taxes	**31**	(117)	**28**	254	32
Finance (income) expenses, net	**(117)**	192	**(129)**	211	149
Cash flows generated from operating activities	**1,404**	1,078	**1,106**	-	1,733
Investing activities					
Investments in marketable securities held for trading	**(84)**	(747)	**(84)**	-	(747)
Investments in marketable securities available for sale	**-**	(1,000)	**-**	-	(1,000)
Proceeds from sale of marketable securities available for sale	**-**	1,039	**-**	-	1,039
Proceeds from sale of marketable securities held for trading	**236**	-	**96**	-	-
Proceeds from (investments in) deposits, net	**2,249**	1,281	**2,238**	(194)	(1,309)
Investment in property, plant and equipment	**(277)**	(512)	**(23)**	(143)	(547)
Proceeds from sale of equipment	**7**	31	**-**	9	41
Cash flows generated from (used for) investing activities	**2,131**	92	**2,227**	(328)	(2,523)
Net increase (decrease) in cash and cash equivalents	**3,535**	1,170	**3,333**	(328)	(790)
Cash and cash equivalents at beginning of the period	**8,230**	9,063	**8,429**	10,654	9,063
Effect of exchange rate fluctuations on cash held	**37**	(16)	**40**	(109)	(43)
Cash and cash equivalents at end of the period	**11,802**	10,217	**11,802**	10,217	8,230
Supplementary disclosure					
Interest received included in cash flows generated from operating activities	**229**	354	**102**	123	436
Tax paid included in cash flows generated from operating activities	**778**	193	**113**	78	199

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

Note 1 - General

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 subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

Note 2 - Basis of Preparation

A. The 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, 2008 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on November 26, 2009.

B. The preparation of interim financial statements in accordance to 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 Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2008.

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

A. Presentation of financial statements

As from January 1, 2009 the Company implements revised IAS 1, *Presentation of Financial Statements* (hereinafter – the Standard). The Standard allows the presentation of one statement of comprehensive income (a combined statement of income and of other comprehensive income) or two statements – a statement of income and a separate statement of comprehensive income. The Company has chosen to present a combined statement of income and of other comprehensive income. Furthermore, the Company presents a statement of changes in equity immediately after the statement of comprehensive income. The Standard is applied on a retrospective basis.

Note 3 - Significant Accounting Policies (cont'd)

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

B. Segment reporting

The Company reexamined the effect of implementing IFRS 8 and reached the conclusion that the Company has one operating segment, the planar transformers segment. The Company's chief operating decision maker makes decisions and allocates resources with respect to all the planar transformers as a whole. The financial statements for 2008 included a report on geographical segments in accordance with IAS 14 before it was superseded. Since as from January 1, 2009, according to IFRS 8 the segment report is to be provided in accordance with the "management approach", the financial statements for the interim period, including the comparative data, do not include information on a geographical basis.

(2) New standards and interpretations not yet adopted

- Revised IFRS 3 *Business Combinations* (2008) and Revised IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – the Standards). The principal relevant revisions in the Standards are as follows:

  a. The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

  b. Transactions resulting in discontinuance of consolidation are to be accounted for at full fair value, 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.

  c. Transactions resulting in the consolidation of financial statements (that were not consolidated before then) are to be accounted for at full fair value, so that the original holding before the consolidation is remeasured on the first date of consolidation, at fair value, through profit or loss.

  d. The minority interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  e. Acquisitions of additional shares or partial sales of existing shares, without the Company discontinuing consolidation of the financial statements of the companies that performed the transactions, are to be accounted for so that all the differences deriving from the transactions are included directly in equity (including differences that in the past would have been included in profit or loss or as goodwill).

Note 3 - Significant Accounting Policies (cont'd)

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

- (cont'd)

  f. Transaction costs will be expensed as incurred.

  g. Measurement at fair value of contingent considerations in business combinations with changes in estimates relating to a contingent consideration that is a financial liability being recognized in profit or loss.

  h. Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of acquiring businesses.

  i. The attribution of comprehensive income to all the shareholders, even when the subsidiary has an equity deficiency.

  These standards shall apply to annual periods beginning on or after July 1, 2009, and early adoption is permitted (both standards at the same time). The principal revisions of these standards shall be applied prospectively, meaning in respect of transactions as from the initial date of implementation.

- Amendment to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (hereinafter – the Amendment) that was made in the framework of the 2008 improvements to IFRSs project. In accordance with the Amendment, when the parent company decides on the disposal of part of its holdings in a subsidiary so that after the disposal the parent company is left with a non-controlling interest, for example rights that confer significant influence, all the assets and liabilities attributed to the subsidiary are to be classified as held for sale and the relevant instructions of IFRS 5 shall apply, including presentation as a discontinued operation. The Amendment to the standard shall be implemented prospectively as from financial statements for periods beginning on July 1, 2009. Earlier application is permitted only if the entity adopts IAS 27 (as revised in 2008) at the same time and disclosure is provided.

- IFRIC 18, *Transfer of Assets from Customers* (hereinafter – the Interpretation). The Interpretation addresses the accounting treatment of transfers of fixed assets or of cash for acquiring fixed assets, from customers to the reporting entity, in order to connect the customer to a network enabling the receipt of services or goods, or provide the customer with ongoing access to such services or goods, or both. The Interpretation provides guidance regarding recognition of the fixed assets and measurement on the date of initial recognition, as well as guidance regarding the method of recognizing revenue relating to the receipt of the asset. The Interpretation shall be effective for transfers of assets from customers that are received by the reporting entity on or after July 1, 2009 on a prospective basis. Earlier application is possible under certain circumstances.

- In the framework of the 2009 Improvements to IFRSs project, in April 2009 the IASB published and approved 15 amendments to various IFRS on a wide range of accounting issues. The amendments shall apply to periods beginning on or after January 1, 2010 and permit early adoption, subject to the specific conditions of each amendment.

- In November 2009 the International Accounting Standards Board (IASB) published IFRS 9 *Financial Instruments* (hereinafter – the Standard). This standard is the first part of 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. 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.

Note 3 - Significant Accounting Policies (cont'd)

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

- (cont'd)

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 financial assets are measured at fair value. 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 (other than dividends) in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date.

The Standard removes financial liabilities from its scope.
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 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 Company is examining the anticipated effects of the Standard on its financial statements.

Note 4 - Income Taxes

A. On July 25, 2005, the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147) - 2005, which provides, inter alia, for a gradual reduction in the company tax rate to 25% as from the 2010 tax year.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) - 2009, which provided, inter alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: In the 2009 tax year - 26%, in the 2010 tax year - 25%, in the 2011 tax year - 24%, in the 2012 tax year - 23%, in the 2013 tax year - 22%, in the 2014 tax year - 21%, in the 2015 tax year - 20% and as from the 2016 tax year the company tax rate will be 18%. The effect of the aforementioned change in the tax rates is reflected in the financial statements for the third quarter of 2009 in a decrease in the deferred tax asset and the recognition of tax expenses in the amount of $4 thousand.

B. In 2008, the report to the Israeli tax authorities was according to the financial statements in NIS. Starting from the 2009 tax year report, the Company will report to the Israeli tax authorities according to the financial statements in US Dollars.

Note 5 - Events Subsequence Balance Sheet Date

On November 26, 2009 the Company's Board of Directors decided to pay the members an interim dividend on account of the dividend for the financial year 2008, at the amount of USD 1,679 thousand (USD 0.095 per share, to be paid on January 12, 2010). The Board shall recommend the General Meeting to approve the said amount as final.