PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 2002(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 period ended on September 30, 2002.

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"), Payton Asia Planar Magnetics Ltd. ("Payton Asia").

B. The Group's main fields of activity and changes that occurred in the period from January to September 2002

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 on the Euro.NM (Today Euronext Stock exchange).

On September 30, 2002 a bank approved a change in the payment terms of the US$ 1.5 million credit facility, which was scheduled to be paid back by September 2003 and issued a new credit agreement. The new payment terms are: US$ 400 thousands to be paid gradually by July 2004. The return terms of the remaining amount, US$ 1,100 thousands, were not fixed yet and are subject to further negotiations to be concluded by July 2004. The above terms are subject to certain performance milestones (of sales revenues and operating results) as detailed in the new credit agreement. Company made additional lien of US$ 400 thousands in favor of the bank. Furthermore, the company extended the period of the options granted to the bank according to the warrant agreement and enable the bank to receive agreed commission instead of the options, subject to terms of the agreement (See also note 3B to the financial statements).

Payton Asia, mass production facility. By the end of year 2001 the Company has completed the set up new production facility, located in Taichung (Taiwan). Starting December 2001 Payton Planar assigned one of its Israeli production managers in Taichung in order to educate the local workers and management with production and controlling skills. As at the date of signing these financial statements production line is running and several parts are being produced in this facility.
On November 2002, In light of a delay (due to bureaucracy and other technical reasons) in the formal registration of the real estate that was purchased by the subsidiary in Taiwan ("Payton Asia"), from related parties, the Company was granted the option to pay back, at any time, the loan in the amount of $ 3.5 million, in exchange for the shares of Payton Asia issued to the company against said amount, at cost price.
Before then, the option to pay back the loan in exchange for shares of Payton Asia was available to the Company only after 7 years have passed since the date it was granted.
It is noted that the loan amount ($ 3.5 million), was invested by the Company in Payton Asia (together with an equal investment from the Taiwanese partner) in order to enable it to purchase the real estate mentioned above.

In the third quarter of year 2002 the Company wrote-off goodwill arosed from the acquisition of it's subsidiary's in America in the amount of $ 1.3 million, due to the change in the core business of Payton America from a production center into a marketing branch in the U.S. keeping only a limited production line for military applications in the U.S..

The Company believes it is well positioned for growth in the transformer market through formation of strategic partnerships. The company further suggests that by enhancing the above-mentioned partnerships a wider range of technologies and/or products would be available to our customers and thus an additional competitive advantage will be created. Currently no business opportunity has matured.

[1] The financial statements as at September 30, 2002 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 Company).

	For the three-month period ended September 30	For the year ended December 31	For the three-month period ended September 30
	2002	2001	2001
Customer A	13.7%	18.8%	24.5%
Customer B	11.1%	*	*
Customer C	17.3%	13.2%	*
Customer D	*	12.6%	22.5%

* Less then 10% the Company's sales

D. Marketing

On May 2002, the Company participated in "PCIM" exhibition in Nuremberg, Germany, in "Electronica" exhibition on November 2002 in Munich, Germany, and on October 2002 in "PCIM" Chicago.

The Company has greater focus now on the American market, due to its relatively small share in the current sales, and due to the growth potential in it. The Company believes that the American market will be the first one to show recovery signs and thus it's aiming to be prepared. The company increased the marketing and sales efforts focusing currently on four regions California, Texas, Illinois and Massachusetts.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2002 were USD 4,764 thousand, at June 30, 2002 - USD 5,285 thousand and at December 31, 2001- USD 6,008 thousand. This backlog is composed of both firm orders, frame purchase orders and operating rolling forecast. Due to global slowdown trend in the High-Tech industries, nowadays, customers tend to place orders with short lead-time while in the past long term orders were common. Management estimates that most of this current backlog will be supplied by the end of the third quarter of 2003.

2. <u>Financial position</u>

A. Balance Sheet as at September 30, 2002.

Cash and cash equivalents – these amounted to USD 820 thousand at September 30, 2002 compared to USD 2,001 thousand as at December 31, 2001 and USD 2,584 thousand at September 30, 2001. The decrease in cash and cash equivalents compared with December 31,2001 is mainly due to two reasons: A decrease of USD 550 thousands resulting of the decrease in other payable in Payton Asia against last payment for the real estate. A decrease of USD 400 thousands due to investment in long-term deposit using as a guaranty against long-term loan.

Short-term Deposit – As at September 30, 2002, USD 350 thousands uses as a guaranty against short-term credit taken from a Bank.

Inventory – Total of USD 2,631 thousand at September 30, 2002 compared with USD 3,446 thousand as at December 31, 2001 and USD 3,751 thousand at September 30, 2001. The decrease compared with December 31, 2001 is mainly due to inventory consumption and more cautious and efficient inventory maintenance and purchase policies.

Other assets – The goodwill aroused from the acquisition of MTC, amounting $ 1.3 millions, was wrote off in the third quarter of the current year. See also paragraph B to the board of directors report and note 3B to the financial statements.

Long-term bank deposit **–** see above explained in paragraph "Cash and cash equivalents" (See also paragraph B to the board of directors report and 3A to the financial statements).

Other payable - these amounted to USD 1,219 thousand at September 30, 2002 compared to USD 1,830 thousand as at December 31, 2001 and USD 1,816 thousand at September 30, 2001. The decrease is mainly due to other payable (relates parties in Payton Asia) that decreased due to final payment made against the real estate purchase.

Long Term Debt, net - these amounted to USD 4,820 thousand at September 30, 2002 compared to USD 5,002 thousand as at December 31, 2001 and USD 5,004 thousand at September 30, 2001. The decrease is mainly due to the payment terms of the US$ 1.5 million credit facility. As of September 30, 2002, according to the new credit agreement, USD 180 thousand out of the US$ 1.5 million credit facility are considered and presented as current maturities of long term debt. See also paragraph B to the board of directors report and note 3A to the financial statements.

B. Operating results

Summary of Quarterly Consolidated Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 7-9/02	Quarter 4-6/02	Quarter 1-3/02	Quarter 10-12/01	Quarter 7-9/01
Sales revenues	2,253	2,031	1,632	2,000	1,908
Cost of sales	1,683	1,526	1,589	1,681	1,719
Gross result	*570*	*505*	*43*	*319*	*189*
Development costs	137	110	133	164	161
Selling & marketing expenses	253	244	219	266	281
General & administrative expenses	1,704	400	383	479	394
Operating loss	*(1,524)*	*(249)*	*(692)*	*(590)*	*(647)*
Net financial result	18	58	33	28	(39)
Net operating loss after financial result	*(1,506)*	*(191)*	*(659)*	*(562)*	*(686)*
Issue of share capital in a consolidated subsidiary	6	7	7	6	7
Other income	3	3	4	1	6
Result before taxes on income	*(1,497)*	*(181)*	*(648)*	*(555)*	*(673)*
Tax expenses	-	-	-	(28)	-
Result after taxes on income	*(1,497)*	*(181)*	*(648)*	*(583)*	*(673)*
Minority interest in losses of subsidiaries	*5*	32	78	94	92
Net loss for the period	*(1,492)*	*(149)*	*(570)*	*(489)*	*(581)*

The Group's sales revenues for the three-month period ended September 30, 2002 were USD 2,253 thousand compared with USD 2,031 thousand in the three-month period ended June 30, 2002, 11% increase.

The Group's sales revenue for the nine-month period ended September 30, 2002 were USD 5,916 thousand compared with USD 6,669 thousand in the nine-month period ended September 30, 2001. This sales decrease of 11% is an outcome of the decrease in sales in the last two quarters of 2001 and in the first quarter of 2002 (mostly from the global slowdown especially in the Hi-Tech and Telecommunication industries) in contrary to sales increase in the second and third quarters of 2002. It is noted that the global recession is still negatively affecting the group activity.

The Sales were generated primarily from large telecom companies and from portable equipment manufacturers. The Company believes it is effectively penetrated and still penetrating the largest telecom companies in Europe and the U.S. The telecom market is one of the primary markets the Company addresses.

Labor costs in the consolidated Income Statements –There were no material changes in the third quarter of 2002 compare to the first and second quarter of 2002. However, in the first quarter of this year labor cost significantly decreased mainly due to three main reasons: salaries reduction and a decrease in the employees number as part of management policy aimed to improve efficiency and minimizing costs. These two factors were accompanied with erosion of the New Israeli Shekel (“NIS”) in relation to the USD. About 75% of the group salaries are in NIS.

Development costs – Payton’s R&D strategy is aimed on maintaining the leadership of planar technology. Payton’s R&D departments work in conjunction with R&D departments of the forerunners of today’s global technology, and together they define tomorrow’s technological needs. Costs were estimated upon employees’ hours dedication. The group’s development costs for the nine-month period ended September 30, 2002 were USD 380 thousand compared with USD 499 thousand in the nine-month period ended September 30, 2001. The decrease in this item was mainly comprised of two reasons: labor cost reduction accompanied with erosion of the NIS.

Selling & marketing expenses - The Group’s Selling & marketing expenses for the three-month period ended September 30, 2002 were USD 253 thousand compared with USD 244 thousand in the three-month period ended June 30, 2002. The Group’s Selling & marketing expenses for the nine-month period ended September 30, 2002 were USD 716 thousand compared with USD 979 thousand in the nine-month period ended September 30, 2001. The Group’s Selling & marketing expenses are based on the management policy and are not related to sales, besides distribution commissions to the Group's reps’ that are calculated as a portion of sales. The Group’s marketing efforts are done through participation in major power electronic shows throughout the world and by collaborating with its worldwide rep's Network. Marketing expenses include expenses stemming from a worldwide marketing campaign of the ***Planetics***®, trade shows, travel, salaries and advertising in professional publications.
The decrease in this item in the nine-month period ended September 30, 2002 compare to the same period last year was caused due to decrease in distribution commissions and due to the decrease in labor costs.

General & Administrative expenses – The Group’s General & Administrative expenses for the three-month period ended September 30, 2002 were USD 1,704 thousand compared with USD 400 thousand in the three-month period ended June 30, 2002. In the third quarter of the current year the Company wrote-off the goodwill arosed from the acquisition of it’s subsidiary's in America in the amount of $ 1.3 million, this fact mainly explains the increase in the Group’s General & Administrative expenses. See also paragraph B to the board of directors report and note 3B to the financial statements.

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the balance sheet:
The decrease in the ratios bellow is mainly due to the cash consumption, which financed the overall global activity of the group.

Payton Planar Magnetics Ltd. Consolidated financial ratios		
	September 30, 2002	**December 31, 2001**
Current ratio[2]	2.05	2.19
Quick ratio[3]	1.06	1.17

B. Cash flow used for operating activities

Cash flow used for operating activities in the nine-month period ended September 30, 2002, was USD 508 thousand, compared to the use of cash flow for operating activities of USD 1,362 thousand in the nine-month period ended

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

September 30, 2001. This decrease resulted mainly of a decrease in the net loss for the period without including the write-off of the goodwill (which is an exceptional non-cash activity). In addition the decrease resulted of: decrease in the inventory level that was offset by an increase in trade receivables, as result of higher sales volume, and by a decrease in other payable due to a payment made to the real-estate seller in Payton Asia (who is a related party of Payton Asia).

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from short and long term credit facilities taken from banks.

5. External factors effects

The global slowdown in the High-Tech industries especially the telecommunication industry, which is one of Payton's important operating markets, is still relevant. Some of Payton's major customers that operate in Europe and the U.S. are being affected as a result of this slowdown and thus influence Payton's volume of operation.
The end of the global slowdown is hard to foresee, as a result the whole market is more cautious.
Management cannot foresee the financial effect of this global scaling-down.

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

6. Note

On November 18, 2002 the parent company (Payton Industries) reported that its controlling shareholders published a tender offer to purchase all of Payton Industries shares held by the public.
The price offered for each share is US$ 0.20 (0.93 NIS), 20% higher then its market price at the offer date.

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 its 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 28, 2002.

Somekh Chaikin

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To the Board of Directors
Payton Planar Magnetics Ltd.

Review of the unaudited interim financial statements for the periods ended September 30, 2002

At your request we reviewed the interim consolidated balance sheet of Payton Planar Magnetics Ltd. and its subsidiaries as at September 30, 2002, the consolidated statements of income, the statements of changes in shareholders' equity and the consolidated statements of cash flows for the nine and three month periods then ended.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included inter alia: reading the above financial statements, reading the minutes of shareholders' meetings and meetings of the Board of Directors and of its committees and making inquiries of persons responsible for financial and accounting matters.

We received financial statements reviewed by other auditors of subsidiary companies, the assets of which represent 59.12% of the total consolidated assets as at September 30, 2002 and the revenues of which represent 16.12% and 17.64% of the total consolidated revenues for the nine and three month periods then ended, respectively.

Since the review performed was limited in scope and does not constitute an examination in accordance with the Generally Accepted Auditing Standards, we do not express an opinion on the interim financial statements.

In the course of our review, including the reading of the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making any material modifications to the interim financial statements referred to above, in order for them to be in conformity with International Accounting Standards.

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

November 28, 2002

Consolidated Balance Sheets

	US$ thousands		
	September 30 2002 (Unaudited)	**September 30 2001 (Unaudited)**	**December 31 2001 (Audited)**
Current assets			
Cash and cash equivalents	**820**	2,584	2,001
Short-term bank deposit	**350**	350	350
Marketable securities	**-**	83	2
Trade accounts receivable, net	**1,563**	1,595	1,527
Other accounts receivable	**120**	174	100
Inventory	**2,631**	3,751	3,446
Total current assets	**5,484**	8,537	7,426
Property, plant and equipment, net (Note 6)	**8,348**	8,569	8,548
Long-term bank deposit (Note 3A)	**400**	-	-
Deferred income taxes	**-**	36	-
Other assets, net (Note 3B)	**16**	1,591	1,536
Total assets	**14,248**	18,733	17,510

David Yativ
Chief Executive Officer
Chairman of the Board of Directors

Michal Lichtenstein
V.P. Finance & C.F.O

Rishon Le Zion, November 28, 2002

	US$ thousands		
	September 30 2002	September 30 2001	December 31 2001
	(Unaudited)	(Unaudited)	(Audited)
Current Liabilities			
Short-term bank credit and current maturities of long-term bank debt	**418**	483	321
Trade payables	**1,044**	1,725	1,243
Other payables	**1,219**	1,816	1,830
Total current liabilities	**2,681**	4,024	3,394
Unrealized gain from issue of share capital in a subsidiary company	**7**	34	28
Loan from Payton Industries Ltd. - parent company	**858**	858	858
Long-term debt, net of current maturities (Notes 3A and 6)	**4,820**	5,004	5,002
Liability for employee severance benefits, net	**121**	143	141
Total long-term liabilities	**5,806**	6,039	6,029
Minority interest in consolidated subsidiaries	**3,964**	4,173	4,079
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,942**	8,942	8,942
Accumulated deficit	**(11,964)**	(9,264)	(9,753)
Total shareholders' equity	**1,797**	4,497	4,008
Total liabilities and shareholders' equity	**14,248**	18,733	17,510

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

Consolidated Statements of Income

	US$ thousands (except per share data)				
	Nine months ended September 30		**Three months ended September 30**		**Year ended December 31**
	2002	**2001**	**2002**	**2001**	**2001**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
Sales revenues	**5,916**	6,669	**2,253**	1,908	8,668
Cost of sales	**(4,798)**	(5,529)	**(1,683)**	(1,719)	(7,209)
Gross profit	**1,118**	1,140	**570**	189	1,459
Research and development expenses	**(380)**	(499)	**(137)**	(161)	(663)
Selling and marketing expenses	**(716)**	(979)	**(253)**	(281)	(1,245)
General and administrative expenses (Note 3B)	**(2,487)**	(1,355)	**(1,704)**	(394)	(1,834)
Operating loss	**(2,465)**	(1,693)	**(1,524)**	(647)	(2,283)
Net financial result	**109**	(86)	**18**	(39)	(58)
Net operating loss after financial results	**(2,356)**	(1,779)	**(1,506)**	(686)	(2,341)
Other income	**30**	13	**9**	13	20
Loss before taxes on income	**(2,326)**	(1,766)	**(1,497)**	(673)	(2,321)
Taxes on income	**-**	-	**-**	-	(28)
Loss after taxes on income	**(2,326)**	(1,766)	**(1,497)**	(673)	(2,349)
Minority interest in losses of subsidiaries	**115**	138	**5**	92	232
Net loss for the period	**(2,211)**	(1,628)	**(1,492)**	(581)	(2,117)
Basic and diluted net loss per ordinary share (in USD)	**(0.13)**	(0.09)	**(0.08)**	(0.03)	(0.12)

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

Statement of Shareholders' Equity

	Share capital				
	Number of shares	**Amount**	**Share premium**	**Accumulated deficit**	**Total**
		US$ thousands			
Balance at January 1, 2002 (Audited)	**17,600,000**	**4,819**	**8,942**	**(9,753)**	**4,008**
Net loss for the period	**-**	**-**	**-**	**(2,211)**	**(2,211)**
Balance at September 30,2002 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(11,964)**	**1,797**
Balance at January 1, 2001 (Audited)	17,600,000	4,819	8,942	(7,636)	6,125
Net loss for the period	-	-	-	(1,628)	(1,628)
Balance at September 30, 2001 (Unaudited)	17,600,000	4,819	8,942	(9,264)	4,497
Balance at July 1, 2002 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(10,472)**	**3,289**
Net loss for the period (Unaudited)	-	-	-	**(1,492)**	**(1,492)**
Balance at September 30, 2002 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(11,964)**	**1,797**
Balance at July 1, 2001 (Unaudited)	17,600,000	4,819	8,942	(8,683)	5,078
Net loss for the period (Unaudited)	-	-	-	(581)	(581)
Balance at September 30, 2001 (Unaudited)	17,600,000	4,819	8,942	(9,264)	4,497
Balance at January 1, 2001 (Audited)	17,600,000	4,819	8,942	(7,636)	6,125
Net loss for the year	-	-	-	(2,117)	(2,117)
Balance at December 31, 2001 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008

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

Consolidated Statements of Cash Flows

	US$ thousands				
	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2002	2001	2002	2001	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Operating activities					
Net loss for the period	**(2,211)**	(1,628)	**(1,492)**	(581)	(2,117)
Adjustments to reconcile net income to net cash used for operating activities:					
Depreciation and amortization	**496**	447	**209**	160	588
Write-off of goodwill	**1,336**	-	**1,336**	-	-
Employee severance pay, net	**(20)**	24	**(8)**	8	22
Translation gain on long-term debt	**(5)**	(12)	**-**	(5)	(10)
Minority interests in losses of subsidiaries	**(115)**	(138)	**(5)**	(92)	(232)
Gain from issue of shares of a subsidiary	**(21)**	(21)	**(7)**	(7)	(27)
Loss (gain) from sale of fixed assets	**-**	(6)	**-**	1	-
Decrease (increase) in marketable securities	**2**	4	**-**	(1)	5
Decrease in deferred taxes	**-**	-	**-**	-	27
Decrease (increase) in trade receivables	**(36)**	562	**6**	(35)	630
Decrease (increase) in other receivables	**(20)**	107	**518**	57	181
Decrease (increase) in inventory	**815**	(1,163)	**359**	(440)	(858)
Increase (decrease) in trade payables	**(118)**	3	**(142)**	(355)	(505)
Increase (decrease) in other payables	**(611)**	459	**(596)**	176	482
Cash flows provided by (used for) operating activities	**(508)**	(1,362)	**178**	(1,114)	(1,814)
Investing activities					
Investment in property, plant and equipment	**(193)**	(441)	**(29)**	(74)	(481)
Short-term bank deposit	**-**	-	**247**	(60)	-
Long-term bank deposit	**(400)**	-	**(400)**	-	-
Sale of equipment	**-**	20	**-**	1	15
Sale of marketable securities	**-**	403	**-**	126	483
Cash flows provided by (used for) investing activities	**(593)**	(18)	**(182)**	(7)	17
Financing activities					
Repayment of long-term debt	**(183)**	(225)	**(38)**	(76)	(303)
Increase (decrease) in bank credit	**103**	219	**(107)**	219	131
Long-term loan received from bank	**-**	1,500	**-**	1,500	1,500
Cash flows provided by (used for) financing activities	**(80)**	1,494	**(145)**	1,643	1,328
Increase (decrease) in cash and cash equivalents	**(1,181)**	114	**(149)**	522	(469)
Cash and cash equivalents at beginning of period	**2,001**	2,470	**969**	2,062	2,470
Cash and cash equivalents at end of period	**820**	2,584	**820**	2,584	2,001
Appendix A - Non cash activities:					
Purchase of property and equipment	**24**	79	**24**	79	105

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. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company").

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 - Financial Reporting and Accounting Policies

A. The accounting principles used in the preparation of the consolidated interim statements are consistent with those principles used in the preparation of the annual statements as at December 31, 2001.

B. The interim financial statements as at September 30, 2002 and for the periods of nine months and three months then ended (the interim statements) have been prepared in a condensed form in accordance with accepted accounting principles related to the preparation of interim financial statements.

C. These financial statements do not include all the information and explanations required for annual financial statements. Results of operations for the nine-month period ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

Note 3 - Current Year Events

A. On September 30, 2002, a bank approved a change in the payment terms of the US$ 1.5 million credit facility, which was scheduled to be paid back by September 2003 and issued a new credit agreement. The new payment terms are: US$ 400 thousand to be paid gradually by July 2004. The return terms of the remaining amount were not fixed yet and are subject to further negotiations to be concluded by July 2004. The above terms are subject to certain performance milestones (of sales revenues and operating results) as detailed in the new credit agreement. The Company made an additional lien of US$ 400 thousand in favor of the bank. Furthermore, the Company extended the period of the options granted to the bank according to the warrant agreement and to enable the bank to receive agreed commission instead of the options, subject to the agreement.

B. In the third quarter of the current year the Company wrote-off the goodwill of a foreign subsidiary, in the amount of US$ 1.3 million. The write-off was due to the change in the core business of the subsidiary from a production center into a marketing branch.

Note 4 - External Factors Effects

The global slowdown in the high-tech industries, especially the telecommunication industry, which is one of Payton's important operating markets is still relevant. Some of Payton's major customers that operate in Europe and the U.S. are being affected as a result of this slowdown and thus influence Payton's volume of operation.
The end of the global slowdown is hard to foresee, as a result, the whole market is more cautious.

The Company management cannot foresee the financial effect of this global scaling-down.

Note 5 - Operating Segments

	US$ thousands				
	Nine months ended September 30, 2002 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
Net sales and revenues from external customers	**4,778**	**879**	**259**	**-**	**5,916**
Inter segment net sales and revenues	**184**	**57**	**467**	**(708)**	**-**
Total net sales and revenues	**4,962**	**936**	**726**	**(708)**	**5,916**
Operating loss	**(515)**	**(180)**	**(263)**	***(1,507)**	**(2,465)**
Net financial results	**125**	**(35)**	**19**	**-**	**109**
	(390)	**(215)**	**(244)**	**(1,507)**	**(2,356)**

* Include write-off of goodwill in an amount of US$ 1,336 thousand.

Note 5 - Operating Segments (cont'd)

	In thousands of US Dollars				
	Nine months ended September 30, 2001 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
Net sales and revenues from external customers	5,535	921	213	-	6,669
Inter segment net sales and revenues	265	95	512	(872)	-
Total net sales and revenues	5,800	1,016	725	(872)	6,669
Operating loss	(1,100)	(217)	(202)	(174)	(1,693)
Net financial results	8	(37)	(57)	-	(86)
	(1,092)	(254)	(259)	(174)	(1,779)

	In thousands of US Dollars				
	Three months ended September 30, 2002 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
Net sales and revenues from external customers	**1,853**	**298**	**102**	**-**	**2,253**
Inter-segment net sales and revenues	**2**	**29**	**267**	**(298)**	**-**
Total net sales and revenues	**1,855**	**327**	**369**	**(298)**	**2,253**
Operating loss	**(75)**	**(19)**	**(39)**	***(1,391)**	**(1,524)**
Net financial result	**5**	**(10)**	**23**	**-**	**18**
	(70)	**(29)**	**(16)**	**(1,391)**	**(1,506)**

* Include write-off of goodwill in an amount of US$ 1,336 thousand.

Note 5 - Operating Segments (cont'd)

	In thousands of US Dollars				
	Three months ended September 30, 2001 (Unaudited)				
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Adjustments**	**Total**
Net sales and revenues from external customers	1,656	252	-	-	1,908
Inter-segment net sales and revenues	140	20	61	(221)	-
Total net sales and revenues	1,796	272	61	(221)	1,908
Operating loss	(399)	(71)	(119)	(58)	(647)
Net financial result	(3)	(13)	(23)	-	(39)
	(402)	(84)	(142)	(58)	(686)

	US$ thousands				
	Year ended December 31, 2001 (Audited)				
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Adjustments**	**Total**
Net sales and revenues from external customers	7,117	1,276	275	-	8,668
Inter segment net sales and revenues	378	104	582	(1,064)	-
Total net sales and revenues	7,495	1,380	857	(1,064)	8,668
Operating loss	(1,333)	(312)	(405)	(233)	(2,283)
Net financial results	1	(49)	(10)	-	(58)
	(1,332)	(361)	(415)	(233)	(2,341)

Note 6 - Subsequent Events

On November 2002, in light of a delay (due to bureaucracy and other technical reasons) in the formal registration of the real estate that was purchased by a subsidiary in Taiwan ("Payton Asia") from related parties of Payton Asia, the Company was granted the option to pay back, at any time, the loan in the amount of US$ 3.5 million in exchange for the shares of Payton Asia issued to the Company against the said amount at cost price. Before then, the option to pay back the loan in exchange for shares of Payton Asia was available to the Company only after 7 years have passed since the date it was granted. The loan in the amount of US$ 3.5 million was invested by the Company in Payton Asia (together with an equal investment from the Taiwanese partner) in order to purchase the real-estate mentioned above.