



PAYTON GROUP
INTERNATIONAL

**Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 2008 (Unaudited)**

Financial Statements as at September 30, 2008 (Unaudited)

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The Board of Directors' Report¹ 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, 2008.

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 2008

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.

1. Property in Deerfield Beach, South Florida, U.S.A

Payton America, the Company's U.S. subsidiary completed the transfer to its new owned premises on July 2008.

2. Printed Circuits Board ("PCB") facility in Ashkelon – its reconstruction is in progress. A new plating line is being installed these days and its completion is being expected by the end of this year. The PCB facility specializes in manufacturing of Heavy Copper PCB's and Multi-Layer Boards unique for Planar Transformers and Power Electronic applications.

3. On March 18, 2008, Payton Industries, the parent company of the Company signed a Memorandum of Understanding ("M.O.U") with A.C.P. Advanced Cores Production ("ACP") regarding an acquisition of 100% of ACP's shares.

On May 2008, after performing a technical, financial and legal due-diligence, the parent company decided not to acquire ACP.

¹ The financial statements as at September 30, 2008 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
	2008	2007	2007
Customer A	20.5%*	20.1%*	14.4%
Customer B	**	20.1%	23.6%
Customer C	16.9%	***	***

* During 2007 Customer A merged with a non-major customer of the Company.

** Less than 10% of the Group's consolidated sales. It is noted that a major project of this customer reached its end of life cycle.

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

D. Marketing

During the period from January to September 2008 the Group participated in the following exhibitions:

- February 2008, "APEC 2008" exhibition in Austin, Texas, U.S.A.
- March 2008, "Electronica & Productronica China 2008 with PCIM" exhibition in Shanghai, China.
- March 2008, "Technology Hitech 2008" exhibition in Tel-Aviv, Israel.
- May 2008, "PCIM" exhibition in Nuremberg, Germany.
- June 2008, "Power Electronics Specialists Conference" in Rhodes, Greece.
- (November 2008, "Electronica" exhibition in Munich, Germany).

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2008 were USD 5,870 thousand (December 31, 2007 - USD 3,903 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 30.9.08 will be supplied until June 30, 2009.

2. Financial position

A. Balance Sheet as at September 30, 2008

Cash and cash equivalents, Marketable securities and Short-term Deposits - these three items amounted to a total of USD 13,306 thousand as at September 30, 2008 compared to USD 15,876 thousand as at December 31, 2007 and USD 14,572 thousand as at September 30, 2007. The decrease, compared with December 31, 2007, resulted mainly of classifying its U.S marketable Securities available for sale at the amount of USD 2,857 thousand as a long term investment. The said amount represents Company 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 accounts receivable - these amounted to USD 4,000 thousand as at September 30, 2008 compared to USD 4,277 thousand as at December 31, 2007 and USD 3,528 thousand as at September 30, 2007. The decrease in this item as of September 30, 2008, compared with December 31, 2007 is mainly due to a decrease in sales volume.

Marketable securities available for sale (non-current assets) - see aforementioned explanation to item “Cash and cash equivalents, Marketable securities and Short-term Deposits” and information regarding Fair value analysis at paragraph B below.

Property, plant and equipment, net - these amounted to USD 1,657 thousand as at September 30, 2008 compared to USD 1,337 thousand as at December 31, 2007 and USD 1,322 thousand as at September 30, 2007. The increase in this item resulted mainly from: investing in the property (Florida, U.S.A), from purchase of new equipments for the production facility (Rishon Lezion, Israel) and for the PCB facility (Ashkelon, Israel).

Deferred Taxes - The Company edits its tax reports in New Israeli Shekel (“NIS”). During the first nine- months of 2008 it accumulated losses in its tax reports, thus as at September 30, 2008, a net tax asset at the amount of USD 239 thousand was accrued. (See also note 3 to the financial statements as at 30.9.08).

Other payables - these amounted to USD 1,198 thousand as at September 30, 2008 compared to USD 2,008 thousand as at December 31, 2007 and USD 1,521 thousand as at September 30, 2007. The decrease at September 30, 2008 compared with December 31, 2007 resulted mainly due to a decrease 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.

In the past, these ARS securities were classified by the Company as short-term held for trading securities. 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. Accordingly, USD 3,019 thousand was reclassified as at December 31, 2007. The said classification did not have an effect on the Company’s statement of income and/or shareholders’ equity.

By the end of the first quarter of 2008 these ARS were presented at their par value. During the second and the third quarters 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, 2008 the fair value of ARS was assessed at the amount of USD 2,857 thousand (June 30, 2008 - USD 2,853 thousand); 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 this fair value decline, amounting USD 118 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, 2008 was presented as long-term available for sale securities.

The Company further reports that until signing these Financial Statements all weekly and/or monthly interest payments on its ARS securities are being paid in full.

See also note 4 to the financial statements.

C. Operating results

Summary of Consolidated quarterly Statements of Income US Dollars in thousands

Payton Planar Magnetics Ltd. **Consolidated Income Statements**

	<u>Quarter 7-9/08</u>	<u>Quarter 4-6/08</u>	<u>Quarter 1-3/08</u>	<u>Quarter 10-12/07</u>	<u>Quarter 7-9/07</u>
Sales revenues	4,246	4,026	3,429	4,888	4,406
Cost of sales	<u>(2,655)</u>	<u>(2,562)</u>	<u>(2,064)</u>	<u>(2,348)</u>	<u>(2,411)</u>
Gross profit	1,591	1,464	1,365	2,540	1,995
Development costs	(193)	(174)	(190)	(132)	(149)
Selling & marketing expenses	(362)	(289)	(313)	(395)	(299)
General & administrative expenses	(545)	(551)	(447)	(533)	(490)
Capital gain on sale of fixed assets	3	-	2	1	-
Operating income	494	450	417	1,481	1,057
Finance income	110	126	162	145	155
Finance expense	<u>(214)</u>	<u>(121)</u>	<u>(89)</u>	<u>(101)</u>	<u>(43)</u>
Finance (expense) income, net	<u>(104)</u>	<u>5</u>	<u>73</u>	<u>44</u>	<u>112</u>
Profit before income taxes	390	455	490	1,525	1,169
Income taxes	(218)	47	103	(157)	(159)
Net profit for the period	<u>172</u>	<u>502</u>	<u>593</u>	<u>1,368</u>	<u>1,010</u>

General Note: The Group is exposed to 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 of the local Israeli currency drives to an increase in labor costs and other operating costs, thus, negatively affects the operating results of the company. About 14% of the Group's sales were in Euro (nine-months ended 30.9.08). Revaluation of the U.S. Dollar with relation to the Euro has an influence on the Group's gross margin.

Sales revenues - The Group's sales revenues for the nine-month period ended September 30, 2008 were USD 11,701 thousand compared with USD 14,069 thousand in the nine-month period ended September 30, 2007.

This sales decrease is explained, among other factors, by the fact that a high volume project, of formerly a substantial customer (Customer B), reached its end of life cycle, at the end of 2007.

The Group's sales revenues for the three-month period ended September 30, 2008 were USD 4,246 thousand compared with USD 4,406 thousand in the three-month period ended September 30, 2007.

Gross profit - The Group's gross profit for the nine-month period ended September 30, 2008 was USD 4,420 thousand (38% of sales) compared with USD 6,924 thousand (49% of sales) in the nine-month period ended September 30, 2007.

The Group's gross profit for the three-month period ended September 30, 2008 amounted USD 1,591 thousand (37% of sales) compared with USD 1,995 thousand (45% of sales) in the three-month period ended September 30, 2007. The Group's gross profit ratio for the year ended December 31, 2007 was 50% of sales.

The decrease in the Group's gross profit was affected by the following factors:

- Devaluation of the U.S. Dollar with relation to the local currency, which, caused an increase in the Group's labor costs.
- Part of the Company's expenses included in the cost of sales couldn't be reduced in parallel to the sales decrease; thus, the gross profit has grown smaller.
- Changes in the product-mix sold during the period.

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, 2008 were USD 557 thousand. The increase in these costs in the nine-month period ended September 30, 2008 compared with the same period last year was attributed to the revaluation of the local Israeli currency (see "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.

General & Administrative expenses - These amounted to USD 1,543 thousand in the nine-month period ended September 30, 2008 compared with USD 1,430 thousand in the nine-month period ended September 30, 2007. Most of the increase in these expenses in the nine-month period ended September 30, 2008 compared with the same period previous year is explained by the decrease in exchange rates of the USD in relation to the NIS causing an increase in these expenses when they are presented in USD.

Taxes on income - The Company prepares its tax reports, to the Israeli tax authorities, in NIS. During the nine-month period ended September 30, 2008 a net tax expense of USD 68 thousand was accrued, compared with USD 817 thousand in the nine-month period ended September 30, 2007. The decrease in these expenses resulted of the following:

- A decrease in the net profit for the period.
- The devaluation of the USD with relation to the NIS raised finance losses in NIS. These losses in the NIS tax reports lead to a tax benefit in NIS, which has shorten the tax expenses for the nine-month period ended September 30, 2008.

(See also note 3 to the financial statements as at 30.9.08).

3. **Liquidity**

A. **Liquidity Ratios**

The following table presents the financial ratios in the balance sheet:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	September 30, 2008	December 31, 2007	September 30, 2007
Current ratio ²	4.70	4.57	4.88
Quick ratio ³	4.23	4.16	4.39

B. **Operating activities**

Cash flow generated from operating activities for the nine-month period ended September 30, 2008 amounted USD 1,078 thousand, compared with the cash flow generated from operating activities of USD 5,475 thousand for the nine-month period ended September 30, 2007. The decrease in cash flow generated from operating activities resulted mainly from a decrease in the net profit, in trade receivables and in other payables & tax liabilities.

C. **Investing activities**

Cash flow generated from investing activities in the nine-month period ended September 30, 2008, amounted USD 92 thousand, compared with cash flow used for investing activities of USD 4,070 thousand in the nine-month period ended September 30, 2007.

Cash flow generated from investing activities in the first nine months of 2008 resulted mainly from proceeds from deposits, which most of it was invested in: marketable securities, property and equipment.

² Current ratio calculation – Current assets / Current liabilities

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

4. Financing sources

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

5. External factors effects

5.1 During 2008, there was a significant downturn in the global financial markets. Large financial entities in the United States as well as other countries collapsed and dragged after them other sectors. Intensification of the crisis during September 2008 had a serious adverse impact on the worldwide financial markets, and led to falling prices and wide fluctuations on the stock markets in and outside of Israel along with a severe credit crisis. As a result of the events described above, a number of countries have decided to take various steps aimed at restoring stability and preventing a downward spiral in the financial markets, however, there is no guarantee that such steps will ultimately restrain the crisis or assuage its intensity. It appears that the direct consequences of the crisis have not yet run their full course and there is a fear that the U.S. economy, in particular, and the global economy, in general, are headed for a recession.

Along with the above-mentioned crisis, there have been additional developments in Israel, among others, large fluctuations in the exchange rates of the main currencies vis-à-vis the shekel.

In light of the crisis and/or its intensification, there is uncertainty as well as concern that it may affect the business positions of the Group's customers and a slowdown in orders. 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. Company Management is closely monitoring the situation and will continue to track its developments and effects. In addition, Company Management is taking the necessary actions in order to cope with the situation, to the greatest extent possible.

In any event, in light of the high balance of the Group's cash and cash equivalents along with the deposits it holds, Management estimates that the Group is financially strong and that it is not expected to experience any liquidity problems in the foreseeable future.

5.2 Revaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase 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 negatively affected.

5.3 The company is subcontracting Chinese ventures. Devaluation of the U.S. Dollar with relation to the Chinese currency has an influence on the Group's cost of goods sold.

5.4 Revaluation of the U.S. Dollar with relation to the Euro. Part of the Group's sales are linked to the Euro (10% - 15%). Revaluation of the U.S. Dollar against the Euro has an influence on the Group's gross margin.

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, 2008.



Somekh Chaikin

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**Review Report to the Board of Directors
Payton Planar Magnetics Ltd.**

Introduction

We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at September 30, 2008, and the related condensed consolidated interim statements of income, changes in shareholder's equity and cash flows for the three-month and nine-month periods then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Reporting Standard 34 Interim Financial Reporting. Our responsibility is to express a conclusion on these interim financial statements based on our review.

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 identifiable in an audit. Accordingly, we do not express an audit opinion.

We received review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 9% of the total consolidated assets as at September 30, 2008 and whose revenues constitute 15% of the total consolidated revenues for the nine and three month periods then ended.

Conclusion

Based on our review, including the reading of the review report of the other auditor as stated above, nothing has come to our attention that causes us to believe that the accompanying interim financial information is 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, 2008

Condensed Interim Consolidated Balance Sheets

	September 30 2008	September 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	10,217	8,735	9,063
Marketable securities held for trading	1,184	1,652	609
Marketable securities available for sale	-	-	3,019
Short-term deposits	1,905	4,185	3,185
Trade accounts receivable	4,000	3,528	4,277
Other accounts receivable	171	190	145
Inventory	1,937	2,028	1,982
Total current assets	19,414	20,318	22,280
Non-current assets			
Deposits	5	6	5
Marketable securities available for sale	2,857	-	-
Other investment	348	348	348
Property, plant and equipment, net	1,657	1,322	1,337
Deferred taxes	239	102	122
Total non-current assets	5,106	1,778	1,812
Total assets	24,520	22,096	24,092

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

Michael Perez
Director

Michal Lichtenstein
V.P. Finance & CFO

November 26, 2008

Condensed Interim Consolidated Balance Sheets (cont'd)

	September 30 2008	September 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Liabilities and shareholder's equity			
Current liabilities			
Trade payables	1,575	1,510	1,584
Other payables	1,198	1,521	2,008
Current tax liability	1,358	1,136	1,283
Total current liabilities	4,131	4,167	4,875
Non-current liabilities			
Employee benefits	147	204	124
Total non-current liabilities	147	204	124
Shareholders' equity			
Share capital	4,836	4,836	4,836
Share premium	8,993	8,993	8,993
Fair value reserve	(118)	-	-
Accumulated earnings	6,531	3,896	5,264
Total shareholders' equity	20,242	17,725	19,093
Total liabilities and shareholders' equity	24,520	22,096	24,092

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

Condensed Interim Consolidated Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended
	2008	2007	2008	2007	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Revenues	11,701	14,069	4,246	4,406	18,957
Cost of sales	(7,281)	(7,145)	(2,655)	(2,411)	(9,493)
Gross profit	4,420	6,924	1,591	1,995	9,464
Development costs	(557)	(449)	(193)	(149)	(581)
Selling and marketing expenses	(964)	(1,044)	(362)	(299)	(1,439)
General and administrative expenses	(1,543)	(1,430)	(545)	(490)	(1,963)
Other income (expenses)	5	(1)	3	-	-
Operating income	1,361	4,000	494	1,057	5,481
Finance income	398	441	110	155	586
Finance expense	(424)	(80)	(214)	(43)	(181)
Finance (expense) income, net	(26)	361	(104)	112	405
Profit before income taxes	1,335	4,361	390	1,169	5,886
Income taxes (Note 3)	(68)	(817)	(218)	(159)	(974)
Net profit for the period	1,267	3,544	172	1,010	4,912
Basic and diluted earnings per ordinary share (in \$)	0.07	0.20	0.01	0.06	0.28

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

Condensed Interim Statement of Changes in Shareholders' Equity

	Share capital		Share premium	Capital fund	Accumulated earnings	Total
	Number of shares	Amount		for available-for-sale assets \$ thousands		
Balance at January 1 2008 (Audited)	17,670,775	4,836	8,993	-	5,264	19,093
Capital fund for available for sale assets (Unaudited)	-	-	-	(118)	-	(118)
Net profit for the period (Unaudited)	-	-	-	-	1,267	1,267
Balance at September 30 2008 (Unaudited)	17,670,775	4,836	8,993	(118)	6,531	20,242
Balance at January 1 2007 (Audited)	17,670,775	4,836	8,993	-	352	14,181
Net profit for the period (Unaudited)	-	-	-	-	3,544	3,544
Balance at September 30 2007 (Unaudited)	17,670,775	4,836	8,993	-	3,896	17,725
Balance at July 1 2008 (Unaudited)	17,670,775	4,836	8,993	(122)	6,359	20,066
Capital fund for available for sale assets (Unaudited)	-	-	-	4	-	4
Net profit for the period (Unaudited)	-	-	-	-	172	172
Balance at September 30 2008 (Unaudited)	17,670,775	4,836	8,993	(118)	6,531	20,242
Balance at July 1, 2007 (Unaudited)	17,670,775	4,836	8,993	-	2,886	16,715
Net profit for the period (Unaudited)	-	-	-	-	1,010	1,010
Balance at September 30 2007 (Unaudited)	17,670,775	4,836	8,993	-	3,896	17,725
Balance at January 1 2007 (Audited)	17,670,775	4,836	8,993	-	352	14,181
Net profit for the year (Audited)	-	-	-	-	4,912	4,912
Balance at December 31 2007 (Audited)	17,670,775	4,836	8,993	-	5,264	19,093

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

Condensed Interim Consolidated Statements of Cash Flows

	<u>Nine months ended September 30</u>		<u>Three months ended September 30</u>		<u>Year ended</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>December 31</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Net operating activities					
Net profit for the period	1,267	3,544	172	1,010	4,912
Adjustments to reconcile net income to net cash generated from operating activities:					
Depreciation	167	157	59	51	207
Capital (gain) loss on sale of equipment	(5)	1	(3)	-	-
Increase (decrease) in employee benefits	23	10	(1)	2	(70)
Deferred taxes	(117)	65	254	12	45
Finance expenses (income), net	192	(29)	211	(50)	52
Decrease (increase) in trade receivables	277	1,765	(609)	781	1,016
Increase in other accounts receivable	(26)	(122)	(28)	(54)	(77)
Decrease (increase) in inventory	45	(84)	171	(100)	(38)
(Decrease) increase in trade payables	(10)	(57)	(71)	179	8
(Decrease) increase in other payables and tax liability	(735)	225	(155)	(145)	825
Cash flows generated from operating activities	1,078	5,475	-	1,686	6,880
Investing activities					
Investment in marketable securities, net	(707)	(1,270)	-	(889)	(3,289)
Investment in property, plant and equipment	(512)	(950)	(143)	(744)	(1,014)
Proceeds from (investment in) deposits, net	1,280	(1,850)	(194)	(1,003)	(849)
Proceeds from sale of equipment	31	-	9	-	9
Cash flows generated from (used for) investing activities	92	(4,070)	(328)	(2,636)	(5,143)

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

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

	Nine months ended September 30		Three months ended September 30		Year ended
	2008	2007	2008	2007	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Increase (decrease) in cash and cash equivalents	1,170	1,405	(328)	(950)	1,737
Cash and cash equivalents at beginning of period	9,063	7,269	10,654	9,612	7,269
Effect of exchange rate fluctuations on cash held	(16)	61	(109)	73	57
Cash and cash equivalents at end of period	10,217	8,735	10,217	8,735	9,063
Supplementary disclosure					
Interest received in cash	354	283	123	111	436
Tax paid	193	1	78	(3)	91

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

Notes to the Interim Consolidated 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 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, 2007.
- B. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at December 31, 2007. The statement of cash flows includes the reclassification of some items in immaterial amounts.
- C. Results of operations for the nine and three-month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.
- D. The preparation of interim financial statements requires management to make judgements, 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 judgements 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, 2007.

- E. **New standard and interpretations not yet adopted**
 - 1. The IFRIC issued interpretation IFRIC 13 "Customer loyalty programmes" in June 2007. IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. The interpretation is effective for annual accounting periods beginning on or after July 1, 2008 and is not expected to have any effect on the consolidated financial statements.

Notes to the Consolidated Interim Financial Statements

Note 2 - Financial Reporting and Accounting Policies (cont'd)**E. New standards and interpretations not yet adopted (cont'd)**

2. The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting". IAS 14 required identification of two sets of segments—one based on related products and services, and the other on geographical areas. Under IFRS 8 The identification of segments is based on the information about the components of the entity that management uses to make decisions about operating matters. IFRS 8 is effective for annual accounting periods beginning on or after January 1, 2009 and is not expected to have a material effect on the consolidated financial statements.
3. The IASB issued IAS 23 "Borrowing Costs" in March 2007, which supersedes IAS 23, revised in 1993. The amendments eliminate the option available under the previous version of the standard to recognize all borrowing costs immediately as an expense, to the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset. The revised Standard requires that they be capitalized as part of the cost of that asset. All other borrowing costs should be expensed as incurred. The revised Standard becomes mandatory for the Company's 2009 financial statements, and is not expected to have a material effect on the consolidated financial statements.
4. The IASB issued a revised version of IAS 1 "Presentation of Financial Statements" in September 2007, which supersedes IAS 1, revised in 2003. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The revisions include changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed a statement of financial position). The revised standard will become mandatory for the Company's 2009 financial statements, earlier application is permitted.
As a result of the application of the revised version of IAS1, the Company will disclose its financial statements as required.
5. IFRS 3 (2008), "Business Combinations", refers also to business combinations executed only by contract. The definition of a business combination focusses on obtaining control, including a contingent consideration. The buyer can choose to measure the rights that do not confer control at their fair value on the date of acquisition, or according to the relative part of the fair value of the identified assets and liabilities of the acquired party. When the acquisition is effected by consecutive purchases of shares (purchase in stages), the identified assets and liabilities of the acquired party are recognized at their fair value when control is obtained. IFRS 3 (2008) shall apply to the financial statements of the Company for 2010 and is not anticipated to have an effect on the financial statements of the Company.
6. IFRS 2, "Share-Based Payment – Vesting Conditions and Cancellations", clarifies the vesting conditions that are to be reflected in the fair value as at the grant date, and explains the accounting treatment of instruments that have no vesting period and of cancellations. IFRS 2 shall apply to the financial statements of the Company for 2009. In the opinion of management, at this point the standard is not anticipated to have an effect on the financial statements of the Company.

Notes to the Consolidated Interim Financial Statements

Note 2 - Financial Reporting and Accounting Policies (cont'd)

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

7. Revised IAS 27, *Consolidated and Separate Financial Statements*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards* (hereinafter – the Standards). In accordance with the revised standards, a company that elects the cost method for measuring its investments in subsidiaries, jointly controlled companies and affiliated companies, in the separate financial statements (stand-alone financial statements) is permitted to measure these investments on the date of transition to IFRS at their fair value in accordance with IAS 39 or at their carrying value according to previous GAAP. Furthermore, a dividend received from subsidiaries, jointly controlled companies and affiliated companies shall be recognized as income in the separate financial statements of the holding company. It was further provided that under certain circumstances the receipt of a dividend indicates impairment of the investment in the investee company.
The new standards shall apply to annual periods beginning on or after January 1, 2009. Earlier application is permitted, each standard separately, while providing disclosure. The changes attributable to IAS 27 shall be applied prospectively.
Adoption of revised IAS 27 is not anticipated to have an effect on the financial statements of the Company.
8. In the framework of the *Improvements to IFRSs* project, in May 2008 the IASB published and approved 35 amendments to various IFRS on a wide range of accounting issues. The amendments are divided into two parts: (1) Amendments that result in accounting changes for presentation, recognition or measurement purposes and (2) Terminology or editorial amendments that are expected to have either no or only minimal effects on accounting. Most of the amendments shall apply to periods beginning on or after January 1, 2009 and permit early adoption, subject to the specific conditions of each amendment and subject to the transitional provisions relating to a first-time adopter of IFRS.
The Company is examining the effect of the adoption of the amendments on its financial statements.
9. IFRIC 15, *Agreements for the Construction of Real Estate* (hereinafter – the Interpretation). The Interpretation provides guidance for examining whether transactions for the construction of real estate are subject to IAS 18, *Revenue*, by which revenue from the construction of real estate is recognized at the same time and according to the same method as revenue from the sale of a product or the rendering of a service, or are subject to IAS 11, *Construction Contracts*, by which revenue is recognized in accordance with the stage of completion of the real estate.
The Interpretation is to be applied for annual periods beginning on or after January 1, 2009, on a retrospective basis. Earlier application is permitted while providing disclosure.
Adoption of IFRIC 15 is not anticipated to have an effect on the financial statements of the Company.
10. IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (hereinafter – the Interpretation). The Interpretation refers to an investment in a foreign operation and provides guidance regarding the hedging of such an investment. Inter alia, the Interpretation refers to the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated, where the hedging instrument is held in a group of companies and the accounting treatment of the capital reserve upon disposal of a foreign operation.
The Interpretation shall apply to annual periods beginning on or after October 1, 2008. Earlier application is permitted while providing disclosure.
Adoption of IFRIC 16 is not anticipated to have an effect on the financial statements of the Company.

Notes to the Consolidated Interim Financial Statements

Note 2 - Financial Reporting and Accounting Policies (cont'd)

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

11. Items eligible for hedging, amendment to IAS 39, Financial Instruments: Recognition and Measurement (hereinafter – the Amendment). The Amendment makes clear that an entity may designate as a hedged item changes in cash flows or fair value of a one-sided risk, meaning the risk of exposure to changes above or below a specified price or other defined variable. The Amendment also clarifies that inflationary components can be designated as a separate risk, on the condition that they form a contractually specified portion of the cash flows of an inflation-linked debenture, so that they are separately identifiable and reliably measurable, and if the other cash flows of the instruments are not affected by the inflationary component.

The Amendment is effective retrospectively for annual periods beginning on or after July 1, 2009, with earlier application permitted, together with appropriate disclosure.

Adoption of the Amendment is not anticipated to have an effect on the financial statements of the Company.

Note 3 - Income Taxes

The report to the Israeli tax authorities is according to the financial statements in NIS. A tax loss was created as a result of the devaluation of the dollar in relation to the NIS. The Company recognized a deferred tax asset since it anticipates utilizing the tax loss in the foreseeable future.

Note 4 - Marketable Securities Available for Sale

The Company invested in Auction Rate Securities (ARS) that are securities issued by local authorities, higher education institutions and others for long terms, for the purpose of the securitization of their assets. These securities were classified in the past as short-term held for trading securities. 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. Accordingly, US\$3,019 thousand was reclassified as at December 31, 2007. The said classification did not have an effect on the Company's statement of income and/or shareholders' equity.

In light of current market conditions, the Company received a valuation regarding ARS in the amount of US\$2,857 thousand that it holds as at September 30, 2008 which updated the valuation in the amount of US\$2,853 thousand as at June 30, 2008. The valuation was prepared by external, independent appraisers having suitable professional skills. The Company included the decline in fair value in the amount of US\$118 thousand in a capital reserve as at September 30, 2008 (US\$122 thousand as at June 30, 2008). In accordance with the 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 assesses that it will not be possible to realize the said securities at their stated value in the short-term, and it intends to hold them for the long-term or until their value rises back to their stated 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, 2008 was presented as long-term available for sale securities.

Notes to the Consolidated Interim Financial Statements**Note 5 - Operating Segments**

Segment information is presented in respect of the Group's geographical segments, which is based on the Group's management and internal reporting structure.

The primary format of reporting segment information is geographical based on the location of customers.

Nine months ended September 30, 2008 (Unaudited)			
Europe and Israel (mainly Europe)	America	Asia	Total
\$ thousands	\$ thousands	\$ thousands	\$ thousands
Segment revenues	4,178	2,984	11,701
Segment result	486	347	1,361

Nine months ended September 30, 2007 (Unaudited)			
Europe and Israel (mainly Europe)	America	Asia	Total
\$ thousands	\$ thousands	\$ thousands	\$ thousands
Segment revenues	4,265	2,851	14,069
Segment result	1,212	811	4,000

Three months ended September 30, 2008 (Unaudited)			
Europe and Israel (mainly Europe)	America	Asia	Total
\$ thousands	\$ thousands	\$ thousands	\$ thousands
Segment revenues	1,395	1,115	4,246
Segment result	162	130	494

Three months ended September 30, 2007 (Unaudited)			
Europe and Israel (mainly Europe)	America	Asia	Total
\$ thousands	\$ thousands	\$ thousands	\$ thousands
Segment revenues	1,325	918	4,406
Segment result	317	223	1,057

Notes to the Consolidated Interim Financial Statements

Note 5 - Operating Segments (cont'd)

	Year ended December 31, 2007 (Audited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Segment revenues	<u>6,040</u>	<u>4,096</u>	<u>8,821</u>	<u>18,957</u>
Segment result	<u>1,746</u>	<u>1,184</u>	<u>2,551</u>	<u>5,481</u>