

**The Directors Report on the State of Affairs of the Corporation**  
**For the Year Ended March 31st, 2010**

We are honored to hereby submit the directors' report of Pilat Technologies International Ltd. and its consolidated companies (hereinafter referred to as "the Company" or "the Group") for the period ended on March 31st, 2010 ("the Period") pursuant to the provisions of the Securities Regulations (Periodical Reports), 5730 - 1970.

**A. Concise Description of the Company and Its Business Environment**

The Company is engaged in providing diagnostic and psychometric screening, recruitment and job placement services, as well as in managerial consulting and in developing and marketing unique software products in the area of human resource management. The operations are conducted through three main subsidiaries - in Israel, England and the USA, which have about 160 professional workers in their employ.

In the first three months of 2010, the Company's revenues from its operations in England and in the US account for about 52% of all the Company's revenues, as compared with about 57% of the revenues in the corresponding period last year.

**B. Customers**

The Group has a large number of customers, including also large bodies both on the Israeli market and the European and North American market. Most of the Group's customers in the area of human resources, including the provision of human resource services, are customers of long standing.

Over the first three months of 2010, the Company has had no customer that substantially contributed to its revenues.

### C. Results of the Operations

The following are the concise data (in thousands of NIS):

	For the 3 months ended		The change for the 3 months ended	
	March 31st 2010	December 31st, 2009	March 31st	December 31st, 2009
			March 31st, 2009	
Revenues from sales and provision of services	11,641	12,005	12,263	-3%
Cost of the sales and services	7,355	7,165	7,868	3%
Gross profit	4,286	4,840	4,395	-11%
Gross margin -%	37%	40%	36%	
Research and development	919	642	977	43%
Sales and marketing	822	767	1,018	7%
General and administrative expenses	1,879	2,216	2,332	-15%
Other revenues (expenses)	(1)	13	(25)	-19%
	3,619	3,638	4,302	
Operational profit	667	1,202	93	
Net financing revenues (expenses)	(81)	25	568	
Pre-tax profit	586	1,227	661	
Tax revenues (expenses)	(294)	(321)	8	

Net profit	292	906	669
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1, Revenues

The Company's revenues in the first quarter of the year 2010 (hereinafter referred to as "the Period") stood at 11,641 thousands of NIS, a decline of about 3% from the Company's revenues in the last quarter of 2009 (12,005 thousands of NIS), and a decline of about 5% from the Company's revenues during the corresponding period in 2009, which amounted to about 12,263 thousands of NIS. The major reason for the decline in sales as compared with the corresponding quarter in 2009 is the slow recovery from the crisis in the global economy that started in 2008, which adversely affects the scale of the economic operations in general and in the human resource branch in particular.

The following are the sales by sectors in the currency of the local operations and in terms of NIS for the Period as compared with the corresponding period last year, and for the sake of convenience - also compared with the last quarter of 2009:

The change for the 3 months ended

For the 3 months ended

March 31st, December 31st, March 31st, on December 31st, March 31st,

**The Operations**

<b>in Israel</b>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
Sales- NIS '000	5,636	5,782	5,286	-3%	7%

The change for the 3 months ended

For the 3 months ended

March 31st, December 31st, March 31st, on December 31st, March 31st,

**The Operations**

<b>in Europe</b>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
Sales - £'000	508	409	642	24%	-21%
Sales- NIS '000	2,962	2,515	3,739	18%	-21%

The change for the 3 months ended

For the 3 months ended

March 31st, December 31st, March 31st, on December 31st, March 31st,

**The Operations in**

<b>North America</b>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
Sales- \$'000	815	979	798	-17%	2%
Sales- NIS'000	3,043	3,708	3,238	-18%	-6%

**In Israel**, the sales during the Period have amounted to about 5,636 thousands of NIS, as compared with 5,782 thousands of NIS in the last quarter of 2009, a decline of about 3%, and about 5,286 thousands of NIS during the corresponding period in 2009, a rise of about 7%.

The sales of the Group **in Europe**, in terms of local currency - the British pound - have amounted to about 508 thousands of British pounds, growth of about 24% from the last quarter of 2009 (409 thousands of British pounds) and an increase of about 21% from the sales in the corresponding quarter of 2009 (642 thousand NIS).

In terms of NIS, the sales of the Group in Europe amounted during the Period to about 2,962 thousands of NIS, growth of about 18% from the sales in the last quarter of 2009 (2,515 thousands of NIS) and a decrease of about 21% as compared with the sales in Europe during the corresponding period of 2009 (3,739 thousands of NIS).

**In the USA**, the sales of the Group in terms of US dollars stood during the Period at about 815 thousand dollars, as compared with 979 thousand dollars in the last quarter of 2009 (a decline of about 17%) and sales of 798 thousand dollars in the corresponding quarter of 2009 (a rise of about 2% in dollar terms).

Since the dollar eroded against the NIS in the past year since the corresponding period last year, in NIS terms, the sales in the USA stood at about 3,043 thousands of NIS, a decrease of about 18% as compared with the last quarter of 2009 (3,709 thousands of NIS) and a decrease of about 6% as compared with the corresponding period last year (about 3,238 thousands of NIS).

## 2. Cost of the Sales and Services

During the course of the Period, the cost of sales and services stood at about 7,355 thousands of NIS, as compared with 7,165 thousands of NIS in the last quarter and 7,868 thousands of NIS in the corresponding quarter last year (a rise of about 3% and a decline of about 7%, respectively).

## 3. Gross Profit

The gross profit at the Period stood at about 4,286 thousand of NIS, which account for about 37% of the Company's sales, as compared with 4,840 thousands of NIS in the last quarter of 2009 (about 40% of the Company's sales) and 4,395 thousands of NIS during the first quarter of 2009 (about 36% of the Company's sales).

## 4. Research and Development Expenses

In the course of the Period, the research and development expenses amounted to about 919 thousands of NIS, a rise of about 43% from the amount in the previous quarter (642 thousands of NIS), which was low as a result of a one-time decline and a decline of about 6% from the expenditure in the corresponding period last year (977 thousand NIS).

5. Sales and Marketing Expenses

Sales and marketing expenses amounted during the course of the Period to about 822 thousand NIS, as compared with 767 thousand NIS in the previous quarter (growth of about 7%) and 1,018 thousand of NIS in the corresponding period last year (a decline of about 19%).

The decrease in expenditure as compared with the corresponding period last year stems from the cutback and efficiency plan carried out by the management of the Company in the course of the last quarters with a view to preparing for a decline in the operations as a result of the economic crisis.

The moderate growth in expenditure, as compared with the previous quarter, stems from growth in investments in marketing with a view to recovery from the recession in the global economy.

6. General and Administrative Expenses

The general and administrative expenses during the Period amounted to about 1,879 thousands of NIS, as compared with 2,216 thousands of NIS in the previous quarter (a decline of about 15%) and 2,332 thousands of NIS in the corresponding quarter last year (a decline of about 19%). The decline in expenditure is a result of an extensive cutback done by the management in the course of the last quarters with a view to preparing for the economic crisis. The cutback was done in all the companies of the Group, as well as in the Company's headquarters, and included discharging employees and expense cut.

7. Profit from Ordinary Operations

In the course of the Period, the Group earned about 667 thousands of NIS, as compared with a profit of about 1,202 thousands of NIS in the previous quarter and a profit of about 93 thousand NIS in the corresponding quarter last year.

8. Financing Revenues

During the Period, the Group had financing revenues in the amount of 13 thousand NIS, which accrued from interest received from bank deposits. In the course of the previous quarter, the Group had interest revenues in the amount of about 25 thousand NIS and 693 thousand NIS in the corresponding quarter last year, which were primarily due to exchange rate differences against the US dollar and the British pound.

9. Financing Expenses

The financing expenses during the Period amounted to about 94 thousand NIS, with about 21 thousand NIS accounting for interest expenses as a result of a bank loan taken up in Israel towards the end of the year 2008, whereby 70 thousand NIS of those were primarily due to exchange rate differences against the US dollar and the British pound.

In the course of the corresponding quarter, the financing expenses amounted to about 125 thousand NIS, which were primarily due to translation differences, and to a lesser extent to payment of interest expenses in the amount of 27 thousand NIS, as a result of bank loan taken up in Israel.

10. Taxes on Income

The expense on account of the taxes stood during the Period at about 294 thousand NIS, as compared with an expense of about 321 thousand NIS in the fourth quarter of 2009, and this was principally due to taxation relation to operations in North America.

11. Net Profit

The net profit of the Group in the Period stood at about 292 thousand NIS, as compared with a net profit of about 906 thousand NIS in the last quarter and a net profit of about 669 thousand NIS in the corresponding period last year.

**D. Financial Position**

1. The current assets as of March 31st, 2010 amounted to about 29,001, as compared with 27,907 as of December 31st, 2009. The growth in the current assets is primarily due to growth in cash.

The cash value stood on March 31st, 2010 at about 16,249 thousands of NIS, as compared with 14,463 thousands of NIS on December 31st, 2009, growth of about 1,786 thousands of NIS, which was due to positive cash flow for the period.

The Company's customers accounted on March 31st, 2010 for about 10,578 thousands of NIS, as compared with 11,645 thousand NIS on December 31st, 2009, a decrease of about

1,067 thousand NIS, which is principally due to the decrease in sales and also to the improvement in the collection of moneys due from customers.

Debtors and debit balances stood at the end of the period at about 1,260 thousands of NIS, as compared with 875 thousand NIS on December 31st, 2009. The growth in debit balances was primarily due to growth in prepaid expenses.

## 2. Non-Current Assets

The non-current assets stood on March 31st, 2010 at about 1,833 thousands of NIS, as compared with 2,118 thousands of NIS on December 31st, 2009.

The changes in the non-current assets during the course of the Period were due to depreciation of non-tangible assets and fixed assets.

## 3. Current Liabilities

The Company's current liabilities stood at about 12,714 thousands of NIS on March 31st, 2010, as compared with 10,626 thousands of NIS on December 31st, 2009, growth of about 2,088 thousands of NIS.

The changes in the current liabilities in the course of the quarter were due to the classification of a bank loan that the Company had repaid during the second quarter of 2010, for which reason it was reclassified in its entirety from long-term liability to current liability.

## 4. Long-Term Liability

At the end of the Period, the Company's long-term liability stood at 135 thousands of NIS, as compared with 2,076 thousands of NIS on December 31st, 2009. The bulk of the liabilities consist in liabilities on account of workers bonuses.

The decrease in long-term liability is due to the classification of the bank loan as current liability.

## 5. Capital

The Company's capital as of March 31st, 2010 stood at about 17,985 thousands of NIS, as compared with 17,323 thousands of NIS on December 31st, 2009, a rise of about 662 thousand NIS.

The rise in capital is principally due to the profit during the Period, after offsetting translation differences of the subsidiaries not operating in Israel, as well as due to the exercise of options in the amount of 602 thousand NIS.

## 6. Financial Ratios

	<u>March 31st, 2010</u>	<u>March 31st, 2009</u>
Current assets to balance ratio	94%	93%
Current ratio	2.28	2.63
Capital for the balance	58%	58%

## E. Liquidity of Financing Sources

During the period, the Company's cash balances grew by about 1,786 thousand NIS, as compared with a rise of 1,832 thousand NIS during the corresponding period last year.

### Cash Flow from Current Operations

The cash that accrued from the Company's current operations stood at about 1,727 thousands of NIS in the course of the Period, as compared with 1,899 thousands of NIS, which were due to current operations during the corresponding period last year.

The positive flow per quarter was primarily due to the net profit in the amount of 292 thousand NIS for the Period, flow adjustments for profit and losses in the amount of 749 thousand NIS, as well as from changes in the assets and liabilities items in the amount of 451 thousand NIS.

### Cash Flow from Investment Operations

In the course of the Period, cash in the amount of about 31 thousand NIS accrued from investment operations, as well as from the purchase of fixed assets.

### Cash Flow from Financing Operations

In the course of the Period, the Company repaid to the bank in cash part of the long-term loan in the amount of 150 thousand NIS and, further, the exercise of employees' options on the Company's shares yield about 602 thousand NIS.

During the course of the period, the translation differences due to cash balances in foreign currencies that were used for the operations amounted to about 362 thousand NIS.

**F. High Quality Reporting Concerning the Exposure to Market Risks and the Ways of Conducting Those**

Those responsible for managing the Company's market risks are Chaim Helfgott, the Company's director and secretary, and Michael Zukerman, the CEO of the Company. See Regulation 26(3) in the periodic report.

The person responsible for the financial risks in the reported period is Jonathan Berger, the CFO of the Company.

**1. The Market Risks to Which the Company Is Exposed:**

The Company is exposed to a variety of market risks in the way its ordinary business is conducted. The activity sectors pertaining to the subject of human resources are primarily exposed to a decline in the volume of operations in the economy of the target countries and also to the unexpected entry of technology-based companies into the market.

The Company's job placement operations are exposed to regulatory changes on the part of the Israeli legislator.

Since most of the Company's expenses are in the area of wages, changes in the labor market in the American, British and Israeli economy might impact the Company's business results.

There is no substantial currency exposure in the Company due to its business operations, since the revenues and expenses in each of the countries where the Group operates are in the same currency.

**2. The Accounting Risks to Which the Company Is Exposed:**

The Company is exposed to changes in the exchange rates, which originate in moneys and assets in foreign currencies, primarily the British pound and American dollar. Under conditions of real devaluation, financing revenues would accrue to the Company, whereas under conditions of real revaluation, the Company would incur financing expenses.

As a result of changes in the rates of the currencies NIS, British pound and dollar, the total net financing expenses during the reported period amounted to 81 thousand NIS, of which revenues from interest accounted for a total of about 13 thousand NIS, and financing expenses on account of credit or loans accounted for 21 thousand NIS.

The Company's liquid moneys during the Period were in NIS, British pound, American dollar, and to a lesser extent Euro.

3. The Company's Policy in Managing the Described Market Risks:

The Company spreads its operations in several geographic markets and diverse niches in the area of human resources, so as to diminish its exposure to the market conditions in a certain country and to the penetration of new competitors in the niches it operates in.

The Company did not conclude financial protection transactions in the year 2010.

The Company works towards adapting the linkage bases of its assets and liabilities and the average duration of its assets to the average duration of its liabilities.

4. The Means for Supervision and Implementation of the Policy:

The Company does not conclude speculative derivatives transactions. No financial defense action is performed without specific approval from the Company's secretary and the CFO of the Company.

5. Exposure to Currency Risks

Over the period extending from the balance date till the date of publication of the financial statements for the first quarter of the year 2010, no substantial changes have occurred in the nature of the exposure to the exchange rates between the NIS and the dollar and British pound.

The revenues and expenses in each of the countries where the Company operates are in the same currency. Each subsidiary invests its surplus cash in deposits in the currency it works in.

The following are sensitivity tests depending upon changes in the relevant market factors (in thousands of NIS):

**Sensitivity to Changes in the Dollar/NIS Exchange Rate**

	Profit (Loss) from the Changes		Fair Value	Profit (Loss) from the Changes	
	The Rise Rate of the Dollar			The Decline Rate of the Dollar	
The Sensitive Instrument	10%	5%		-5%	-10%
Cash and cash value	616	308	6,160	(308)	(616)
Short term investments	37	19	371	(19)	(37)
Customers	248	124	2,476	(124)	(248)
Liabilities to suppliers and to service providers	(10)	(5)	(97)	5	10
Creditors and credit balances	(5)	(3)	(49)	3	5
Taxes receivable	(58)	(29)	(580)	29	58
<b>Total</b>	<b>828</b>	<b>414</b>	<b>8,281</b>	<b>(414)</b>	<b>(828)</b>

**Sensitivity to Changes in the Euro/NIS Exchange Rate**

	Profit (Loss) from the Changes		Fair Value	Profit (Loss) from the Changes	
	The Rise Rate of the Index			The Decline Rate of the Index	
The Sensitive Instrument	20%	10%		-10%	-20%
Cash and cash value	22	11	110	(11)	(22)

**Sensitivity to Changes in the British pound/NIS Exchange Rate**

	Profit (Loss) from the Changes		Fair Value	Profit (Loss) from the Changes	
	The Rise Rate of the British pound			The Decline Rate of the British pound	
The Sensitive Instrument	10%	55		-5%	-10%
Cash and cash value	312	156	3,123	(156)	(312)
Customers	166	83	1,655	(83)	(166)
Debtors and debit balances	1	1	8	(1)	(1)
Taxes receivable	9	5	91	(5)	(9)
Liabilities to suppliers and to service providers	(100)	(50)	(1,001)	50	100
Creditors and credit balances	(71)	(35)	(714)	35	71
<b>Total</b>	<b>317</b>	<b>160</b>	<b>3,162</b>	<b>(160)</b>	<b>(317)</b>

**Sensitivity to Changes in the Consumer Price Index**

	Profit (Loss) from the Changes		Fair Value	Profit (Loss) from the Changes	
	The Rise Rate of the Index			The Decline Rate of the Index	
The Sensitive Instrument	0.2%	0.1%		-0.1%	-0.2%
Debtors and debit balances	0.1		22		(0.1)
Taxes receivable	1.0	0.5	452	(0.5)	(1.0)
Long term debtors	0.1	-	66	-	(0.1)
<b>Total</b>	<b>1.2</b>	<b>0.5</b>	<b>540</b>	<b>(0.5)</b>	<b>(1.2)</b>

## Sensitivity to Changes in the NIS Interest

During the course of the month of April 2010, the Company repaid the loan in NIS, for which reason the Company has no sensitivity to changes in the NIS interest.

### **G. Donations**

The company is committed to the community in which it operates, and attaches great value to actively participating in this community by way of making donations to various institutions with a view to ensuring the support and partnership of commercial firms with non-profit organizations. Over the course of the Period, the company has donated about 18 thousand NIS.

### **H. Linkage Bases**

**March 31st,  
2010**

	Euro, or linked to it	US dollar or linked to it	British pound	Linked to the CPI	Without linkage
<u>Thousands of NIS</u>					
<u>Assets</u>					
Cash	110	6,160	3,123	-	6,856
Short term investments	-	371	-	-	-
Customers	-	2,476	1,655	-	6,447
Debtors	-	-	8	22	7
Taxes	-	-	91	452	-
Severance pay	-	-	-	-	64
Long term debtors				66	
<b>Total assets</b>	<b>110</b>	<b>9,007</b>	<b>4,877</b>	<b>540</b>	<b>13,374</b>
<u>Liabilities</u>					
Suppliers	-	97	1,001	-	1,011
Creditors	-	49	714	-	2,622
Taxes		580			
<b>Total liabilities</b>	<b>-</b>	<b>726</b>	<b>1,715</b>	<b>-</b>	<b>3,724</b>
<b>Surplus assets</b>	<b>110</b>	<b>8,281</b>	<b>3,162</b>	<b>540</b>	<b>9,650</b>

<b>December 31st, 2009</b>					
	Euro, or linked to it	US dollar or linked to it	British pound or linked to it	Linked to the CPI	Without linkage
<u>Thousands of NIS</u>					
<u>Assets</u>					
Cash	123	4,432	3,185	-	6,723
Short term	-	377	-	-	-
Customers	-	3,034	2,632	-	5,975
Debtors	-	37	16	-	34
Taxes	-	-	99	488	-
Severance pay	-	-	-	-	110
Long term				66	
<b>Total assets</b>	<b>123</b>	<b>7,880</b>	<b>5,932</b>	<b>554</b>	<b>12,846</b>
<u>Liabilities</u>					
suppliers	-	110	600	-	770
Creditors	-	130	866	-	2,836
Taxes		47			
banking corporations					2,302
Severance pay	-	-	-	-	83
<b>Total liabilities</b>	<b>-</b>	<b>287</b>	<b>1,524</b>	<b>-</b>	<b>5,991</b>
<b>Surplus assets (liabilities)</b>	<b>123</b>	<b>7,593</b>	<b>4,408</b>	<b>554</b>	<b>6,855</b>

**I. Board of Directors and Management**

There occurred no substantial changes during the reported period.

**J. The Procedure for Approving Financial Statements**

The board of directors of the Company is the organ discussing the financial statements and approving those, after the members of the board of directors have received to hand the draft of the financial statements before the meeting. Even though the Company has no balance sheet committee and the financial statements are discussed at the hearings of the board of directors, the members of the audit committee do meet with the accountants and auditors to hear and inquire about the procedure for preparing the statements.

In the course of the meeting of the board of directors, at which the financial statements are discussed and approved, the CFO of the Company reviews at great length the fundamentals of the financial statements and the substantial issues in the financial reporting concerned, including transactions that do not fall within the ordinary course of business, should there be such, along with the substantive evaluations and the critical estimates implemented in the financial statements, as well as the plausibility of the data, the accounting principles implemented and the changes that have occurred thereto and also the application of the proper disclosure principle in the financial statements and in the accompanying information. The CEO of the Company reviews the Company's current operations and the effect on its results, as well as emphasizing substantive issues.

Present at the meeting of the board of directors, at which the financial statements are discussed and approved, are the invited representatives of the Company's auditing accountant. The latter usually add their remarks and insights concerning the financial statements and are usually also at the service of the board of directors for any question and clarification on the statements prior to their approval.

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Michael Zukerman, Chairman  
of the Board of Directors and  
CEO

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Chaim Helfgott, Secretary of the  
Company and Director

**Pilat Technologies International Ltd.**

**Interim Consolidated Financial Statements**

**as at March 30, 2010**

**Unaudited**

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**Auditor's review report to the shareholders of**  
**Pilat Technologies International Ltd.**

***Preface***

We have reviewed the attached financial information of **Pilat Technologies International Ltd.** and its subsidiaries, which include the condensed consolidated balance sheet as at March 31, 2010 and the condensed consolidated statements of income, of comprehensive income, changes in shareholders' equity and cash flows for the period of three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard IAS 34 "Financial Reporting for Interim Periods", and they are also responsible for the preparation of the financial information for these interim periods under Chapter D. of the Securities Regulations (Interim and Immediate Reports) - 1970. Our responsibility is to express a conclusion only the financial information for these interim periods based on our review.

We did not review the condensed financial information for interim periods of consolidated companies whose assets included in the consolidation comprise 32% of all the consolidated assets as at March 31, 2010, and whose revenues included in the consolidation comprise 52% of total consolidated revenues for the period of three months then ended. The condensed financial information for the interim periods for those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusions, to the extent that they relate to the financial information for those companies, are based on the review reports of the other auditors.

***Scope of the review***

We carried out our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". A review of financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and the use of other analytical review procedures. A review is considerably more limited in scope than an audit carried out in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain with sufficient certainty that we will be aware of all significant matters which could have been identified in an audit. Consequently we are not expressing an opinion of an audit.

***Conclusion***

Based on our review and on the review reports of the other auditors, we are not aware of any fact which would cause us to think that the above financial information has not been prepared, from all significant aspects, in accordance with international accounting standard IAS 34.

In addition to the remarks in the previous paragraph, based on our review and on the review reports of other auditors, we are not aware of anything which could cause us to think that the above financial information does not meet, from all significant aspects, the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Tel Aviv,  
May 27, 2010

***Troyaner Gelbar Aloni***  
**Certified Public Accountants**

**Pilat Technologies International Ltd.**

**Condensed consolidated balance sheets**

	As at		As at
	March 31,		December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		NIS thousands
<b><u>Current assets</u></b>			
Cash and cash equivalents	16,249	15,571	14,463
Short-term investments	371	-	377
Trade receivables	10,578	12,101	11,645
Other receivables	1,260	1,326	875
Taxes receivable	543	423	547
	<u>29,0014</u>	<u>29,421</u>	<u>27,907</u>
<b><u>Non-current assets</u></b>			
Long-term receivables	102	484	66
Prepaid expenses for operating leases, net	133	132	138
Assets for benefits to employees	64	-	110
Fixed assets, net	1,044	1,499	1,181
Intangible assets, net	490	984	623
	<u>1,833</u>	<u>3,099</u>	<u>2,118</u>
<b><u>Total assets</u></b>	<b><u>30,834</u></b>	<b><u>32,520</u></b>	<b><u>30,025</u></b>

The notes to these financial statements are an integral part thereof.

**Pilat Technologies International Ltd.**

**Condensed consolidated balance sheets**

	As at March 31,		As at December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		NIS thousands
<b><u>Current liabilities</u></b>			
Current maturities for long-term loans	2,152	618	600
Trade payables	2,109	2,201	1,538
Other payables	7,873	10,151	8,441
Taxes payable	580	-	47
	12,714	12,970	10,626
<b><u>Long-term liabilities</u></b>			
Loans from banks	-	2,152	1,702
Liabilities for benefits to employees	91	184	83
Taxes payable	44	-	291
	135	2,336	2,076
Total liabilities	12,849	15,306	12,702
<b><u>Shareholders' equity relating to the Company's shareholders</u></b>			
Share capital	394	378	389
Premium on shares	57,004	55,633	56,407
Treasury stock	(751)	(751)	(751)
Profit and loss account	(36,622)	(36,055)	(36,914)
Capital reserve from translating differences	(2,687)	(2,524)	(2,414)
Other capital reserves	647	533	606
	17,985	17,214	17,323
<b><u>Total liabilities and capital</u></b>	<b>30,834</b>	<b>32,520</b>	<b>30,025</b>

The notes to these financial statements are an integral part thereof.

May 27, 2010			
<b>Date of approval of the financial statements</b>	<b>Michael Zuckerman</b>	<b>Chaim Helfgott</b>	<b>Jonathan Berger</b>
	<b>Chairman of the Board and CEO</b>	<b>Director</b>	<b>CFO</b>

**Condensed consolidated statement of income**

	For the 3 months ended March 30,		For the year ended December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		NIS thousands
	<b>Note</b>		
Revenues from sales and service	11,641	12,263	46,791
Cost of sales and service	7,355	7,868	29,929
Gross profit	4,286	4,395	16,862
Research and development expenses	919	977	3,869
Selling and marketing expenses	822	1,018	3,296
General and administrative expenses	1,879	2,332	9,278
Other expenses, net	(1)	(25)	(12)
Income from regular operations	667	93	431
Financing income	13	693	58
Financing expenses	4 (94)	(125)	(460)
Profit before taxes on income	586	661	29
Tax on income	(294)	8	(219)
Net profit (loss)	292	669	(190)
<u>Net earnings (loss) per share – in NIS</u>			
Net earnings (loss) – basic and diluted	0.01	0.026	(0.01)

The notes to these financial statements are an integral part thereof.

**Condensed consolidated statements of comprehensive income**

	For the 3 months ended March 31,		For the year ended December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands (Excluding data on net earnings (loss) per share)		
Profit (loss)	292	669	(190)
Other comprehensive income (loss):			
Adjustments resulting from translation of financial statements of foreign operations	(273)	409	228
Transfer to statement of income from realizing a loan in foreign operations	-	-	291
Other comprehensive income (loss), net	(273)	409	519
Total comprehensive profit relating to the Company's shareholders	19	1,078	329

The notes to these financial statements are an integral part thereof.

**Condensed consolidated statements of changes in shareholders' equity**

	Share capital	Premium on shares	Capital reserve from translating financial statements of foreign operations	Other capital reserves	Balance of loss	Treasury stock	Total
	Unaudited						
	NIS thousands						
<b><u>Balance as at January 1, 2010</u></b> <b><u>(audited)</u></b>	389	56,407	(2,414)	606	(36,914)	(751)	17,323
Total comprehensive income (loss)	-	-	(273)	-	292	-	19
Issue of shares from exercising option warrants	5	597	-	-	-	-	602
Cost of share-based payment	-	-	-	41	-	-	41
<b><u>Balance as at March 31, 2010</u></b>	<u>394</u>	<u>57,004</u>	<u>(2,687)</u>	<u>647</u>	<u>(36,622)</u>	<u>(751)</u>	<u>17,985</u>
<b><u>Balance as at January 1, 2009</u></b> <b><u>(audited)</u></b>	378	55,633	(2,933)	507	(36,724)	(751)	16,110
Total comprehensive income	-	-	409	-	669	-	1,078
Cost of share-based payment	-	-	-	26	-	-	26
<b><u>Balance as at March 31, 2009</u></b>	<u>378</u>	<u>55,633</u>	<u>(2,524)</u>	<u>533</u>	<u>(36,055)</u>	<u>(751)</u>	<u>17,214</u>
<b><u>Balance as at January 1, 2009</u></b>	378	55,633	(2,933)	507	(36,724)	(751)	16,110
Total comprehensive income (loss)	-	-	519	-	(190)	-	329
Issue of shares from exercising option warrants	11	774	-	-	-	-	785
Cost of share-based payment	-	-	-	99	-	-	99
<b><u>Balance as at December 31, 2009</u></b>	<u>389</u>	<u>56,407</u>	<u>(2,414)</u>	<u>606</u>	<u>(36,914)</u>	<u>(751)</u>	<u>17,323</u>

\* Less than NIS 1 thousand.

The notes to these financial statements are an integral part thereof.

**Condensed consolidated statement of cash flows**

	For the 3 months ended March 31,		For the year ended December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		
<b><u>Cash flows from operating activities</u></b>			
Profit (loss)	292	669	(190)
<b>Adjustments:</b>			
Amortization and depreciation	279	322	1,232
Finance costs, net	81	(568)	402
Cost of share-based payment	41	26	99
Change in liabilities for benefits to employees, net	54	(29)	(240)
Deferred taxes, net	294	(8)	219
	<u>749</u>	<u>(257)</u>	<u>(1,712)</u>
<b>Changes in items of assets and liabilities:</b>			
(Increase) decrease in trade receivables	834	951	1,246
(Increase) decrease in other receivables	(469)	(447)	(33)
Decrease in trade payables	636	46	(634)
Decrease in other payables	(550)	1,059	(1,292)
Decrease in liabilities relating to discontinued operations	-	(100)	(100)
	<u>451</u>	<u>1,509</u>	<u>(813)</u>
<b>Cash paid and received during the period:</b>			
Interest paid	(21)	(27)	(90)
Interest received	13	11	58
Tax paid	(4)	(6)	(24)
Tax received	-	-	416
Net cash provided by (used for) operating activities	<u>1,480</u>	<u>1,899</u>	<u>1,069</u>

\* Reclassified

The notes to these financial statements are an integral part thereof.

**Consolidated statement of cash flows**

	For the 3 months ended March 31,		For the year ended December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		NIS thousands
<b><u>Cash flows from investing activities</u></b>			
Purchase of fixed assets	(30)	(47)	(260)
Proceeds from realizing fixed assets	-	-	-
Short-term investments, net	-	379	1
Acquisition of intangible assets	(1)	-	(386)
<b>Net cash provided by (used for) investing activities</b>	<b>(31)</b>	<b>332</b>	<b>(645)</b>
<b><u>Cash flows from financing activities</u></b>			
Issue of share capital from exercising option warrants	602	-	785 *)
Repayment of long-term loans to banks	(150)	(171)	(633)
<b>Net cash used for financing activities</b>	<b>452</b>	<b>(171)</b>	<b>152</b>
<u>Exchange differences of cash and cash equivalents</u>	<u>(115)</u>	<u>(228)</u>	<u>148</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>1,786</u>	<u>1,832</u>	<u>724</u>
<u>Balance of cash and cash equivalents at beginning of period</u>	<u>14,463</u>	<u>13,739</u>	<u>13,739</u>
<u>Balance of cash and cash equivalents at end of period</u>	<u>16,249</u>	<u>15,571</u>	<u>14,463</u>

\* Reclassified

The notes to these financial statements are an integral part thereof.

**Notes to the interim financial statements**

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**Note 1 - General**

These financial statements were prepared in a condensed format as at March 31, 2010 and for the periods of three months then ended (hereinafter - the interim consolidated financial statements"). These statements should be studied in correlation with the Company's annual financial statements as at December 31, 2009 and for the year then ended and the notes accompanying them (hereinafter: the annual financial statements).

**Note 2 - Significant accounting principles**

**a. Format of preparation of the interim consolidated financial statements**

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as set forth in International Accounting Standard IAS 34 – "Financial Reporting for Interim Periods", and according to the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

The significant accounting principles and methods of calculation implemented in the preparation of the interim consolidated financial statements are consistent with those implemented in the preparation of the annual financial statements, excluding the following:

**b. IAS 1 (Amended) – Presentation of financial statements**

According to IAS 1 an additional and separate statement must be presented – "Statement of Comprehensive Income" in which the following will be presented: apart from the net income taken from the statement of income, all the items which were recorded during the period of report directly to shareholders' equity and which do not result from transactions with shareholders as shareholders (other comprehensive income), such as adjustments resulting from the translation of financial statements of foreign operations, adjustment of fair value of financial assets classified as available for sale, adjustments to the revaluation reserve of fixed assets etc... and the tax effect of these items also recorded directly to shareholders' equity, with suitable allocation between the Company and between the rights which do not give control. Alternatively, it is possible to present the items of the other comprehensive income together with the items of the statement of income in one statement, to be called: "Statement of Comprehensive Income" which will replace the statement of income, with suitable allocation between the Company and the rights which do not give control. Items recorded to shareholders' equity which result from transactions with shareholders as shareholders (such as the issue of capital, the distribution of dividend etc.) will be presented in the statement of changes in shareholders' equity, as well as the summary line transferred from the comprehensive statement of income, with suitable allocation between the Company and between rights which do not give control.

**Notes to the consolidated interim financial statements**

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**Note 2 - Significant accounting principles – contd.**

**b. IAS 1 (Amended) – Presentation of financial statements – contd.**

In addition, the Standard stipulates that in cases of a change in comparative figures, as a result of a change in accounting policy implemented retrospectively, restatement or reclassification, the annual financial statements must be presented in the balance sheet also at the beginning of the period of comparative figures for which the change was made.

The amendment was implemented as from January 1, 2010 with retrospective presentation of comparative figures.

**f. The effect of new accounting standards during the period prior to their implementation which can have an effect on the financial statements:**

In April 2009, the IASB published amendments to 12 International Accounting Standards, International Financial Reporting Standards and clarifications to International Financial Reporting Standards (hereinafter: "the Amendment"), and this in the framework of the project to improve international standards. Most of the amendments apply retrospectively from the annual periods starting January 1, 2010 or thereafter. The amendments can be adopted earlier subject to certain conditions.

The following is a review of the significant amendments:

**1. International Accounting Standard 1 regarding the presentation of financial statements**

The amendment stipulates that should, when the conditions of a liability include the possibility given to the other party to convert the debt of the entity to capital instruments of the entity, this would not affect the classification of the liability as a current liability or non current liability. Therefore, convertible bonds linked to the index or linked to foreign currency (classified in the balance sheet in the framework of liabilities) and the liability component of convertible bonds (which include the liability component and the capital component) will be classified according to the repayment dates in cash of the bonds, and not according to their conversion date.

**3. International Accounting Standard 36 - Impairment in Value of Assets**

According to the Standard, every cash-generating unit or group of cash-generating units, to which goodwill has been allocated, will not be greater than the segment of operations as defined in International Financial Reporting Standard 8 prior to combining operating segments to one operating segment.

The amendment was implemented as from January 1, 2010 with retrospective presentation of comparative figures.

**Notes to the consolidated interim financial statements**

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**Note 3 - The following are exchange rate data of the US dollar and the pound sterling**

	<u>Exchange rate of 1 US dollar</u>	<u>Exchange rate of 1 pound sterling</u>
<u>As at</u>	<u>NIS</u>	<u>NIS</u>
March 31, 2010	3.713	5.6092
March 31, 2009	4.188	5.9924
December 31, 2009	3.775	6.1112
	<u>%</u>	<u>%</u>
<u>Rate of change during the period</u>		
March 2010 (3 months)	(1.64)	(8.21)
March 2010 (3 months)	10.15	8.01
December 2009 (12 months)	(0.70)	10.15

**Note 4 - Operating segments**

As from January 1, 2009, the Company has adopted IFRS 8 according to which the operating segments are presented according to the internal reporting format for the Company's chief operating decision maker.

**a. General**

The Company and its subsidiaries are engaged in the field of human resources.

The group of companies operates in three operational segments:

1. Israel
2. Europe
3. North America

Management follows the results of operations of operating segments separately, in order to take decisions regarding the allocation of resources and evaluating performance.

**Pilat Technologies International Ltd.**

**Notes to the consolidated interim financial statements**

**Note 4 - Operating segments – contd.**

**b. Reporting relating to operating segments**

	<b>For the 3 months ended March 31, 2010</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	5,636	2,962	3,043	-	11,641
Between segments	-	478	46	(524)	-
Total revenues	<u>5,636</u>	<u>3,440</u>	<u>3,089</u>	<u>(524)</u>	<u>11,641</u>
Results of the segment	<u>323</u>	<u>157</u>	<u>852</u>	<u>-</u>	1,332
Expenses not allocated to segments					(665)
Income from regular operations					<u>667</u>

	<b>For the 3 months ended March 31, 2009</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	5,286	3,739	3,238	-	12,263
Between segments	-	240	154	(394)	-
Total revenues	<u>5,286</u>	<u>3,979</u>	<u>3,393</u>	<u>(394)</u>	<u>12,263</u>
Results of the segment	<u>90</u>	<u>236</u>	<u>391</u>	<u>-</u>	717
Expenses not allocated to segments					(624)
Loss from regular operations					<u>93</u>

	<b>For the year ended December 31, 2009</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	21,059	12,720	13,012	-	46,791
Between segments	-	1,502	372	(1,874)	-
Total revenues	<u>21,059</u>	<u>14,222</u>	<u>13,384</u>	<u>(1,874)</u>	<u>46,791</u>
Results of the segment	<u>417</u>	<u>232</u>	<u>2,649</u>	<u>-</u>	3,298
Expenses not allocated to segments					(2,867)
Loss from regular operations					<u>431</u>

**Notes to the consolidated interim financial statements**

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**Note 5 - Significant events during the period and after the balance sheet date**

- a. During the reported period, a total of 501,500 options were exercised to shares in the company by employees of Company.
- b. After the balance sheet date, a further 74,356 options were exercised to shares by employees.
- c. After the balance sheet date, the Company repaid the full amount of the outstanding bank loan. The loan was taken out by its subsidiary in Israel and its expected term was October 2013.