

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2011**

**EXPRESSED IN US DOLLARS**

**UNAUDITED**

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**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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	June 30,		December
	2011	2010	31,
	Unaudited		Audited
	\$ Thousands		
<u>Current Assets:</u>			
Cash and cash equivalents	2,391	1,286	2,084
Restricted deposits	6	5	90
Trade receivables	1,616	968	1,611
Other receivables	348	250	508
Inventory	400	565	483
	<u>4,761</u>	<u>3,074</u>	<u>4,776</u>
<u>Noncurrent Assets:</u>			
Non-current receivables (including options granted to a financial institution)	82	105	119
Property, plant and equipment	1,662	1,110	1,709
Development costs (including patents)	4,173	4,221	4,196
	<u>5,917</u>	<u>5,436</u>	<u>6,024</u>
	<u>10,678</u>	<u>8,510</u>	<u>10,800</u>

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

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	June 30,		December
	2011	2010	31,
	Unaudited		Audited
	\$ Thousands		
<u>Current Liabilities:</u>			
Current maturities - noncurrent bank loans	830	120	363
Current maturities - convertible bonds	-	980	1,118
Trade payables	887	948	997
Other payables	1,343	558	839
	3,060	2,606	3,317
<u>Noncurrent Liabilities:</u>			
Bank loans	1,420	630	1,387
Options	375	297	530
Employee benefit liabilities	47	37	41
	1,842	964	1,958
<u>Equity:</u>			
Share capital	106	92	99
Share premium	23,261	19,083	21,129
Capital reserve – share based transactions	1,771	1,052	1,511
Accumulated losses	(19,362)	(15,287)	(17,214)
	5,776	4,940	5,525
	10,678	8,510	10,800

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

<b>August 28, 2011</b>			
<b>Date Of Financial Statements Approval</b>	<b>Eitan Nahum Chairman of the Board of Directors</b>	<b>Adi Dagan Chief Executive Officer</b>	<b>Ori Mor Chief Financial Officer</b>

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	For The Six Month Period Ended June 30,		For The Three Month Period Ended June 30,		For The Year Ended December 31,
	2011	2010	2011	2010	2010
	Unaudited				Audited
	Expressed In \$ Thousands (Except For Loss Per Share Data)				
Revenue:					
First generation products	2,065	2,083	986	925	3,849
Second generation products – (SFT)	1,518	519	767	354	1,877
	3,583	2,602	1,753	1,279	5,726
Cost of revenue	(1,611)	(1,248)	(785)	(598)	(2,526)
Gross profit	1,972	1,354	968	681	3,200
Research and development expenses	(855)	(368)	(575)	(221)	(760)
Selling and marketing expenses	(2,110)	(1,549)	(1,138)	(788)	(3,545)
Management and general expenses	(925)	(611)	(485)	(320)	(1,555)
Operating loss	(1,918)	(1,174)	(1,230)	(648)	(2,660)
Financing income	189	142	178	137	64
Financing expenses	(419)	(243)	(127)	(13)	(606)
Loss	(2,148)	(1,275)	(1,179)	(524)	(3,202)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss	<u>(2,148)</u>	<u>(1,275)</u>	<u>(1,179)</u>	<u>(524)</u>	<u>(3,202)</u>
<u>Loss per share (expressed in \$):</u>					
Loss per share – basic and diluted	<u>(0.054)</u>	<u>(0.036)</u>	<u>(0.029)</u>	<u>(0.014)</u>	<u>(0.087)</u>

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

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Share Capital	Share Premium	Capital Reserve – Share Based Transactions \$ Thousands	Accumulated Losses	Total
Balance, 1.1.2011 (audited)	99	21,129	1,511	(17,214)	5,525
Total comprehensive loss	-	-	-	(2,148)	(2,148)
Shares issued (1)	6	2,056	-	-	2,062
Exercise of options into shares	1	76	(69)	-	8
Cost of share-based payments	-	-	329	-	329
Balance, 30.6.2011 (unaudited)	<u>106</u>	<u>23,261</u>	<u>1,771</u>	<u>(19,362)</u>	<u>5,776</u>
Balance, 1.1.2010 (audited)	91	18,910	912	(14,012)	5,901
Total comprehensive loss	-	-	-	(1,275)	(1,275)
Exercise of options into shares	1	173	(122)	-	52
Cost of share-based payments	-	-	262	-	262
Balance, 30.6.2010 (unaudited)	<u>92</u>	<u>19,083</u>	<u>1,052</u>	<u>(15,287)</u>	<u>4,940</u>
Balance, 1.4.2011 (unaudited)	99	21,141	1,656	(18,183)	4,713
Total comprehensive loss	-	-	-	(1,179)	(1,179)
Shares issued (1)	6	2,056	-	-	2,062
Exercise of options into shares	1	64	(63)	-	2
Cost of share-based payments	-	-	178	-	178
Balance, 30.6.2011 (unaudited)	<u>106</u>	<u>23,261</u>	<u>1,771</u>	<u>(19,362)</u>	<u>5,776</u>
Balance, 1.4.2010 (unaudited)	92	19,083	839	(14,763)	5,251
Total comprehensive loss	-	-	-	(524)	(524)
Cost of share-based payments	-	-	213	-	213
Balance, 30.6.2010 (unaudited)	<u>92</u>	<u>19,083</u>	<u>1,052</u>	<u>(15,287)</u>	<u>4,940</u>
Balance, 1.1.2010 (audited)	91	18,910	912	(14,012)	5,901
Total comprehensive loss	-	-	-	(3,202)	(3,202)
Shares issued (2)	3	858	-	-	861
Rights issued (3)	3	979	-	-	982
Options to a financial institution	-	-	158	-	158
Exercise of options into shares	2	382	(221)	-	163
Cost of share-based payment	-	-	662	-	662
Balance, 31.12.2010 (audited)	<u>99</u>	<u>21,129</u>	<u>1,511</u>	<u>(17,214)</u>	<u>5,525</u>

(1). After deduction of issue costs of \$45 thousand.

(2). After deduction of issue costs of \$24 thousand.

(3). After deduction of issue costs of \$18 thousand.

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

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For The Six-Month Period Ended June 30,		For The Three Month Period Ended June 30,,		For The Year Ended December 31,
	2011	2010	2011	2010	2010
	Unaudited				Audited
	\$ Thousands				
<u>Cash flows from operating activities:</u>					
Loss	(2,148)	(1,275)	(1,179)	(524)	(3,202)
Adjustments to reconcile loss to net cash from operating activities:					
Adjustments - income and expenses items:					
Depreciation and amortization	247	145	122	74	359
Net changes in liabilities for cessation of the employee-employer relationship	12	3	6	2	33
Change in fair value - convertible bonds measured at fair value through profit and loss	116	(95)	113	(67)	50
Change in fair value - options, measured at fair value through profit and loss	(155)	83	(268)	(168)	316
Net financing expenses	82	77	60	71	89
Cost of share-based payment	329	262	178	213	662
	631	475	211	125	1,509
Changes in asset and liability items:					
Decrease (increase) - trade receivables	(5)	(417)	12	(127)	(1,060)
Decrease (increase) - other receivables (including noncurrent items)	197	(34)	123	(31)	(149)
Decrease (increase) - inventory	83	(102)	119	(78)	(20)
Increase (decrease) - trade payables	(110)	299	(30)	(34)	348
Increase - other payables	498	196	114	100	444
	663	(58)	338	(170)	(437)
Cash paid and received in respect of:					
Interest paid	(86)	(86)	(63)	(75)	(101)
Interest received	4	9	3	4	12
	(82)	(77)	(60)	(71)	(89)
Net cash used for operating activities	(936)	(935)	(690)	(640)	(2,219)

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

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For The Six-Month Period Ended June 30,		For The Three-Month Period Ended June 30,		Year Ended December 31,
	2011	2010	2011	2010	2010
	Unaudited				Audited
	\$ Thousands				
<u>Cash flows from investing activities:</u>					
Net change - investments in restricted deposits	84	-	65	-	(84)
Acquisition of property, plant and equipment	(177)	(411)	(118)	(266)	(1,199)
Net cash used for investing activities	(93)	(411)	(53)	(266)	(1,283)
<u>Cash flows from financing activities:</u>					
Exercise of options into shares	8	52	2	-	163
Repayment - convertible bonds	(1,234)	(721)	(1,234)	(721)	(721)
Receipt - noncurrent bank loan	590	-	590	-	1,000
Repayment - noncurrent bank loan	(90)	-	(61)	-	-
Proceeds - private issue of shares (after issue costs)	2,062	-	2,062	-	861
Proceeds - issue of shares by way of a rights issue (after issue costs)	-	-	-	-	982
Net cash provided by (used for) financing activities	1,336	(669)	1,359	(721)	2,285
<u>Increase (decrease) in cash and cash equivalents</u>	307	(2,015)	616	(1,627)	(1,217)
<u>Cash and cash equivalents, beginning of the period</u>	2,084	3,301	1,775	2,913	3,301
<u>Cash and cash equivalents, end of the period</u>	2,391	1,286	2,391	1,286	2,084

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

**NOTE 1 – GENERAL:**

These statements were prepared on a condensed basis as of June 30, 2011 and for the six month and three month periods then ended ("interim consolidated financial statements"). These statements should be read together with the Company's annual financial statements as of December 31, 2010 and for the year then ended, and the notes attached thereto ("annual financial statements").

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

**A. Format For Preparing Consolidated Interim Financial Statements:**

The consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, in accordance with International Accounting Standard 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of Chapter D of Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The significant accounting policies and calculations used in preparing the consolidated interim financial statements are consistent with those used in preparing the annual consolidated financial statements, except for that stated below.

**IAS 24 – Related Party Disclosures:**

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of relationships with a related party, and to prevent any inconsistencies in the use of this definition. In addition, companies related to a government are afforded, under the amendment, partial relief from disclosing transactions with the government and with other companies related to a government. The amendment is adopted retrospectively, starting January 1, 2011.

The retrospective application did not have any material effect on the company's financial statements.

**IAS 32 – Financial Instruments: Presentation - Classification of Rights Issues**

The amendment to IAS 32 states that rights, options or share options to acquire a fixed number of the company's equity instruments for a fixed amount of any currency, be classified as equity instruments if the company offers the rights, options or share options pro rata to all existing owners of the same class of its non-derivative equity instruments. The amendment will be adopted retrospectively, for annual periods starting on January 1, 2011. Early adoption is allowed.

In the company's opinion, the standard is not expected to have any material effect on its financial statements.

**IAS 34 – Interim Financial Reporting:**

The amendment to IAS 34 provides additional disclosure requirements for interim financial statements, vis à vis when it is reasonable to believe, that certain circumstances will affect the fair value of financial instruments and their classifications, transfers of financial instruments between the various levels of the fair value hierarchy, and changes in the classification of financial assets. The amendment is adopted retrospectively, starting January 1, 2011.

The retrospective application did not have any material effect on the company's financial statements.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**B. Disclosure Of New IFR Standards In The Period Prior To Their Adoption:**

During May 2011, the IASB issued four new Standards - IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities," and IFRS 13, "Fair Value Measurement", and amended two existing Standards, IAS 27R (amended 2011), "Separate Financial Statements", and IAS 28R (amended 2011), "Investments in Associates and Joint Ventures."

The new Standards are to be applied retrospectively, for annual periods starting on January 1, 2013 or afterwards. Early application is allowed. However, if the company chooses early application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12, which may be adopted separately). The Standards provide transitional provisions, with certain relief upon initial adoption.

The main provisions of said Standards and their expected effects on the company are as follows:

**IFRS 10 - Consolidated Financial Statements:**

IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements, and provides the accounting treatment for the consolidation of structured entities, previously accounted for under SIC 12, "Consolidation - Special Purpose Entities."

IFRS 10 does not change the consolidation process, but rather modifies the definition of control for the purpose of consolidation, and introduces a uniform consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee, and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27, prior to its amendment, which required consideration of potential voting rights only if they could be exercised immediately, while disregarding management's intentions and financial ability to exercise such rights.

IFRS 10 also provides that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permit a choice between two consolidation models - the effective control model, and the legal control model.

IFRS 10 is to be applied retrospectively in financial statements for annual periods starting on January 1, 2013, or afterwards.

In the company's opinion, IFRS 10 is not expected to have a significant effect on its financial statements.

**IAS 27R - Separate Financial Statements:**

IAS 27R supersedes IAS 27, and only addresses separate financial statements. The existing guidance for separate financial statements has remained unchanged in IAS 27R.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**B. Disclosure Of New IFR Standards In The Period Prior To Their Adoption (Continued):**

**IFRS 13 – Fair Value Measurement:**

IFRS 13 provides guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants on measurement date. IFRS 13 also specifies the characteristics of market participants, and determines that fair value is based on the assumptions that would have been used by said market participants. IFRS 13 also requires that fair value measurement be based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of any principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 - information, which is not quoted information included in level 1 that can be observed directly or indirectly.

Level 3 - information, which is not based on observable market information (estimation techniques without use of observable market data).

Moreover, IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively, only for periods starting after the Standard's effective date, in financial statements for annual periods starting on January 1, 2013 or afterwards. Early adoption is allowed. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the company's financial statements upon initial adoption of IFRS 13.

In the company's opinion, adoption of IFRS 13 is not expected to have any significant effect on its financial statements.

**NOTE 3 – SIGNIFICANT EVENTS DURING THE REPORT PERIOD:**

A. On January 27, 2011, the Board of Directors approved a grant of 144,000 options to employees exercisable to 144,000 Ordinary shares, NIS 0.01 par value each, including 109,000 options to 13 Israeli employees of the company (including one officeholder) and 35,000 options to an American employee of the subsidiary - Medical Compression Systems Inc.

**The Option Terms Are As Follows:**

1. The grant of options to Israeli employees is part of a compensation program for Israeli employees, while the grant of options to the American employee is part of a compensation program, which is adapted to American law (USSOP).

2. The exercise price of each option granted to Israeli employees is NIS 3.842, while the exercise price of each option granted to the American employee is NIS 4.063.

3. The vesting period of the options will be spread over 36 months, as follows:

In respect of the Israeli employees, from December 23, 2010, in respect of the officeholder, from October 20, 2010 and in respect of the American employee, from May 3, 2010, with one third of the options vesting at the end of one year from said dates, one third of the options vesting at the end of the second year from said dates, and one third of the options vesting at the end of the third year from said dates.

4. The option exercise period will be from the date of vesting, and up to 18 months from the date of vesting.

5. The fair value of the options on grant date, calculated in accordance with the Binomial model, and various assumptions as noted below was estimated at \$72 thousand.

Fair value is calculated using the Binomial Option Pricing Model, based on expected share price volatility of 49%-72% calculated on grant date, a share price of NIS 4.063 and NIS 3.842 per share on grant date, non-risk interest rates of 2.9%-4.4% on grant date, and a 5% forfeiture rate.

B. On January 27, 2011, the Board of Directors approved a change of terms in respect of 350,000 options that were granted to Dr. Jacob Barak, CTO, as noted in note 18C(18) to the 2010 financial statements. According to the change, in the event of any merger, acquisition, reorganization of the company, or into another company, and if the company is not the surviving company, or a sale of all or part of the company's assets or shares, and if his employment will be discontinued at the request of the acquiring company, the option's vesting program terms will be accelerated vis à vis options that have not yet been exercised by the recipient, such that all options as stated will vest 10 days before the transaction date.

C. On January 27, 2011, the Board of Directors extended the terms of employment of Mr. Adi Dagan, as CEO, for a period of three months, from April 1, 2011 and up to June 30, 2011. During said period, Mr. Dagan's monthly salary will remain as stated in his employment agreement of June 20, 2010. Mr. Dagan's re-adjustment period will begin on July 1, 2011 and will continue for a period of six months, based on terms noted in note 23K (2) to the 2010 financial statements.

On June 27, 2011, the Board of Directors approved an additional extension of the terms of employment of Mr. Adi Dagan as CEO, such that his employment will end, the earlier of (1) December 31, 2011, (2) closure of merger and acquisition transaction. During the second extension period, Mr. Dagan's monthly salary will remain as stated in his employment agreement of June 20, 2010. Mr. Dagan's re-adjustment period will begin on the earlier of January 1, 2012 or immediately after closure of a merger and acquisition transaction, for a period of six months, based on terms noted in note 23K (2) to the 2010 financial statements.

**NOTE 3 – SIGNIFICANT EVENTS DURING THE REPORT PERIOD (CONTINUED):**

D. On January 27, 2011, the Board of Directors decided to adopt an option program for American employees, and office holders ("2011 American Option Program"). Concurrently, the Board of Directors declared that the 100,000 options would be available for grant under the program, and that they would be available for conversion into up to 100,000 Ordinary shares, NIS 0.01 par value each. The Board of Directors may increase said quantity of options, as it deems fit.

The options to be available under the 2011 American Option Program will not be registered for trading on the stock exchange, however, the shares that will be issued as a result of any option conversion, will be registered for trading on the stock exchange.

E. During March 2011, an Israeli bank offered the company a postponement of the repayment date of a \$ 1 million debt to it, allowing for repayments to begin during June 2012, and also offered further credits of \$500 thousand for repayment in 18 payments from June 2012, against a conditional grant in the event of a sale of most of the company's shares to an outside investor. The offer was limited in time, and was eventually declined by the company.

F. On March 24, 2011, the Board of Directors approved a non-significant private issue of 1,046,667 Ordinary shares, NIS 0.01 par value each, to a number of recipients who are not controlling shareholders of the company and not interested parties of the company, except for Yelin Lapidot Provident Fund Management Limited, which is an interested party of the company on the basis of its holdings, against a consideration of NIS 3,925 thousand (equivalent to \$1,141 thousand), reflecting a share price of NIS 3.75. During April 2011, the company received the full consideration against an issue of said shares.

G. On March 31, 2011, the Board of Directors approved a non-significant private issue of 653,334 Ordinary shares, NIS 0.01 par value each, to a number of recipients who are not controlling shareholders of the company and not interested parties of the company, against a consideration of NIS 2,450 thousand (equivalent to \$712 thousand), reflecting a share price of NIS 3.75. During April 2011, the company received the full consideration against an issue of said shares.

H. On March 31, 2011, the Board of Directors approved a non-significant private issue of 240,000 Ordinary shares, NIS 0.01 par value each, to a number of recipients who are not controlling shareholders of the company and not interested parties of the company, against a consideration of NIS 900 thousand (equivalent to \$254 thousand), reflecting a share price of NIS 3.75. During May 2011, the company received the full consideration against an issue of said shares.

I. On March 31, 2011, some of the company's controlling shareholders agreed to invest NIS 1,050 thousand (equivalent to \$303 thousand) against a non-significant issue of 280,000 Ordinary shares, NIS 0.01 par value each, reflecting a share price of NIS 3.75, subject to legal approval. During April 2011, said controlling shareholders signed an investment agreement, under the same terms.

J. On May 1, 2011, the company redeemed all convertible bonds (3,658,843 par value) still outstanding, against a payment of NIS 4,321 thousand (equivalent to \$1,273 thousand), including interest due.

**NOTE 3 – SIGNIFICANT EVENTS DURING THE REPORT PERIOD (CONTINUED):**

K. On May 24, 2011, the company signed an agreement with an Israeli bank for a change of terms in respect of existing loans and provision of an additional credit line of \$590 thousand, as detailed below:

1. Interest of 1-month LIBOR plus a margin of 5.75% will be charged.
2. The repayment date of the current loan of \$1,000 thousand was deferred, such that the principal will be repaid in 18 monthly and equal payments, starting June 2012 (said replacing the original loan terms as detailed in notes 12 C (1) and 12C (2) to the company's 2010 financial statements). Furthermore, the loan that the company will receive under the new credit terms will be repaid in 18 monthly and equal payments, starting June 2012. The offer was limited in time, and during June 2011, the company drew the additional credit line, and accepted the extension of the existing loan repayment date.

3. Financial covenants accepted by the company, are as follows:

A. The ratio between cash balances and trade receivables (at the end of each calendar quarter), and bank debt (not including a loan of \$750 thousand that was provided on December 30, 2010), will be at least 1.2.

B. The ratio between property, plant and equipment and the balance of loans not yet repaid under the agreement dated September 13, 2010, will be at least 1.33.

As of report date, the company complies with all financial covenants, which it accepted.

4. In the event of any exit (as this term is defined by the agreement), up to December 30, 2011, the company will pay the lender \$150 thousand, and in the event of any exit after said date, the company will pay the lender \$250 thousand.

L. On May 26, 2011, the Board of Directors approved an issue of 10,000 options to a company employee. The options are exercisable to 10,000 Ordinary shares, NIS 0.01 par value each.

**The Option Terms Are As Follows:**

1. The option exercise price is NIS 4.17 for all the options.
2. The options will vest of the end of each year from grant date, over a period of three years, in three equal tranches.
3. The option exercise period will be from the date of vesting, and up to 18 months from the date of vesting.
4. The fair value of the options on grant date, calculated in accordance with the Binomial model, and various assumptions as noted below was estimated at \$4 thousand.

Fair value is calculated using the Binomial Option Pricing Model, based on expected share price volatility of 30%-69% calculated on grant date, a share price of NIS 3.85 per share on grant date, non-risk interest rates of 3.5%-4.9% on grant date, and a 5% forfeiture rate.

M. Following termination of the subsidiary's president, on May 5, 2011 the Board of Directors approved changes to the offer terms to the subsidiary's president ("recipient") in respect of 350,000 options exercisable to 350,000 Ordinary shares NIS 0.01 par value as follows:

1. Accelerating the vesting of all options granted to the recipient not yet exercised, such that all options will become vested on June 7, 2011 and,
2. A change of terms of exercise of all options held by the recipient, such that all options will expire on March 31, 2012.

**NOTE 3 – SIGNIFICANT EVENTS DURING THE REPORT PERIOD (CONTINUED):**

N. During June 2011, 262,211 options that were previously granted to an Israeli bank, as noted in note 12(C) to the 2010 financial statements, were exercised to 212,311 Ordinary shares, NIS 0.01 par value, in a cash less exercise.

O. During the report period, 13,250 options were exercised into 13,250 Ordinary shares, NIS 0.01 par value each, against a consideration of \$8 thousand.

P. On June 20, 2011, the audit committee and the Board of Directors approved the appointment and terms of tenure of Mr. Miron Mann as an independent director, including a grant of 30,000 options, available for conversion into 30,000 Ordinary shares, NIS 0.01 par value each. Terms of his tenure were approved by the general meeting, which was held after said date.

**The Option Terms Are As Follows:**

1. The option exercise price is NIS 4.0375.
2. The options will vest of the end of each year from grant date (August 2, 2011), over a period of three years, in three equal tranches.
3. The option exercise period will be from the date of vesting, and up to 18 months from the date of vesting.
4. The fair value of the options on grant date, calculated in accordance with the Binomial model was estimated at \$10 thousand.

Fair value is calculated using the Binomial Option Pricing Model, based on expected share price volatility of 27%-69% calculated on grant date, a share price of NIS 3.53 per share on grant date, non-risk interest rates of 3.2%-4.3% on grant date, and a 5% forfeiture rate.

**NOTE 4 – SEGMENTS:**

**A. General:**

The segments are determined using information considered by the chief operating decision maker for the purpose of decision-making vis-à-vis allocation of resources and performance review. Accordingly, for managerial purposes - the group is structured along business units based on the products and services of its business units, with two segments as follows:

First-generation products segment - primary operations are the production, marketing, and sale of the first generation products.

Second-generation products segment - primary operations are the production, marketing, and sale of second-generation products.

The accounting policy used for these operating segments is identical to that reported in the 2010 annual financial statements.

Segment results reported to the chief operating decision maker include items relating directly to the segment, and items that can be allocated on a reasonable basis. Items not allocated, are mainly research, development, selling, marketing, management and general expenses, as well as financing (including financing expenses and income, including that vis-à-vis the adjustment of the fair values of financial instruments).

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**NOTE 4 – SEGMENTS (CONTINUED):**

**B. Report On Operating Segments:**

	<b>For The Six Month Period Ended June 30, 2011</b>		
	<b>First Generation Products</b>	<b>Second Generation Products</b>	<b>Total</b>
	<b>Unaudited</b>		
	<b>\$ Thousands</b>		
Segment revenue	2,065	1,518	3,583
Cost of revenue	<u>1,167</u>	<u>444</u>	<u>1,611</u>
Gross profit	<u>898</u>	<u>1,074</u>	1,972
Expenses not allocated to the segment			(3,890)
Net financing expenses			<u>(230)</u>
Loss			<u>(2,148)</u>

	<b>For The Six Month Period Ended June 30, 2010</b>		
	<b>First Generation Products</b>	<b>Second Generation Products</b>	<b>Total</b>
	<b>Unaudited</b>		
	<b>\$ Thousands</b>		
Segment revenue	2,083	519	2,602
Cost of revenue	<u>1,123</u>	<u>125</u>	<u>1,248</u>
Gross profit	<u>960</u>	<u>394</u>	1,354
Expenses not allocated to the segment			(2,528)
Net financing expenses			<u>(101)</u>
Loss			<u>(1,275)</u>

**MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**NOTE 4 - SEGMENTS (CONTINUED):**

**B. Report On Operating Segments (Continued):**

	<b>For The Three Month Period Ended June 30, 2011</b>		
	<b>First Generation Products</b>	<b>Second Generation Products</b>	<b>Total</b>
	<b>Unaudited</b>		
	<b>\$ Thousands</b>		
Segment revenue	986	767	1,753
Cost of revenue	<u>527</u>	<u>258</u>	<u>785</u>
Gross profit	<u>459</u>	<u>509</u>	968
Expenses not allocated to the segment			(2,198)
Net financing income			<u>51</u>
Loss			<u>(1,179)</u>
	<b>For The Three Month Period Ended June 30, 2010</b>		
	<b>First Generation Products</b>	<b>Second Generation Products</b>	<b>Total</b>
	<b>Unaudited</b>		
	<b>\$ Thousands</b>		
Segment revenue	925	354	1,279
Cost of revenue	<u>513</u>	<u>85</u>	<u>598</u>
Gross profit	<u>412</u>	<u>269</u>	681
Expenses not allocated to the segment			(1,329)
Net financing income			<u>124</u>
Loss			<u>(524)</u>

**NOTE 4 - SEGMENTS (CONTINUED):**

**B. Report On Operating Segments (Continued):**

	<b>For The Year Ended December 31, 2010</b>		
	<b>First</b>	<b>Second</b>	<b>Total</b>
	<b>Generation</b>	<b>Generation</b>	
	<b>Products</b>	<b>Products</b>	
	<b>Audited</b>		
	<b>\$ Thousands</b>		
Segment revenue	3,849	1,877	5,726
Cost of revenue	<u>2,163</u>	<u>363</u>	<u>2,526</u>
Gross profit	<u>1,686</u>	<u>1,514</u>	3,200
Expenses not allocated to the segment			(5,860)
Net financing expenses			<u>(542)</u>
Loss			<u>(3,202)</u>

**NOTE 5 – SUBSEQUENT EVENTS:**

A. On August 11, 2011, the Company approved and executed a non-binding indication of interest letter, received from a leading international corporation dealing in the development, manufacture and sale of medical equipment (hereinafter, respectively, the "**Proposal**" and "**Buyer**"), according to which the Buyer proposed to purchase the Company's assets related to the treatment and detection of DVT, including the ActiveCare, ActiveCare+S.F.T. and ActiveCare+Dx product lines (hereafter the "**Assets**" and "**Purchase Transaction**").

In consideration for the purchase of the Assets, the Buyer will pay the Company a gross amount of \$75 Million, in cash. Part of the consideration shall be deposited in escrow and/or be transferred to the Company after the fulfillment of conditions precedent, as shall be determined by the parties.

The Company has undertaken that, subject to the achievement by the Buyer of milestones on certain set dates, during a period which may last until October 31, 2011, the Company shall grant exclusivity to the Buyer, and shall refrain, inter alia, from initiating or responding to proposals for transactions of the type of the Purchase Transaction. The said exclusivity period, may be extended in the event of a delay by the Company in addressing Buyer's request for information during due diligence.

The Purchase Transaction is subject, on the part of the Buyer, to the approval by its Board of Directors and senior management and is subject to regulatory approvals and additional customary closing conditions. Additionally, the Purchase Transaction is subject, inter alia, to entering into a detailed agreement and the Company obtaining approvals required under law, all as detailed in the non-binding indication of interest letter.

B. On August 15, 2011, 4,544 options were exercised into 4,544 Ordinary shares, NIS 0.01 par value each, against a consideration of \$5 thousand