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Medical Compression Systems (D.B.N.) Ltd.

Report by the Directors on the Company's Affairs for the Three-Month Period Ended March 31, 2010

The Board Of Directors Of Medical Compression Systems (D.B.N.) Ltd. Is Pleased To Present This Report For The Three Month Period Ended March 31, 2010.

1. The Company and Its Business Environment

In 1997, Medical Compression Systems (D.B.N.) Ltd. ("company" or "entity") was incorporated in Israel, and today operates in Israel, Japan, and the United States (operations in the United States are carried out directly, or through a subsidiary). The company is primarily involved in the development, production, and marketing of non-invasive and non-drug solutions for the improvement of blood circulation in the limbs. The company's first product was a device to prevent the deep vein thrombosis syndrome.

The company's consolidated results include the operating results of Medical Compression Systems (D.B.N.) Ltd. and the operating results of its subsidiary (under full ownership) - Medical Compression Systems Inc., which is incorporated in the United States ("subsidiary company"). All data in this report is expressed in United States Dollars, which is the company's functional currency, as explained in note 2D of the financial statement for the year ended December 31, 2009.

Up to this year, the first generation product (Active Care ®) was sold, with sales totaling over \$20 million in the United States, Japan, and Israel. During 2008, the clinical test trials were completed proving that the company's second generation product - Active Care + SFT ® ("SFT") was safer for use and just as efficient as "Lovenox" the market's leading blood clot drug for joint replacement operations. During 2009, product marketing began.

Users of SFT products can be divided into two main types - medical centers (to which the products are marketed through agents and directly by the company itself) and patients, who receive treatment at their homes after release from hospitalization, through distributors (DME) with whom the company has agreements. The SFT products are available at medical centers and/or at the distributors and remain under ownership of the company, and are reported under property, plant, and equipment. Company revenue in this case is a payment for treatment provided. For additional details, see Section 1.11.9 under Part A of the 2009 financial statements.

As part of the company's strategy to maintain its technological leadership, the company has started to develop its third-generation product - Active Care +SFT + Diagnostics. The objective of this development is to improve the ability to identify and to diagnose Deep Vein Thrombosis buildup. It should be noted that notwithstanding any preventive care with drugs or the company's products, deep vein blood clots still occurred in a group of patients (approximately 5%), and accordingly the company believes that its product, together with DVT preventive treatment, will give it an advantage in providing a solution for diagnosing this complication when it appears.

The company's Active Care + SFT + Diagnostics product is expected to be a leading product in its field and will allow for a mix of preventing and diagnosing DVT. If the third generation's development targets will be achieved, the product will set a new standard in the field of DVT prevention and treatment.

It should be noted that the product is a natural follow up on the Active Care + SFT ® development.

The financial information included in this report, including comparative information, was extracted from the company's financial statements, which were prepared under International Financial Reporting Standards.

2. Events During the Report Period

2.1 On January 5, 2009, the company signed an agreement with an Israeli financial institution ("lender") for a credit line of \$1 million, of which the company has already drawn \$750 thousand.

For additional information, see note 12 to the financial statements, attached as Chapter C to the 2009 financial statements of the company.

On February 17, 2010, the company entered into an agreement regarding changes in the loan terms, and the receipt of an additional credit line of \$250 thousand. For additional information, see note 3A to the financial statements attached to this report, and note 24 to the company's 2009 financial statements.

2.2 On March 1, 2010, the company's Board of Directors approved a grant of 350 thousand options available for conversion into 350 thousand Ordinary Shares of NIS 0.01 par value each, to the subsidiary's President, in accordance with the terms of his employment. For additional details, see note 3B to the financial statements attached to this report.

2.3 On March 2, 2010, the company's Board of Directors appointed Mr. Eitan Nahum, as Chairman of the Board of Directors, replacing Dr. Uri Geiger. On March 8, 2010, the company's Board of Directors approved the terms of Mr. Nahum's tenure as Chairman of the company's Board of Directors. The terms of his tenure are subject to approval by the shareholders meeting, which as of the date of this report, has not yet been called. For additional information on the terms of Mr. Nahum's tenure, see note 3D to the financial statements attached to this report.

2.4 On March 8, 2010, the company's Board of Directors approved an allocation to a consultant of the subsidiary company of 70 thousand options that are available for conversion into 70 thousand Ordinary Shares, of NIS 0.01 par value, each of the company. For additional details, see note 3E to the financial statements attached to this report.

2.5 On March 8, 2010, the company's Board of Directors approved payment of a bonus to the company's CEO, of \$40 thousand.

2.6 During the period, 515,560 options were converted into shares.

Events after balance sheet date - see note 5 to the financial statements attached to this report.

3. Financial Situation

3.1 Working Capital

The company's working capital totaled \$2,309 thousand as of March 31, 2010, compared with working capital of \$216 thousand as of March 31, 2009. Working capital as of March 31, 2010, includes, inter alia, cash and cash equivalents of \$2,913 thousand, trade receivables of \$841 thousand, and inventory of \$487 thousand, offset primarily by trade payables of \$982 thousand, current maturities of convertible bonds of \$693 thousand, and other payables of \$444 thousand.

Working capital as of December 31, 2009 totaled \$2,548 thousand.

During August 2009, the company raised \$2,672 thousand (equivalent to NIS 10 million), against an issue of 9,124,088 Ordinary Shares, reflecting 28.08% of the company's issued capital, in a private issue to Acclemed Fund. In addition, the company repaid a \$500 thousand loan, which it had received from an Israeli banking institution.

During October 2009, in a public prospectus, the company raised \$2,004 thousand against the issue of 3,205,372 Ordinary Shares and 801,343 options convertible into 801,343 Ordinary Shares.

3.2 Inventory

Inventory as of March 31, 2010 totaled \$487 thousand compared with \$449 thousand as of March 31, 2009. The increase in inventory as of March 31, 2010 results primarily from an increase in operations.

Inventory as of December 31 2009 totaled \$463 thousand.

3.3 Property, Plant, and Equipment (PPE)

PPE as of March 31, 2010 totaled \$912 thousand compared with \$835 thousand as of March 31, 2009. The increase results primarily from an investment in SFT products (see 1 above) totaling \$170 thousand (of which \$110 thousand was invested in the period up to March 31, 2010), and offset by accumulated depreciation. As noted, the SFT product is available at medical centers, but remains under the ownership of the company. Revenue is generated by treatments given.

PPE as of December 31, 2009 totaled \$835 thousand.

3.4 Equity

Equity as of March 31, 2010 totaled \$5,251 thousand compared with \$4,157 thousand as of March 31, 2009. The increase in equity is the result of capital issues, which were offset by current losses.

Equity as of December 31, 2009 totaled \$5,901 thousand.

4. Operating Results

4.1 Revenue

Revenue for the first quarter ending March 31, 2010 totaled \$1,323 thousand compared with \$560 thousand during the corresponding quarter last year, reflecting an increase of 136%. The change in the period resulted from the increase in all markets in which the company was active, including an increase in SFT revenue (second-generation), an increase in direct sales to medical centers, and an increase in sales to the Scripps chain, Harada, and to medical centers in Israel.

Company revenue during 2009 totaled \$3,327 thousand.

The Following Is A Breakdown Of Company Revenue During 2009 And 2010, By Quarter (Expressed In \$ Thousands):

Breakdown of Revenue, By Quarter **(Expressed In \$ Thousands)**

Period	1-3/2010	10-12/2009	7-9/2009	4-6/2009	1-3/2009
Revenue	1,323	1,034	979	754	560
Increase vis à vis the previous quarter	27.9%	5.6%	29.8%	34.6%	

The increase in revenue during the last three quarters reflects an increase in first-generation sales mainly during the third and fourth quarters of 2009, and the first quarter of 2010, from accelerated SFT sales.

4.2 Breakdown By Business Segments

Company management focuses on a segmental analysis of first-generation and SFT products. The analysis of business segments reported in the financial statements also focuses on this breakdown.

Breakdown Of Revenue, By Business Segment
(Expressed In \$ Thousands)

	1-3/2010		2009		1-3/2009	
	Revenue	%	Revenue	%	Revenue	%
First-generation products	1,158	87.5%	3,074	92.4%	536	95.7%
SFT	165	12.5%	253	7.6%	24	4.3%
Total	1,323	100%	3,327	100%	560	100%

4.3 Gross Profit

Gross profit during the period ended March 31, 2010 totaled \$673 thousand, or 50.9% of revenue, compared with \$217 thousand, or 38.8% of revenue, during the corresponding period last year. The increase in gross profit in the period, compared with the corresponding period last year is primarily the result of SFT product sales, which yield higher profits.

Gross profit during 2009 totaled \$1,443 thousand, or 43.4% of revenue.

Changes In Gross Profits, By Quarter

	1-3/2010	10-12/2009	7-9/2009	4-6/2009	1-3/2009
Gross profit	673	488	417	321	217
Gross profit margin	50.9%	47.2%	42.6%	42.6%	38.8%

4.4 Research And Development Costs

During the period ended March 31, 2010, the company incurred research and development costs of \$147 thousand compared with \$213 thousand during the corresponding period last year. The decrease is the result of a decrease in clinical testing costs in the United States, and support thereof, following its conclusion last year. Of said research and development costs, and in accordance with provisions of International Accounting Standard 38, during the corresponding period last year, \$61 thousand of costs were capitalized and recorded as an intangible asset. Accordingly, research and development costs totaled \$152 thousand during the first quarter of 2009.

During 2009, the company expended \$646 thousand on research and development activities (including costs that were capitalized to the balance sheet).

4.5 Selling and Marketing Expenses

During the period ended March 31, 2010, selling and marketing expenses totaled \$761 thousand compared with \$221 thousand during the corresponding period last year. The increase in selling and marketing expenses resulted mainly from the allocation of significant financial and managerial resources for the intensification of SFT product marketing efforts in the United States. The allocation of resources included, inter alia, recruitment of a senior management team for the marketing and sales staff, and additional financial resources to market the company's products.

Selling and marketing expenses for the year ended December 31, 2009, totaled \$1,422 thousand.

4.6 Management And General Expenses

During the period ended March 31, 2010, management and general expenses totaled \$291 thousand compared with \$215 thousand during the corresponding period last year. The increase resulted mainly from an increase in salary expenses of \$23 thousand (including a share-based payment of \$15 thousand) and an increase in the cost of professional services of \$49 thousand.

Management and general expenses for the year ended December 31, 2009 totaled \$1,148 thousand.

4.7 Operating Loss

The operating loss for the period ended March 31, 2010 totaled \$526 thousand compared with an operating loss of \$371 thousand, during the corresponding period last year. The increase in the operating loss resulted mainly from the increase in selling and marketing expenses, as noted in 4.5 above, an increase in management and general expenses, as noted in 4.6 above, all offset by an increase in gross profit, as noted in the 4.3 above.

The operating loss for the quarter includes \$49 thousand of expenses incurred vis-à-vis options (said expenses do not affect cash flows), compared with \$7 thousand during the corresponding period last year.

The operating loss for the year ended December 31, 2009, totaled \$1,712 thousand.

4.8 Financing Income And Expenses

Net financing expenses during the period ended March 31, 2010 totaled \$225 thousand compared with net financing expenses of \$330 thousand during the corresponding period last year. Financing expenses for the period included \$222 thousand, the result of bond revaluation expenses (said expenses do not affect cash flows), compared with \$231 thousand during the corresponding period last year.

Net financing expenses for the year ended December 31, 2009 totaled \$1,411 thousand.

4.9 Net Loss For The Period

Losses during the period ended March 31, 2010 totaled \$751 thousand compared with \$701 during the corresponding period last year. Most of the increase resulted from an increase in selling and marketing expenses, as noted in 4.5 above, offset by an increase in gross profits, as noted in 4.3 above.

Losses for the year ended December 31, 2009 totaled \$3,123 thousand.

5. Liquidity and Cash Flows

5.1 Cash Flows - Current Activities

Cash flows used for current activities during the period ended March 31, 2010 totaled \$295 thousand compared with cash flows used for current activities during the corresponding period of \$642 thousand. The decrease was the result mainly of an increase in trade payables of \$333 thousand during the period compared with a decrease of \$355 thousand during the corresponding period last year, an increase in other payables of \$96 thousand during the period, compared with a decrease of \$113 thousand during the corresponding period last year, and a change in the fair value of options measured at fair value through profit and loss of \$251 thousand compared with a change of \$64 thousand during the corresponding period last year. The decrease was offset partially by an increase in the year's loss (see 4.9 above), an increase in trade receivables of \$290 thousand during the period compared with a decrease of \$234 thousand during the corresponding period last year, and income from the change in the fair value of convertible bonds, which are measured at fair value through profit and loss of \$28 thousand during the period compared with an expense of \$156 thousand during the corresponding period last year.

Net cash used for current activities for the year ended December 31, 2009 totaled \$2,203 thousand.

5.2 Cash Flows - Investing Activities

Cash flows used for investing activities during the period ended March 31, 2010 totaled \$145 thousand compared with cash flows used for investing activities of \$90 thousand during the corresponding period last year. The change is primarily the result of fewer installations of SFT products, which are made available at various medical centers and which remain the property of the company, totaling \$110 thousand during the current period, offset by the capitalization of research and development costs during the corresponding period last year of \$61 thousand.

Net cash used for investing activities for the year ended December 31, 2009 totaled \$155 thousand.

5.3 Cash Flows - Financing Operations

Cash flows provided by financing activities during the period ended March 31, 2010 totaled \$52 thousand, the result of a conversion of options into shares, compared with cash flows provided by financing activities of \$250 thousand, during the corresponding period last year, which included a long-term loan received from a banking entity.

Net cash provided by financing activities for the year ended December 31, 2009 totaled \$4,511 thousand.

6. Cash Flows Expected To Finance The Entity's Liabilities, Based On Its Liabilities And Expectations As Of March 31, 2010

Liabilities, By Years, Expressed In \$ Thousands

	First Year	Second Year	Third Year And Onwards	Total
Bank credits **	30	367	353	750
Trade and other payables *	1,426	-	-	1,426
Bonds, convertible into shares **	721	1,081	-	1,802
Employee benefit liabilities *	-	-	81	81
Total	2,177	1,448	434	4,059

* Liabilities that will be repaid from the company's current activities.

** Liabilities that will be repaid from the company's financing activities.

During 2009, the company early repaid a \$500 thousand loan previously received from a banking institution. As noted in 3.1 above, the company raised NIS 10 million (equivalent to \$2,672 thousand) from Acclemed, and NIS 7.5 million (equivalent to \$2,004 thousand) from a public issue.

Using these funds, the company intends to intensify penetration of its Active Care + SFT ® product into the American marketplace.

The Board of Directors believes that it is not reasonable to believe that the entity will not meet its current and expected liabilities, when due ("cash flow test"). This opinion considers, inter alia, the cash balances that the company held on the date of publication of this report.

The company plans to repay its monetary liabilities during the coming two years by drawing on the liquid assets that it holds and the additional credit line, which was approved for the company as noted in note 24 to the annual financial statements.

7. Donations

The company does not have any formal donation policy. During 2009, the company's Board of Directors decided to donate \$100 thousand (in total, for 2009 and 2010) to a US medical center's research unit.

8. Disclosure Of Financial Liabilities Which Are Designated To Fair Value Groups Through Profit And Loss And Reported Accordingly In The Financial Statements

The company's financial liabilities that are designated to fair value groups as of March 31, 2010 include NIS 6,098,073 par value of Series A Bonds convertible into shares. These bonds bear interest of 6.25% per year, and are linked to the Consumer Price Index of May 2006.

Expected Payments Vis À Vis The Balance Of Convertible Bonds, As Of March 31, 2010, Expressed In \$ Thousands.

	Interest	Capital	Total
April 30, 2010	56	721	777
October 30, 2010	34	-	34
April 30, 2011	34	1,081	1,115

In accordance with International Accounting Standard 32 - "Financial Instruments: Presentation" as the conversion component is linked to the Consumer Price Index, and is not denominated in US Dollars (the company's functional currency), it is deemed a financial liability without any capital component. In accordance with International Accounting Standard 39 - "Financial Instruments: Recognition and Measurement" the company measures its bonds which are convertible into shares at fair value. Changes in fair value are charged to profit and loss during each report period.

Details Of The Fair Value Of Bonds, And Changes Therein, Expressed In \$ Thousands

	31.3.2010	31.12.2009	31.3.2009
Book value of bonds convertible into shares, less accrued interest payable	1,733	1,789	910
Increase (decrease) in the fair value of convertible bonds, for the three month period (31.12.2009 - year), ended on	(56)	1,022	142

Changes in the fair value of convertible bonds mirror fluctuations in the prices of these securities on the Stock Exchange.

9. Exposure To Market Risks And Their Management

The economic and accounting risks to which the company is exposed include - exchange rates, and to a lesser degree, changes in the Consumer Price Index and interest rates - the company is exposed to changes in the LIBOR and Dollar interest rates because of loans drawn from a bank at LIBOR-linked interest rates. The company's policy on reducing its exposure is based on holding cash balances to cover the foreign currency nature of its liabilities, if possible. For now, as most of the company's financial liabilities are Shekel-denominated, and as it has an excess of Shekel-denominated expenses, a large part of the company's cash is held in New Israel Shekels. The Japanese Yen is the company's second most important currency vis à vis revenue.

Company expenses and costs include a foreign currency component (mainly the Dollar), primarily for materials and services, and a Shekel component (primarily for labor, vehicle and communication expenses).

Accordingly, there is some exposure to relative changes in foreign currency exchange rates, mainly the Dollar-Shekel, Japanese Yen-Shekel, and to a much lesser degree - Euro-Shekel rates.

During the report period, the company did not transact in and did not hold any derivatives whatsoever.

The company has appointed its Chief Executive Officer, Mr. Adi Dagan, to be responsible for managing the company's economic risks, and its Chief Financial Officer, Mr. Ori Mor, to be responsible for managing the company's financial market risks. On a regular basis, the Board of Directors considers the company's exposure to market risks, and decides if there is any need for a change in its policy on managing these risks and steps that are necessary to protect the company.

Sensitivity Tests - Sensitive Instruments, According To Changes In Market Factors.

	Sensitivity To The Consumer Price Index				
	Income (Loss) From Changes		Fair Value As of March 31, 2010	Income (Loss) From Changes	
	Increase Of 10% In Market Factors	Increase Of 5% In Market Factors		Decrease Of 5% In Market Factors	Decrease Of 10% In Market Factors
Expressed In \$ Thousands					
Bonds, convertible into shares, and interest there on	(178)	(89)	1,780	89	178

10. Disclosure Regarding The Procedure For Financial Statement Approval

10.1 The Board of Directors is the forum responsible for the company's overall direction.

10.2 At its meeting of August 6, 2007, the Board of Directors authorized the "Financial Statements Committee" to bear responsibility for the financial statements and to discuss, review and recommend to the Board of Directors, acceptance of the financial statements and/or changes to the financial statements before their ultimate approval by the Board of Directors.

10.3 Members of the Financial Statement Committee, as decided by the Board of Directors, include the following:

10.3.1 Gad Appelbaum - independent director, and Chairman of the Audit Committee. Mr. Appelbaum has accounting and financial expertise.

10.3.2 Michal Even-Chen - independent director, and Member of the Audit Committee. Mrs. Even-Chen has accounting and financial expertise.

10.3.3 Dr. Amir Guttman – director. Dr. Guttman has accounting and financial expertise.

10.3.4 Yeheskel Nissan – director.

10.4 In addition, the following will attend meetings of the committee (at the discretion of the Board of directors) - a representative of the public auditor (Kost, Forer, Gabbay & Kasierer), the company's Chief Financial Officer and Controller.

10.5 The procedure for financial statements approval, which was also adopted for these financial statements, is as follows:

10.5.1 Drafts of the financial statements and the Directors' Report are submitted for review by the Financial Statement Committee. Other documents, which the company believes are required for an able review, as well as other documents requested by members of the committee, are also submitted.

10.5.2 An in-depth discussion by the Financial Statement Committee on the statements, their significance, accounting policies adopted and especially changes therein, and any other issues that the committee will find necessary (including transactions not in the ordinary course of business, if any, and significant valuations and critical estimates used in preparing the financial statements), is held.

The public auditor and the Chief Financial Officer review the financial statements and discuss the important points relating to the period under review.

10.5.3 An in-depth discussion by the Board of Directors, including a review of the main issues, issues appropriate for their attention and discussion, and recommendations of the committee, is held. During this discussion, a representative of the public auditor, the Chief Financial Officer and Controller also participate.

11. Disclosure Regarding Independent Directors

The company has not adopted the provisions of Section 219 (E) of Companies Law, 1999, regarding the number of independent directors.

12. Details Of Directors Having Accounting Expertise

In accordance with the provision of Section 92 (A) (12) of Companies Law, 1999, the company's Board of Directors has decided that the minimum number of directors to hold accounting and financial expertise will be one, this considering, inter alia, the company's size, its operations, and the number of its directors. In the company's opinion, this fact will enable the Board of Directors to comply with its responsibilities in accordance with law and the company's incorporation documents. As of financial statement publication date, four members of the Board of Directors hold accounting and financial expertise, as follows:

12.1 Dr. Amir Guttman, Ph.D. - Business Administration (Accountancy), University of California, Berkeley, Lecturer at the Leon Recanati Graduate School of Business Administration, Tel Aviv University, managing partner of Aviv Venture Capital Fund, and a director of other companies.

12.2 Dr. Uri Geiger, holds a doctoral degree in law from Columbia University. Dr. Geiger has extensive business experience and is a director of other companies.

12.3 Mrs. Michal Even-Chen - independent director, B.A. in Economics and International Relations and M.A. in International Relations. Mrs. Michal Even-Chen has extensive business experience and is a director of other companies.

12.4 Mr. Gad Appelbaum - independent director, B.A. in Economics and M.A. in Public Administration. Mr. Appelbaum has extensive business experience and is a director of other companies.

13. Critical Accounting Estimates

The company and its subsidiary have not adopted any critical accounting estimates, the use of said and/or any reasonable change thereto, or as a result of the use of any other reasonable estimate, may significantly affect the financial situation and/or operating results of the company. However, increased revenue from SFT (second generation) sales, may have an effect on the company's future financial results and on the value of its research and development assets. For information on the estimates and main assumptions which the company used in preparing its financial statements, see note 2B to the financial statements attached to this report as Chapter C.

14. Peer Review

The company's board of directors has consented to a peer review. The goal of a peer review is to ensure proper accounting controls and to strengthen said, by creating appropriate systems for supervision. The Board is prepared to cooperate in its adoption and promotion.

This report was approved by the company's Board of Directors at its meeting held on May 11, 2010.

Eitan Nahum
Chairman Of The Board Of Directors

Adi Dagan
Chief Executive Officer

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF MARCH 31, 2010

EXPRESSED IN US DOLLARS

UNAUDITED

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF MARCH 31, 2010

EXPRESSED IN US DOLLARS

UNAUDITED

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

	<u>March 31,</u>		<u>December 31,</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>\$ Thousands</u>		
<u>Current Assets</u>			
Cash and cash equivalents	2,913	666	3,301
Trade receivables	841	250	551
Other receivables	212	149	185
Deposit which serves as a guarantee in favor of a leasing arrangement	5	5	6
Inventory	487	449	463
	4,458	1,519	4,506
<u>Non-Current Assets</u>			
Long-term receivables (including options granted to a financial institution)	112	200	135
Property, plant and equipment	912	932	835
Development costs (including patents)	4,227	4,236	4,230
	5,251	5,368	5,200
	9,709	6,887	9,706

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**

	<u>March 31,</u>		<u>December 31,</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>\$ Thousands</u>		
<u>Current Liabilities</u>			
Short term bank credits	-	375	-
Current maturities of long-term bank loans	30	-	272
Current maturities of bonds available for conversion into shares	693	-	716
Trade payables	982	720	649
Other payables	444	208	321
	<u>2,149</u>	<u>1,303</u>	<u>1,958</u>
<u>Long-Term Liabilities</u>			
Bank loan	723	375	480
Bonds available for conversion into shares	1,040	910	1,073
Options	465	67	214
Employee benefit liabilities	81	75	80
	<u>2,309</u>	<u>1,427</u>	<u>1,847</u>
<u>Equity</u>			
Share capital	92	60	91
Share premium	19,083	15,096	18,910
Capital reserve in respect of share-based payments	839	591	912
Accumulated deficit	(14,763)	(11,590)	(14,012)
	<u>5,251</u>	<u>4,157</u>	<u>5,901</u>
	<u>9,709</u>	<u>6,887</u>	<u>9,706</u>

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

<u>May 11, 2010</u> Date Of Approval Of The Financial Statements	<u>Eitan Nahum</u> Chairman of the Board of Directors	<u>Adi Dagan</u> Chief Executive Officer	<u>Ori Mor</u> Chief Financial Officer
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MEDICAL COMPRESSION SYSTEMS (D.B.N.) LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For The Three Month Period Ended March 31,		For The Year Ended December 31,
	2010	2009	2009
	Unaudited		Audited
	\$ Thousands (Except For Loss Per Share Data)		
Revenue	1,323	560	3,327
Cost of revenue	650	343	1,884
Gross profit	673	217	1,443
Research and development expenses	147	152	585
Selling and marketing expenses	761	221	1,422
Management and general expenses	291	215	1,148
Operating loss	(526)	(371)	(1,712)
Financing income	5	3	3
Financing expenses	(230)	(333)	(1,414)
Loss	(751)	(701)	(3,123)
Other comprehensive income	-	-	-
Total comprehensive loss	(751)	(701)	(3,123)
<u>Loss per share (expressed in \$):</u>			
Basic loss per share and diluted loss per share	(0.02)	(0.03)	(0.113)

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 In Respect Of Share- Based Payments \$ Thousands	Accumulate d Deficit	Total
<u>Balance, January 1, 2010 (audited)</u>	91	18,910	912	(14,012)	5,901
Total comprehensive loss	-	-	-	(751)	(751)
Exercise of options into shares	1	173	(122)	-	52
Cost of share-based payments	-	-	49	-	49
<u>Balance, March 31, 2010 (unaudited)</u>	92	19,083	839	(14,763)	5,251
<u>Balance, January 1, 2009 (audited)</u>	60	15,096	258	(10,889)	4,525
Total comprehensive loss	-	-	-	(701)	(701)
Options issued to a financial institution	-	-	326	-	326
Cost of share-based payments	-	-	7	-	7
<u>Balance, March 31, 2009 (unaudited)</u>	60	15,096	591	(11,590)	4,157
<u>Balance, January 1, 2009 (audited)</u>	60	15,096	258	(10,889)	4,525
Total comprehensive loss	-	-	-	(3,123)	(3,123)
Shares issued (1)	31	3,812	-	-	3,843
Options granted to issue consultants and underwriters	-	-	272	-	272
Options issued to a financial institution	-	-	326	-	326
Exercise of options into shares	*	2	-	-	2
Cost of share-based payments	-	-	56	-	56
<u>Balance, December 31, 2009 (audited)</u>	91	18,910	912	(14,012)	5,901

(1) After deduction of issue costs of \$336 thousand.

* Amount is less than \$ 1 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 Three Month Period Ended March 31,		For The Year Ended December 31,
	2010	2009	2009
	Unaudited		Audited
	\$ Thousands		
<u>Cash Flows From Operating Activities:</u>			
Loss	(751)	(701)	(3,123)
Adjustments To Reconcile Cash Flows From Operating Activities:			
Adjustment Of Profit And Loss Items:			
Depreciation and amortization	71	46	214
Net changes in liabilities for cessation of the employee-employer relationship	1	(6)	(1)
Change in fair value of bonds convertible into shares, measured at fair value through profit and loss	(28)	156	1,022
Change in fair value of options, measured at fair value through profit and loss	251	64	67
Net financing expenses	6	17	251
Cost of share-based payments	49	7	56
	350	284	1,609
<u>Changes In Asset And Liability Items:</u>			
Decrease (increase) in trade receivables	(290)	234	(67)
Decrease (increase) in other receivables (including long-term)	(3)	53	81
Increase in inventory	(24)	(27)	(41)
Increase (decrease) in trade payables	333	(355)	(426)
Increase (decrease) in other payables	96	(113)	15
	112	(208)	(438)
Cash paid and received in respect of:			
Interest paid	(11)	(20)	(254)
Interest received	5	3	3
	(6)	(17)	(251)
Net cash used for operating activities	(295)	(642)	(2,203)

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 Three Month Period Ended March 31,		For The Year Ended December 31,
	2010	2009	2009
	Unaudited		Audited
	\$ Thousands		
<u>Cash Flows From Investing Activities</u>			
Property, plant and equipment acquisitions	(145)	(29)	(94)
Capitalization of development costs	-	(61)	(61)
Net cash used for investing activities	(145)	(90)	(155)
<u>Cash Flows From Financing Activities</u>			
Exercise of options into shares	52	-	2
Receipt of a long-term bank loan	-	250	750
Repayment of a long-term bank loan	-	-	(500)
Proceeds from a private issue of shares (after issue costs)	-	-	2,328
Proceeds from the issue of shares and options	-	-	1,931
Net cash provided by financing activities	52	250	4,511
Increase (Decrease) In Cash And Cash Equivalents	(388)	(482)	2,153
Balance Of Cash And Cash Equivalents, Beginning Of Period	3,301	1,148	1,148
Balance Of Cash And Cash Equivalents, End Of Period	2,913	666	3,301

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

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

NOTE 1 - GENERAL:

These financial statements were prepared on a condensed basis as of March 31, 2010 and for the three-month period then ended ("consolidated interim financial statements"). These statements should be read together with the company's annual financial statements as of December 31, 2009 and for the year then ended, and the notes attached thereto ("annual financial statements").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Format for preparing the 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 financial statements.

NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD:

A. Further to that stated in note 12C to the 2009 financial statements, on February 17, 2010, the company entered into an agreement with a lender ("agreement") regarding a change of the loan terms, and the provision of an additional credit line (valid until February 1, 2011) of \$250,000 ("additional loan").

As of March 31, 2010, the company drew \$750,000 from the original credit line.

The following terms will be binding for both the original loan and for the additional loan:

1. The original loan and the additional loan will bear 1-month LIBOR plus 5%, as set out in the loan terms.
2. The original loan and the additional loan will be repayable in 24 equal installments, from March 1, 2011 (the original loan terms set repayment from February 1, 2010). The company was given the right to early-repay the original loan and the additional loan, without penalty.
3. The original financial covenants, which the company accepted, will be amended as follows:
 - a. At all times, and until repayment of the original and additional loans, the company is required to maintain cash balances sufficient for three months of operations at least, based on the last three month cash flows.
 - b. The ratio between cash balances and trade receivables as of December 31, 2010, and the amount set aside for payments to company bondholders during 2011 will be greater than 2, and cash held by the company on said date will be at least \$1 million.
 - c. The ratio between cash balances and trade receivables (at the end of each calendar quarter) less debts payable to bondholders divided by the balance of debt payable to the lender will be at least 1.2.

As of financial statement date, the company complies with all financial covenants.

4. To secure the original and additional loan balances, the collateral, which the company and its US subsidiary gave to secure the loan capital, will remain in force.

5. In the event of any "exit" (as this term is defined by the agreement), the company will pay the lender \$200 thousand.

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

NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD (Continued):

B. On March 1, 2010, the company's Board of Directors approved a grant of 350 thousand options available for conversion into 350 thousand Ordinary Shares of NIS 0.01 par value each ("Ordinary Shares", "options") to the US subsidiary's President, in accordance with the terms of his employment.

The Option Terms Are As Follow:

1. The options will be granted as part of a compensation program, which complies with American law (USSOP).
2. The option exercise price is NIS 3.551.
3. The options will vest over a period of 36 months from the date of grant, and an equal amount of options will vest each three-month period. The first vesting point will be at the end of three months from the date of grant.
4. The option exercise period is from the date of vesting, as stated in 3 above, and up to four years from grant date.

The implicit benefit in respect of said grant, calculated using the Binomial Model and various assumptions, is estimated at \$184 thousand (equivalent to NIS 693 thousand).

The benefit is calculated using the Binomial Option Pricing Model, based on an annual variance of 72.83%-91.89% calculated on grant date, a share price of NIS 3.551 per share on grant date, discount rates of 2.1%-3.58% per year on grant date, and a forfeiture rate of 5%.

C. On March 2, 2010, the company appointed Mr. Eitan Nahum as chairman of the Board of Directors, replacing Dr. Uri Geiger

D. On March 8, 2010, the company's Board of Directors approved the terms of tenure of Mr. Nahum, as follows:

1. A monthly payment of \$ 5,500 (gross), plus value added tax, (if any), which will be paid against a tax invoice to be submitted as required, which will be provided to the company by Mr. Nahum, or by a company under his control.
2. Mr. Nahum will be entitled to a refund of hospitality expenses, incurred in reasonable amounts, which he will expend as part of and in the course of his duties.
3. The company's Board of Directors approved an allocation to Mr. Nahum of 350 thousand options, available for conversion into 350 thousand Ordinary Shares, NIS 0.01 par value each of the company. The options will be allocated to the chairman shortly after receipt of all approvals required by law, including approval of the shareholders meeting.

The Option Terms Are As Follows:

- A. The options will be granted as part of a compensation program, which complies with American law (USSOP).
- B. The option exercise price is NIS 3.681.
- C. The options will vest over a period of 36 months from the date of grant, and an equal amount of options will vest each year. The first vesting point will be at the end of one year from the date of grant.
- D. The option exercise period is from the date of vesting, as stated in C above, and up to four years from grant date.

As of financial statement approval date, the shareholders meeting has not yet approved of said grant.

E. On March 8, 2010, the company's Board of Directors approved a grant to a consultant of the subsidiary ("consultant") of 70 thousand options available for conversion into 70 thousand Ordinary Shares, NIS 0.01 par value each of the company.

The Option Terms Are As Follows:

1. The options will be granted as part of a compensation program, which complies with American law (USSOP).
2. The exercise price of each option is NIS 3.681 per share.
3. Vesting of the options will be over a period of 36 months from the date of grant, 17,500 options will vest at the end of the first year, with the balance in 12 equal and quarterly tranches.
4. The option exercise period is from the date of vesting, as stated in 3 above, up to five years from the date of grant.

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

NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD (Continued):

The implicit benefit estimated for said grant, calculated in accordance with the Binomial model and various assumptions as noted below, is \$39 thousand (equivalent to NIS 148 thousand).

The implicit benefit is calculated using the Binomial Option Pricing Model, based on an annual variance of 72.83%-91.89% calculated on grant date, a share price of NIS 3.551 per share on grant date, discount rates of 2%-3.7% per year on grant date, and a forfeiture rate of 5%.

F. On March 8, 2010, the company's Board of Directors approved payment of a \$40 thousand bonus to the CEO.

G. During the report period, 515,560 options were converted into shares, yielding proceeds of \$52 thousand.

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 2009 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):

	For The Three Month Period Ended March 31, 2010		
	First Generation	Second	Total
	Products	Generation	
		Products	Unaudited
		\$ Thousands	
Segment revenue	1,158	165	<u>1,323</u>
Gross profit	548	125	<u>673</u>
Expenses not allocated to the segment			(1,199)
Net financing expenses			<u>(225)</u>
Loss			<u>(751)</u>

	For The Three Month Period Ended March 31, 2009		
	First Generation	Second	Total
	Products	Generation	
		Products	Unaudited
		\$ Thousands	
Segment revenue	536	24	<u>560</u>
Gross profit	198	19	<u>217</u>
Expenses not allocated to the segment			(588)
Net financing expenses			<u>(330)</u>
Loss			<u>(701)</u>

	For the Year Ended December 31, 2009		
	First Generation	Second	Total
	Products	Generation	
		Products	Audited
		\$ Thousands	
Segment revenue	3,074	253	<u>3,327</u>
Gross profit	1,244	199	<u>1,443</u>
Expenses not allocated to the segment			(3,155)
Net financing expenses			<u>(1,411)</u>
Loss			<u>(3,123)</u>

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

NOTE 5 - SUBSEQUENT EVENTS:

A. on April 18, 2010, the company's Board of Directors extended the exercise period of 32 thousand options that can be exercised into 32 thousand Ordinary Shares of the company, NIS 0.01 par value each, which were granted to company employees (who are not officeholders and/or interested parties and/or controlling shareholders of the company), whose original date of expiry was December 31, 2010, such that said options, will expire on December 31, 2012 (as long as they will not expire earlier, in accordance with their terms, and the terms of the option plan under which they were granted).

B. After balance sheet date, the company redeemed 2,439,292 par value bonds, at a cost of \$721 thousand.

C. On May 11, 2010, the company's Board of directors approved an allocation to a consultant of the US subsidiary, according to terms of his engagement, of 350 thousand options available for conversion into 350 thousand Ordinary Shares, NIS 0.01 par value each of the company.

The Option Terms Are As Follows:

1. The options will be granted as part of a compensation program, which complies with American law (USSOP).
2. The exercise price of each option is NIS 3.482 per share.
3. The options will vest over a period of 36 months from the date of grant, and an equal amount of options will vest every six months. The first vesting point will be at the end of the first six months from the date of grant.
4. The option exercise period is from the date of vesting, as stated in 3 above, up to the end of four years from the date of grant.

The implicit benefit estimated for said grant, calculated in accordance with the Binomial model and various assumptions as noted below, is \$186 thousand (equivalent to NIS 696 thousand).

The implicit benefit is calculated using the Binomial Option Pricing Model, based on an annual variance of 72.83%-91.89% calculated on grant date, the share price on grant date, discount rates of 2%-3.7% per year on grant date, and a forfeiture rate of 5%.