

**MEDIVISION MEDICAL IMAGING LTD.**

**Consolidated Financial Statements**

**as of December 31, 2008**

**MEDIVISION MEDICAL IMAGING LTD.**

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**REPORT OF INDEPENDENT AUDITORS  
TO THE SHAREHOLDERS OF  
MEDIVISION MEDICAL IMAGING LTD.**

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We have audited the accompanying financial statements of **Medivision Medical Imaging Ltd and its subsidiaries (“the Group”)**, which comprise the consolidated balance sheets as of December 31, 2008 and 2007, the consolidated statements of operations, statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 62.21% and 68% of total consolidated assets as of December 31, 2008 and 2007, respectively, and whose revenues constitute approximately 91.15% and 97% of total consolidated revenues for the year ended December 31, 2008 and 2007, respectively. The financial statements of those companies (before reconciliation in 2008 to International Financial Reporting Standards) were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent auditors.

**Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors’ Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts (including the Group’s reconciliation in 2008 of the financial statements of the aforementioned subsidiaries to International Financial Reporting Standards.) and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained, and the reports of the other independent auditors, are sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, based on our audit and the reports of the other independent auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2008 and 2007, and of its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

We hereby draw attention to the following matters:

As stated in Note 1C, subsequent to the balance sheet date the Company started the implementation of downsizing plan that according to managements' intention is planned to include among other layoffs of employees and significant reduction of expenses and overheads.

Management is also evaluating alternative sources of capital to meet cash requirements, including issuance of debt, issuance of equity securities and entering into other financing agreements with its shareholders and others. According to managements' beliefs, if the Company is unable to obtain additional funding, it will be required to eliminate certain activities that would adversely effect its operations.

Fahn Kanne & Co.  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel  
March 30, 2009

**MEDIVISION MEDICAL IMAGING LTD.****CONSOLIDATED BALANCE SHEETS**

<b>(in thousands)</b>	<b>Note</b>	<b>US dollars</b>	
		<b>December 31,</b>	
		<b>2008</b>	<b>2007</b>
<b>A S S E T S</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,785	7,992
Restricted cash		158	168
Accounts receivable:			
Trade, net	3A	2,343	3,472
Other accounts receivable	3B	428	702
Inventories	4	<u>1,576</u>	<u>1,198</u>
Total current assets		<u>7,290</u>	<u>13,532</u>
<b>Non-current assets</b>			
Property and equipment, net	5	<u>600</u>	<u>575</u>
Deferred tax assets	13F	<u>1,502</u>	<u>1,342</u>
Goodwill and other intangible assets	6	<u>8,080</u>	<u>6,012</u>
<b>Total assets</b>		<u>17,472</u>	<u>21,461</u>

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

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED BALANCE SHEETS**

(in thousands)	Note	US dollars December 31,	
		2008	2007
<b>SHAREHOLDERS' LIABILITY AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term bank credit and other current liabilities	7	3,664	2,862
Trade payables		1,409	1,728
Other accounts payable	8	<u>4,305</u>	<u>4,314</u>
Total current liabilities		<u>9,378</u>	<u>8,904</u>
<b>Long-term liabilities</b>			
Long-term loans, net of current maturities	9	1,034	2,663
Long-term employee benefits		<u>64</u>	<u>171</u>
Total long-term liabilities		<u>1,098</u>	<u>2,834</u>
Total liabilities		<u>10,476</u>	<u>11,738</u>
<b>Shareholders' equity</b>	11		
<b>Equity attributable to equity holders of the parent:</b>			
Ordinary shares of NIS 0.1 par value each:			
Authorized: 10,000,000 shares as of December 31, 2008 and 2007			
Issued and outstanding: 8,484,872 shares and 6,807,299 shares as of December 31, 2008 and December 31, 2007, respectively			
		215	165
Additional paid-in capital		9,302	8,775
Capital reserve		(311)	(311)
Foreign currency translation differences		67	132
Accumulated deficit		<u>(6,454)</u>	<u>(3,725)</u>
		2,819	5,036
<b>Minority interest</b>		<u>4,177</u>	<u>4,687</u>
Total equity		<u>6,996</u>	<u>9,723</u>
<b>Total liabilities and shareholders' equity</b>		<u>17,472</u>	<u>21,461</u>

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**Gabriel Bouganim**  
Director of Finance

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**Noam Allon**  
Director and  
Chief Executive Officer

Date of approval: March 30, 2009

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

**MEDIVISION MEDICAL IMAGING LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

<b>(in thousands except per share data)</b>	<b>Note</b>	<b>US dollars</b>	
		<b>Year ended December 31,</b>	
		<b>2008</b>	<b>2007</b>
Sales	12A	14,410	16,322
Cost of sales	12B	<u>6,630</u>	<u>7,051</u>
Gross profit		<u>7,780</u>	<u>9,271</u>
<b>Operating expenses:</b>			
Research and development expenses	12C	2,859	2,030
Selling and marketing expenses	12D	4,832	4,235
General and administrative expenses	12E	<u>2,319</u>	<u>2,492</u>
Total operating expenses		<u>10,010</u>	<u>8,757</u>
Operating income (loss)		(2,230)	514
Financial income	12F	73	297
Financial expenses	12F	<u>(604)</u>	<u>(531)</u>
Profit (loss) before other income		(2,761)	280
Other income (loss), net	12G	<u>-</u>	<u>(72)</u>
Profit (loss) before taxes on income		(2,761)	208
Income tax income (expense)	13, 12H	<u>161</u>	<u>(8)</u>
Net profit (loss) for the year		<u>(2,600)</u>	<u>200</u>
Attributed to:			
Equity holders of the parent		(2,209)	(475)
Minority interest		<u>(391)</u>	<u>675</u>
		<u>(2,600)</u>	<u>200</u>
Basic loss per share (in Dollars)	12I	<u>(0.289)</u>	<u>(0.069)</u>

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

**MEDIVISION MEDICAL IMAGING LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

US dollars

	Attributable to equity holders of the parent					Total	Minority interests	Total equity
	Share Capital	Additional paid-in capital	Capital reserve	Foreign currency translation differences	Accumulated deficit			
<b>(in thousands)</b>								
<b>Balance at January 1, 2007</b>	165	8,563	(311)	-	(2,723)	5,694	3,705	9,399
Warrants, equity component of convertible loans issued by subsidiary and exercise of options into common stock of a subsidiary	-	106	-	-	-	106	271	377
Expenses relating to change in capital structure (**)	-	-	-	-	(527)	(527)	-	(527)
Foreign currency translation differences	-	-	-	132	-	132	21	153
Cost of share-based payment	-	106	-	-	-	106	15	121
Net profit	-	-	-	-	(475)	(475)	675	200
<b>Balance at December 31, 2007</b>	165	8,775	(311)	132	(3,725)	5,036	4,687	9,723
Convertible loan converted into shares	50	576	-	-	-	626	-	626
Warrants, equity component of convertible loans issued by subsidiary and exercise of options into common stock of a subsidiary	-	(105)	-	-	-	(105)	(98)	(203)
Expenses relating to change in capital structure (**)	-	-	-	-	(520)	(520)	-	(520)
Foreign currency translation differences	-	-	-	(65)	-	(65)	(38)	(103)
Cost of share-based payment	-	56	-	-	-	56	17	73
Loss	-	-	-	-	(2,209)	(2,209)	(391)	(2,600)
<b>Balance at December 31, 2008</b>	<u>215</u>	<u>9,302</u>	<u>(311)</u>	<u>67</u>	<u>(6,454)</u>	<u>2,819</u>	<u>4,177</u>	<u>6,996</u>

(\*) Less than \$1.

(\*\*) See Note 19(B)

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

**MEDIVISION MEDICAL IMAGING LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	Note	US dollars Year ended December 31,	
		2008	2007
<b>Cash Flows From Operating Activities:</b>			
Net profit (loss) for the year		(2,600)	200
<b>Adjustments for:</b>			
Depreciation		242	227
Loss of disposal of assets		10	-
Loss on issuance of shares of a subsidiary		-	53
Deferred taxes, net		(160)	(170)
Cost of share-based payment		73	121
Accretion of convertible loan		-	64
Other		13	(6)
		<u>(2,422)</u>	<u>489</u>
<b>Changes In Operating Assets And Liabilities:</b>			
Decrease in trade receivables		1,125	42
Decrease (increase) in other accounts receivable and prepaid expenses		274	(423)
Increase in inventories		(420)	(106)
Increase (decrease) in trade payables		(312)	110
Decrease in other accounts payable and accrued expenses		(109)	(92)
<b>Net cash provided by operating activities</b>		<u>(1,864)</u>	<u>20</u>
<b>Cash Flows From Investing Activities:</b>			
Purchase of property and equipment		(184)	(216)
Proceeds from the sale of property and equipment		8	-
Additions to intangible assets		(2,110)	(1,261)
<b>Net cash used in investing activities</b>		<u>(2,286)</u>	<u>(1,477)</u>
<b>Cash Flows From Financing Activities:</b>			
Receipt of convertible loan from shareholder		437	3,300
Receipt of long-term loans		8	500
Repayment of long-term loans		(1,385)	(688)
Change in capital structure expenses		(520)	(527)
Proceeds from exercise of options of subsidiary		-	186
<b>Net cash provided by financing activities</b>		<u>(1,460)</u>	<u>2,771</u>
<b>Increase (decrease) in cash and cash equivalents</b>		(5,610)	1,314
<b>Net foreign exchange differences</b>		(65)	25
<b>Cash and cash equivalents at beginning of the year</b>	15	<u>7,805</u>	<u>6,466</u>
<b>Cash and cash equivalents at the end of the year</b>	15	<u>2,130</u>	<u>7,805</u>

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

**MEDIVISION MEDICAL IMAGING LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)**

<b>(in thousands)</b>	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Supplementary Information:</b>		
Cash paid during the year for interest	<u>269</u>	<u>187</u>
Income taxes	<u>6</u>	<u>237</u>
<b>Supplemental schedule of non-cash activities:</b>		
Repayment of notes payable and interest through conversion into shares	<u>626</u>	<u>-</u>
Purchase of property and equipment with a financial loan	<u>63</u>	<u>52</u>
Transfer of inventory into property and equipment	<u>34</u>	<u>-</u>

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

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS In Thousands of US Dollars

#### NOTE 1 - GENERAL

- A.** Medivision Medical Imaging Ltd. ("the Company"), an Israeli corporation located in Haifa, was incorporated and commenced business operations in June 1993. The Group is primarily engaged in the business of designing, developing, manufacturing and marketing digital imaging systems, image enhancements and analysis software and related products and services for use by practitioners in the ocular healthcare field. The principal markets of the Company are located in the United States (see Note 12a).

The Company's shares are traded on the EURO.NM market in Belgium.

- B.** In January 2008, OIS, through its wholly-owned subsidiary, Abraxas Medical Solutions, Inc., a Delaware corporation ("Abraxas"), acquired substantially all the assets of AcerMed, Inc., a leading developer of Electronic Medical Records (EMR) and Practice Management software. AcerMed has been providing comprehensive and advanced EMR and Practice Management software solutions for medical practices, from solo practitioners to multi-site practices nationwide. Through the acquisition, OIS gained the rights to software applications that automate the clinical, administrative, and financial operations of a medical office. See Note 6(E).

- C.** Subsequent to the balance sheet date the Company started the implementation of downsizing plan that according to managements' intention is planned to include among other layoffs of employees and significant reduction of expenses and overheads.

Management is evaluating alternative sources of capital to meet cash requirements, including issuance of debt, issuance of equity securities and entering into other financing agreements with its shareholders and others. According to managements' beliefs, if the Company is unable to obtain additional funding, it will be required to eliminate certain activities that would adversely effect its operations. See Note 19A.

**D. Definitions:**

- "The Company"** - Medivision Medical Imaging Ltd.
- "Subsidiaries"** - Companies whose financial statements are fully consolidated with those of the Company.
- "The Group"** - The Company and its subsidiaries.
- "OIS"** - Ophthalmic Imaging Systems.  
OIS is a company incorporated in Sacramento, California, USA, whose shares are traded over the counter on the NASDAQ (OISL.OB). The Company currently owns 56% of OIS's outstanding common stock. (See also Note 16).
- "CCS"** - CCS Pawlowski GmbH. (CCS), a company incorporated in Jena, Germany. CCS designs, develops, manufactures and markets ophthalmic digital imaging and image enhancement systems. The Company currently owns 63% of CCS's outstanding common stock. (See Note 6C).
- "CPI"** - The Consumer Price Index as published by the Central Bureau of statistics in Israel.
- "NIS"** - New Israeli Shekels.
- "Dollar" or "\$"** - U.S. Dollar.
- "Euro" or "€"** - European currency.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis except for certain items that are measured at fair value.

##### **A. Authorization of the Financial Statements**

The consolidated financial statements for the year ended December 31, 2008 (including comparatives) were approved and authorized for issue by the board of directors on March 30, 2009.

##### **B. Use of Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The significant management judgments in applying the accounting policies (critical accounting policies) of the Group are presented in Note Y, below.

##### **C. Financial statements in U.S. Dollars**

1. The majority of the Company's and its US subsidiary (OIS) sales are denominated in Dollars and the majority of their costs are incurred in Dollars or linked thereto. Accordingly, the Company has determined the Dollar as the currency of the Company and OIS primary economic environment, and thus as their functional currency in accordance with IAS 21. The consolidated financial statements are presented in Dollar.

The financial currency of a certain subsidiary is the Euro, which is the currency of the economic environment in which that subsidiary operates. On consolidation, assets and liabilities have been translated into Dollar at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Gains and losses from the translation of the subsidiary's financial statements to dollars are reflected in shareholders' equity under "foreign currency translation differences". On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Dollar at the closing rate.

2. Transactions and balances originally denominated in Dollars are presented at their original amounts. Balances in non-Dollar currencies are translated into Dollars using historical and current exchange rates for non-monetary and monetary balances respectively. For non-Dollar transactions reflected in the statement of operations, the exchange rates prevailing at the date of the transaction are used. Depreciation and changes in inventories deriving from non-monetary items are based on historical exchange rates.

All transaction gains and losses from the above translation are reflected in the statement of operations in financial expenses, net.

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### C. Financial statements in U.S. Dollars (cont.)

3. Data regarding the representative exchange rates of the NIS in relation to the Dollar and the Euro on the balance sheet date and the changes therein during the reported periods are as follows:

	Exchange rate of the NIS	
	US Dollar	Euro
December 31, 2008	3.802	5.30
December 31, 2007	3.846	5.659
<b>Change during the year ended:</b>	<b>%</b>	<b>%</b>
December 31, 2008	(1.1)	(6.34)
December 31, 2007	(8.97)	1.7

##### D. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. Inter-company transactions and balances, including profits from inter-company sales not yet realized outside the Group, have been eliminated upon consolidation.

Acquisitions of subsidiaries are included in the financial statements using the purchase method of accounting. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the group. The financial statements of subsidiaries are prepared for the same reporting periods as the Company, using consistent accounting policies. Adjustments are made to conform to any dissimilar accounting policies that may exist.

Minority interests represent the portion of a subsidiary's profit and loss and net assets that is not held by the Group. If losses in a subsidiary applicable to a minority interest exceed the minority interest in the subsidiary's equity, the excess is allocated to the majority interest except to the extent that the minority has a binding obligation and is able to cover the losses.

##### E. Cash and cash equivalents

The Company considers all highly liquid investments readily convertible into cash, originally purchased with maturities of three months or less, to be cash equivalents.

For the purposes of the consolidated cash flows statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

##### F. Restricted cash

Restricted cash is primarily invested in certificates of deposits, which mature within one year and is used as security for a line of credit of OIS.

##### G. Trade receivables

Trade receivables include amounts billed to customers from transactions arising in the ordinary course of business. Management periodically evaluates the collectability of these receivables. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful account balances is estimated based on historical experience and any specific customer installation issues that have been identified. Bad debts are written off when identified.

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### H. Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined as follows:

- Raw materials - on a first-in, first-out basis.
- Work-in-progress and finished products - cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating activities.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### I. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is computed by the straight-line method, on the basis of the estimated useful lives of the assets.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Annual depreciation rates are:	%
Machinery and equipment	15 – 25
Office furniture and equipment	6 – 15
Computers and peripheral equipment	20 – 33
Vehicles	16.67
Leasehold improvements	Over the term of the lease

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of operations.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **J. Business Combinations and goodwill**

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets.

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill arising from the purchase of OIS (for which the agreement date was prior to March 31, 2004) was amortized on a straight-line basis over its useful economic life of 20 years. Goodwill is stated at cost less accumulated amortization at December 31, 2004, and any impairment in value.

In accordance with the transition provisions of IFRS 3, the Group has ceased amortizing goodwill commencing on January 1, 2005. IFRS 3 requires the Group to test goodwill for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). The Company has not recorded any important losses with respect to its annual goodwill test, in the reported periods. (See also I above).

##### **K. Leases**

Financing leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Depreciation methods and useful lives for assets held under finance lease agreements, correspond to those applied to comparable assets which are legally owned by the Group.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of operations on a straight-line basis over the lease term.

##### **L. Warranty provision**

The Group's warranty provision contains two components. A general product provision on a per product basis in and a specific provision created as the Group becomes aware of system performance issues. The product provision is calculated based on a fixed Dollar amount per shipped each quarter. Specific provisions usually arise from the introduction of new products.

When a new product is introduced, the Group provision for specific problems arising from potential issues, if any. As issues are resolved, the Group reduces the specific provision. These types of issues can cause their warranty provision to fluctuate outside of sales fluctuations.

The Group estimate the cost of the various warranty services by taking into account the estimated cost of services routine warranty claims in the first year, including parts, labor and travel costs for service technicians. The Group analyze the gross profit margin of their service department, the price of their extended warranty contracts, factoring in the hardware costs of various systems, and use a percentage to calculate the cost per system to use for the first year manufacturer's warranty.

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### M. Borrowing costs

Borrowing costs are recognized as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23.

##### N. Convertible debt

###### 1. Convertible debt with fixed conversion terms

The component parts (liability and equity elements) of such convertible debt are measured and reported separately in the balance sheet. Upon the issuance of such convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debt. This amount is shown as a liability on the amortized cost basis until conversion or repayment. The remainder, if any, of the proceeds received upon the issuance of the convertible debt is allocated to the equity component (option) and included in shareholders' equity. The value of the option is not changed in subsequent periods.

Such convertible debt is considered as a compound financial instrument that contains both a liability and an equity component.

Issuance costs are allocated between the liability and equity components of the convertible debt based on the allocation of the proceeds to those components when they are first recognized.

###### 2. Convertible debt with variable conversion turns

Such convertible debt is considered as a hybrid financial liability that contains an embedded derivative.

Upon initial recognition of such instrument, the Company recognizes the embedded derivative (the conversion option) separately from the host contract based on its fair value at the initial recognition. The remainder is allocated to the liability component. The derivative is then measured at fair value at each balance sheet date and the changes in the fair value are reported through profit and loss. The liability component is measured after initial recognition at amortized cost using the effective interest method. This component is shown as a liability until conversion or repayment.

Issuance costs are allocated between the embedded derivative and the host based on the allocation of the proceeds shown above. The costs allocated to the embedded derivative are charged to income on initial recognition and the proceeds allocated to the host component are charged to the host component.

##### O. Long term employee benefit

The Company's liability for employee rights upon retirement with respect to its Israeli employees is calculated, pursuant to Israeli severance pay law, based on the most recent salary of each employee multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company makes monthly deposits to insurance policies and severance pay funds. The liability of the Company is fully provided for.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial profits.

The liability for employee rights upon retirement in respect of the employees of the non-Israeli subsidiaries of the Company is calculated on the basis of the labor laws of the country in which the subsidiary is located and is covered by an appropriate accrual.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)** **In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **P. Income taxes**

Tax expense recognized in profit or loss comprise the sum of deferred tax and current tax not recognized directly in equity.

Deferred income tax is provided for, using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets, and unused tax losses can be utilized.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

##### **Q. Revenue recognition**

Revenue is recognized when the significant risks and rewards of ownership have passed to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has been met.

The multiple components of the Group's revenue are considered separate units of accounting in that revenue recognition occurs at different points of time for product shipment, installation and training services, and service contracts based on performance or contract period.

Revenue for product shipment is recognized when title passes to the customer, which is upon shipment, provided there are no conditions to acceptance, including specific acceptance rights. If the Group make an arrangement that includes specific acceptance rights, revenue is recognized when the specific acceptance rights are met. Upon review, the Group concluded that consideration received from their customer agreements are reliably measureable because the amount of the consideration is fixed and no specific refund rights are include in the arrangement. The Group defers 100% of the revenue from sales shipped during the period that they believe may be uncollectible.

Installation revenue is recognized when the installation is complete. Separate amounts are charged and assigned in the customer quote, sales order and invoice, for installation and training services. These amounts are determined based on fair value, which is calculated in accordance with industry and competitor pricing of similar services and adjustments according to market acceptance. There is no price reduction in the product price if the customer chooses not to have the Group complete the installation.

Extended product service contracts are offered to the Group's customers and are generally entered into prior to the expiration of the Group's one year product warranty. The revenue generated from these transactions are recognized over the contract period, normally one to four years.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **Q. Revenue recognition (cont.)**

The Group does not have a general policy for cancellation, termination or refunds associated with the sale of their products and services. All items are on a quote/purchase order with payment terms specified for the whole order. Occasionally, the Group has customers who require specific acceptance tests and according, the Group does not recognize such revenue until these specific tests are met.

##### **R. Research and development costs and other intangible assets**

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period of which the assets are not yet in use it is tested for impairment annually.

Other intangible assets include acquired and internally developed software and knowledge used in production that qualify for recognition as an intangible asset in a business combination. They are accounted for using the cost model whereby capitalized costs are amortized on a straight line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in I. above. The following useful life is applied:

- EMR related software – 15 years.

##### **S. Royalty-bearing grants**

Royalty-bearing grants from the Chief Scientist and BIRD-F for funding certain approved research projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and are presented as a reduction of research and development expenses.

##### **T. Earnings per share**

The Group calculates basic and diluted earnings per share in accordance with IAS 33, Earnings per Share. Basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period, if any and after consideration with any dilutive effect of the convertible loans.

##### **U. Fair value of financial instruments**

The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, short-term bank credit, trade and other payables, and long-term loans reported in the balance sheet approximate their fair values.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)** **In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **V. Concentrations of credit risk**

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash, cash equivalents (including restricted cash) and trade receivables.

Cash and cash equivalents are deposited with high credit quality banks and financial institutions in Israel, Germany and the U.S.A. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

The Group has adopted credit policies and standards intended to accommodate industry growth and inherent risk. The Group performs ongoing credit evaluations of its customers' financial condition and has limited the risk by implementing a policy that requires deposits from customers, and that takes into account the number of customers and their geographic dispersion. The Group includes provisions in the financial statements which, in the opinion of management, are adequate to cover doubtful accounts. (See also G. above).

##### **W. Share-based payment**

IFRS 2, 'Share-Based Payment' requires an expense to be recognized when goods or services are acquired in exchange for shares or rights to shares ('equity-settled transactions'), or in exchange for other assets equivalent in value to a given number of shares or rights to shares ('cash-settled transactions').

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based payment is ultimately recognized as an expense in profit or loss with a corresponding credit to "additional paid-in capital".

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

##### **X. Provisions, contingent liabilities and contingent assets**

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

##### X. Provisions, contingent liabilities and contingent assets (cont.)

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

##### Y. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

##### Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The financial assets of the Group were classified as "loans and receivables".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **Y. Financial instruments (cont.)**

###### **Financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments (including embedded derivatives) that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within "financial expenses" or "financial income".

##### **Z. IFRS and IFRIC Interpretations not yet effective**

###### **IAS 23 Borrowing Costs (Revised)(effective from 1 January 2009)**

The revised standard requires the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a substantial period of time to get ready for their intended use or sale. The option currently used by the Group of immediately expensing those borrowing costs will be removed. In accordance with the transitional provisions of the revised standard the Group capitalises borrowing costs relating to qualifying assets for which the commencement date is on or after the effective date. No retrospective restatement will be made for borrowing costs that have been expensed for qualifying assets with a commencement date before the effective date. The revised standard will decrease the Group's reported interest expense and increase the capitalised cost of qualifying assets under construction in future periods. Preliminary forecasts indicate that borrowing costs in the order of CU 70,000 - 120,000 are expected to be capitalised in the first year of application of this revised standard. The capitalisation is primarily related to some of the Group's development projects.

###### **IFRIC 13 Customer Loyalty Programmes (effective from 1 July 2008)**

This interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (for example loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group's current accounting policy is to recognize the consideration in full and to provide for the estimated cost of the future rewards. Consequently, the adoption of this interpretation will change the Group's accounting policy. The Group very seldom awards free products in connection with a sales transaction. Therefore, the financial effects of this interpretation are insignificant for current and future reporting periods.

###### **IFRS 3 Business Combinations (Revised 2008) (effective from 1 July 2009)**

The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

## **MEDIVISION MEDICAL IMAGING LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

##### **Z. IFRS and IFRIC Interpretations not yet effective (cont.)**

###### **IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective from 1 July 2009)**

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Management does not expect the standard to have a material effect on the Group's financial statements.

###### **Amendments to IFRS 2 Share-based Payment (effective from 1 January 2009)**

The IASB has issued an amendment to IFRS 2 regarding vesting conditions and cancellations. None of the Group's current share-based payment schemes is affected by the amendments. Management does not consider the amendments to have an impact on the Group's accounting policies.

###### **Annual Improvements 2008**

The IASB has issued Improvements for International Financial Reporting Standards 2008. Most of these amendments become effective in annual periods beginning on or after 1 January 2009. The Group expects the amendment to IAS 23 Borrowing Costs to be relevant to the Group's accounting policies. The amendment clarifies the definition of borrowing costs by reference to the effective interest method. This definition will be applied for reporting periods beginning on or after 1 January 2009, however forecasts indicate the effect to be insignificant. Smaller amendments are made to several other standards, however, these amendments are not expected to have a material impact on the Group's financial statements.

##### **AA. Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

###### **Critical accounting estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The following are significant management judgments in applying the accounting policies of the Group that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 4.28.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**AA. Critical accounting estimates and judgments (cont.)**

**Internally generated software and research costs**

Management monitors progress of internal research and development projects by using a project management system. Significant judgement is required in distinguishing research from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to also require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Group's management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

**Deferred tax assets**

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

**Impairment**

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

**NOTE 3 - ACCOUNTS RECEIVABLE**

	<b>US dollars</b>	
	<b>December 31,</b>	
	2008	2007
<b>A. Trade, net</b>		
Open accounts	2,567	3,691
Less: allowance for doubtful accounts	(224)	(219)
	2,343	3,472
<b>B. Other accounts receivable</b>		
Prepaid expenses	354	672
Other	74	30
	428	702

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 4 - INVENTORIES**

**Composition:**

	US dollars	
	December 31,	
	2008	2007
Raw materials	425	484
Work in progress	367	234
Finished products	784	480
	<u>1,576</u>	<u>1,198</u>

**NOTE 5 - PROPERTY AND EQUIPMENT, NET**

**A. Composition:**

	US dollars					
	Machinery & equipment	Office furniture & equipment	Computers & peripheral equipment	Vehicles (*)	Leasehold improvements	Total
<b>Cost:</b>						
Balance as of January 1, 2008	380	883	183	101	30	1,577
<b>Changes during the year:</b>						
Foreign translation	(4)	-	-	(6)	-	(10)
Additions (including through business combination)	36	192	3	62	-	293
Disposals	-	(13)	-	(27)	-	(40)
Balance as of December 31, 2008	<u>412</u>	<u>1,062</u>	<u>186</u>	<u>130</u>	<u>30</u>	<u>1,820</u>
<b>Accumulated depreciation:</b>						
Balance as of January 1, 2008	323	467	162	21	29	1,002
Foreign translation	(3)	-	-	(3)	-	(6)
Additions	25	182	16	19	-	242
Disposals	-	-	-	(18)	-	(18)
Balance as of December 31, 2008	<u>345</u>	<u>649</u>	<u>178</u>	<u>19</u>	<u>29</u>	<u>1,220</u>
<b>Depreciated cost:</b>						
Balance as of December 31, 2008	<u>67</u>	<u>413</u>	<u>8</u>	<u>111</u>	<u>1</u>	<u>600</u>
Balance as of December 31, 2007	<u>57</u>	<u>416</u>	<u>21</u>	<u>80</u>	<u>1</u>	<u>575</u>

(\*) Includes assets under capital lease agreements, whose original cost is \$ 137 as of December 31, 2008.

**B. Liens – see Note 10C.**

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS**

**A. Intangible assets**

	US dollars	
	December 31,	
	2008	2007
<b>Original amounts:</b>		
Goodwill (see B and C)	4,233	4,275
Intangible assets (see D and E)	<u>4,872</u>	<u>2,762</u>
	9,105	7,037
<b>Accumulated amortization:</b>		
Goodwill (*)	<u>1,025</u>	<u>1,025</u>
	<u>8,080</u>	<u>6,012</u>

(\*) Commencing January 1, 2005, goodwill is no longer amortized, see also Note 2J above.

**B.** On August 18, 2000, the Company acquired 73% of the voting shares of OIS. The consideration for the acquisition, paid in cash, was \$2,575. Goodwill arising on the acquisition amounted to \$4,819. In June 2003, the Company's investment in OIS increased to 85% due to the conversion of a convertible promissory note. Since then, the Company's investment in OIS decreased to 56% due to sales of shares, and options exercised by the minority interest. A proportionate share of goodwill amounting to \$1,362 was also realized.

**C.** Effective July 1, 2004, the Company acquired 54% of the voting shares of CCS, a Company incorporated in Jena, Germany. CCS designs, develops, manufactures and markets ophthalmic digital imaging and image enhancement systems. The consideration for the acquisition was \$845 of which \$813 was paid in cash and the balance of \$32 by transfer of shares of Medivision's US subsidiary, OIS.

In July 2005, the Company increased its holdings in CCS by an additional 9% in consideration of Euro 1 thousand and reached a 63% holding in CCS.

**D.** During the years 2008 and 2007, the Company capitalized development costs in the amount of \$1,663 and \$1,142, respectively, as an intangible asset in accordance with the criteria for recognition as set forth in IAS 38 "Intangible Assets". See also Note 2R above.

**E.** In January 2008, OIS reached an agreement to purchase, through its newly established subsidiary, Abraxas Medical Solutions, Inc. substantially all of the assets of AcerMed, Inc., a leading software developer for Electronic Medical Records (EMR) and Practice Management software. The transaction was approved by the California Central Bankruptcy Court.

The aggregate cost to acquire substantially all the assets of AcerMed was \$604. During 2007, OIS incurred legal and due diligence expenses of \$104 in connection with the acquisition, which OIS capitalized as a cost of acquiring AcerMed's assets. In 2008, OIS also paid \$500 to the courts, as AcerMed was in Chapter 11 bankruptcy proceedings, to purchase the assets of AcerMed. An amount of \$34 was allocated to fixed assets and the remaining \$465 to intangible assets.

**F. Liens** – see Note 10, below.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 7 - SHORT-TERM CREDIT AND CURRENT MATURITIES OF LONG-TERM LOANS**

**A. Composition:**

		US dollars	
	Interest rate in 2008 %	December 31, 2008	2007
Short-term bank credit in NIS		505	37
Line of credit (1)	Prime	150	150
Convertible shareholder loans (2)	9	349	455
Liability with respect to conversion component (2)		100	137
Current maturities of long-term loans (see Note 9)		2,560	2,083
		3,664	2,862

- (1) Line of credit- In May 2003, OIS entered into a line of credit agreement with a bank of up to \$150. The line is secured by a pledged deposit with the bank at the amount of \$158. Advances on the line bear interest at prime (3.25% at December 31, 2008) and are due monthly. The line of credit expires on May 10, 2011.
- (2) In September 2007, the Company signed a Term Sheet which summarizes the various understandings reached between the Company and certain of its majority shareholders (the "Shareholders"), in connection with a convertible loan to be provided by the Shareholders to the Company. As of December 31, 2007, the Company received a loan in an amount of \$550. On June 30, 2008 the Company issued 1,677,573 Ordinary Shares NIS 0.1 par value to Shareholders in respect of the Term Sheet signed, in connection with a convertible loan provided by them to the Company during the fourth quarter of 2007 and January 2008. In consideration of the issued shares, the shareholders loan in the amount of \$626 was converted in to share capital of the Company.

During August 2008, in respect with the above Term Sheet, the Shareholders granted the Company an additional loan in the amount of \$400.

The loan shall bear interest at an annual rate of 9% and shall be repaid within 12 months from the date of closing (September 2009).

The loan will be convertible at the election of the shareholders at a price per share reflecting a discount rate of 20% of the average share price during the 30 days before conversion.

The proceeds were allocated to a shareholders loan component and to a liability with respect to the conversion component (an embedded derivative). See also Note 2N(2).

**B. Collateral – see Note 10d.**

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 8 - OTHER ACCOUNTS PAYABLE**

**Composition:**

	US dollars	
	December 31,	
	2008	2007
Employees	1,066	1,439
Accrued expenses to shareholders	278	251
Deferred extended warranty revenue (*)	1,925	1,604
Advances from customers	111	55
Warranty provision (**)	76	131
Accrued expenses and other credit balances	<u>849</u>	<u>834</u>
	<u>4,305</u>	<u>4,314</u>

(\*) In addition to OIS's one-year warranty, OIS offers an extended warranty for an additional charge to the customer. OIS records the sale of the extended warranty as deferred revenue and amortizes the revenue over the term of the agreement, generally one to four years.

(\*\*) Product warranty provision movements consist of the following:

	US dollars	
	December 31,	
	2008	2007
Balance at beginning of the year	131	403
Net provisions	134	(4)
Warranty costs incurred	<u>(189)</u>	<u>(268)</u>
Balance at end of the year	<u>76</u>	<u>131</u>

**NOTE 9 - LONG-TERM LOANS**

**A. Composition:**

		US dollars	
	Interest rate	December 31,	
	in 2008	2008	2007
	%		
Bank loans in Dollars (1,3,4)	LIBOR+3.75	1,377	2,086
Capitalized lease	3-4	119	81
Convertible shareholders loans (5)	9	<u>2,098</u>	<u>2,579</u>
		3,594	4,746
Less: current maturities of long-term loans		<u>2,560</u>	<u>2,083</u>
		<u>1,034</u>	<u>2,663</u>

(1) For the loan agreement with United Mizrahi Bank see Note 11A.

(2) The LIBOR rate was 1.425% at December 31, 2008.

(3) In November 2006, the Company obtained a long-term bank loan in the amount of \$750. The loan with interest at an annual rate of LIBOR+ 3.75% is to be paid in eighteen monthly installments, commencing on July 2009.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 9 - LONG-TERM LOANS (cont.)**

**A. Composition (cont.):**

- (4) In February 2007, the Company obtained a long-term bank loan in the amount of \$500. The loan with interest at an annual rate of LIBOR+ 3.75% is to be paid in eighteen monthly installments, commencing on July 2009.
- (5) On October 29, 2007, OIS entered into a Purchase Agreement (the "Purchase Agreement") with certain purchasers, pursuant to which OIS issued to the Purchasers (i) an aggregate of \$2,750 in principal amount of its 6.5% interest bearing Convertible Notes Due April 30, 2010 (the "Notes"), which Notes are convertible into 1,676,829 shares of OIS common stock, no par value, and (ii) warrants ("Warrants") to purchase an aggregate of 616,671 shares of OIS common stock at an exercise price of \$1.87 per share. The Warrant expire on December 10, 2012.

The Company allocated the proceeds to the liability component and to the equity component's (including warrants) in accordance with the principles detailed in Note 2N1 (including consideration with minority interest).

**B. Aggregate maturities of long-term loans are as follows:**

	<b>US dollars</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
First year – current maturities	2,560	2,083
Second year	928	2,015
Third year	45	561
Fourth year	61	87
	1,034	2,663
	3,594	4,746

**C. Liens – see Note 10C.**

**NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES**

**A. Chief Scientist**

The Company is committed, under agreements with the Chief Scientist in respect of certain research and development projects, to pay royalties to the Chief Scientist at the rate of 3.5% of the sales of products resulting from the research and development which resulted with the AngioVision product line, at an amount not to exceed the amount of the grants received by the Company, as participation in the research and development program. The sales of the AngioVision product line have decreased significantly. As of December 31, 2008 the Company had an outstanding contingent obligation to pay royalties in the amount of \$1,804. The obligation to pay these royalties is contingent on actual sales of the AngioVision product and in the absence of such sales no payment is required. Company Management is of the opinion that payment of these royalties is remote.

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars

#### NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

##### B. BIRD-F

The Group received grants from BIRD-F. Royalty payments to BIRD-F are due at the rate of 2.5% for the first year and 5% beginning with the second year and thereafter, on revenues derived from research and development projects in which the BIRD-F participated in their financing, up to 150% of the amount received by the Group.

As of December 31, 2008, grants received from BIRD-F amounted to \$769, and the Group has an outstanding contingent obligation to pay royalties to BIRD-F aggregating up to \$1,154. The obligation to pay these royalties is contingent on actual sales of the product and in the absence of such sales, no payment is required. Company Management is of the opinion that payment of these royalties is remote.

##### C. Liens

1. The Company's liabilities to banks are secured by a fixed lien on the Company's share capital, goodwill, patents and insurance rights and a floating lien on all of its assets.
2. To secure its liabilities to United Mizrahi Bank, the Company pledged 750,000 shares of its holdings in the common stock of OIS in favor of the Bank.
3. To secure its liabilities to its shareholders in respect of convertible loans received during 2008 (see also Note 7), the company pledged 4,837,391 shares of its holdings in the common stock of OIS in favor of its shareholder.
4. OIS granted a security interest in substantially all assets of OIS to United Mizrahi Bank Ltd., as security for amounts borrowed by the Company from the Bank (see Note 11a). To secure this debenture, the Company pledged 2,345,500 shares of OIS common stock in favor of OIS.

The secured liabilities and guarantees are as follows:

	US dollars	
	December 31,	
	2008	2007
Short-term bank loan including current maturities of long-term loans	<u>2,560</u>	<u>2,083</u>
Long-term bank loans	<u>1,034</u>	<u>2,663</u>

##### D. Lease Agreements

1. OIS leases its facilities under a non-cancelable operating lease that expires in June 2012 with minimum lease payments of approximately \$111 for the year ended December 31, 2009 and \$143 for the years ended December 31, 2010 and December 31, 2011 and \$72 for the six months ended June 30, 2012. OIS wholly-owned subsidiary, Abraxas, leases a facility for its office under a non-cancelable operating lease that expires in April 30, 2009. The lease agreement provides for minimum lease payments of \$28 for the four months ended April 2009.
2. The Company rents its facilities under a non-cancelable operating lease that expires in September 2010. The lease agreements require minimum lease payments of approximately \$40 per year until 2010.

Subsequent to the balance sheet date, the Company unilaterally terminated the agreement and moved to a new rented facility under a non-cancellation operating lease agreement that expires in February 22, 2011. The lease agreement require minimum lease payments of approximately \$20 per year.

3. CCS leases its facilities under a six-month cancellation notice operating lease that is unlimited in time with minimum lease payments of approximately \$22 per year.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (cont.)**

**E. Claims**

1. On March 12, 2007, one of the Company's subcontractors has filed the following legal actions: (i) in the Tel Aviv District court- seeking judgment whereby any intellectual property rights arising from the parties' cooperation shall be partitioned between the Parties in equal parts; and (ii) in the Tel Aviv Magistrates Court- seeking monetary judgment against MediVision with respect to alleged debts.

In February 2008, the company reached a settlement agreement with the subcontractor which was approved by the court. According to this agreement, the Company paid in 2008 the amount of \$200 and shall pay additional amounts for royalties at the amount of \$1 for each product unit sold by Medivision until December 31, 2010 up to the accumulated amount of USD 275,000 (the "Maximum Selling Payments") or if the Selling Payments do not exceed the sum of USD 225,000 by December 31, 2010, then Medivision shall pay to the subcontractor a one-time payment in the sum of the difference between the amount of the Selling Payments and the sum of USD 225,000 (the "Minimum Selling Payments").

2. On May 11, 2007, OIS filed a civil action in the Superior Court of California for the County of Sacramento against its former president Steven Verdooner. OIS subsequently moved for and were granted an order amending the complaint to add claims against defendants Opko Health, Inc. and the Frost Group, LLC. The complaint alleges against Mr. Verdooner claims of breach of fiduciary duty, intentional interference with contract, and intentional interference with prospective economic advantage, and it alleges claims against Opko Health and the Frost Group, as stated above, of interference and with aiding and abetting Verdooner's interference and breach of fiduciary duty. The complaint requests total damages against defendants in excess of \$7,000.

On February 20, 2009, Defendants moved for summary judgment against OIS complaint; the hearing on this motion is scheduled for March 27, 2009. Discovery in the case is ongoing, and the trial has been set for April 28, 2009.

**NOTE 11 - SHARE CAPITAL**

**A. Composition:**

<b>December 31,</b>	<b>2008</b>		<b>2007</b>	
	<b>Registered</b>	<b>Issued and fully paid</b>	<b>Registered</b>	<b>Issued and fully paid</b>
Ordinary shares	<u>10,000,000</u>	<u>8,484,872</u>	<u>10,000,000</u>	<u>6,807,299</u>

On June 30, 2008 the Company issued 1,677,573 Ordinary Shares NIS 0.1 par value to certain majority shareholders (the "Shareholders") in respect of the Term Sheet signed in September 2007 between the Shareholders, in connection with a convertible loan provided by them to the Company during the fourth quarter of 2007 and January 2008. In consideration of the issued shares, the shareholders loan in the amount of \$626 was converted in to share capital of the Company.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**In Thousands of US Dollars**

**NOTE 11 - SHARE CAPITAL (cont.)**

**B. Warrants**

In July 2005, the Company obtained a long-term bank loan in the amount of \$2,000. The loan bears interest at an annual rate of LIBOR+ 3.75%, and is to be paid in twenty four monthly installments, commencing on August 1, 2006. The Company and the bank reached a new payments schedule under which the company will pay until June 2009 a monthly payment of \$30 and from their on \$83 unless otherwise agreed between the parties. Under covenants set in the loan agreement, as long as any part of the loan is outstanding, the Company must maintain controlling ownership in OIS shares and a minimum amount of consolidated free cash as set in the agreement. The Company was in compliance with all restrictive loan covenants as of December 31, 2008 and during the reported period.

In consideration for the loan, the Company modified the terms of the warrants issued to the bank during 2002. The warrants to purchase shares of the Company for a total consideration of up to Euro 348,603 may be exercised at any time, for a period ending at the earlier of 8.5 years after December 9, 2002 or 12 months after the consummation of an exit transaction as described in the agreement with the bank. The exercise price will be the lower of Euro 1.3 or the price per share set at the exit transaction less 40%. The Company calculated the incremental fair value (increase in fair value of the warrants before and after the modification) using an option pricing model.

**C. Stock Option Plans**

On October 17, 1999, the Board of Directors of the Company adopted a Stock Option Plan (the "1999 Plan") pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or any subsidiary. An aggregate of 500,000 Ordinary shares of the Company are reserved for issuance under the 1999 Plan. Any options which are canceled or forfeited within the option period will become available for future grants. The 1999 Plan will terminate in 2010, unless previously terminated by the Board of Directors. The plan is under section 102 of the Israeli Tax Ordinance in connection with exemption from tax on the date of issuance of shares (subject to limitations). As of December 31, 2008, there are 236,888 Ordinary Shares available for issuance under the 1999 Plan.

On November 16, 2004, the Board of Directors of the Company adopted an Israeli Stock Option Plan (the "2004 ISOP") pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or any subsidiary. An aggregate of 500,000 Ordinary shares of the Company are reserved for issuance under the 2004 ISOP. Any options which are canceled or forfeited within the option period will become available for future grants. The vesting period will be 50% after two years, 25% after three years and 25% after four years from the grant date. The 2004 ISOP will terminate in 2014, unless previously terminated by the Board of Directors. As of December 31, 2008, there are 204,800 Ordinary Shares available for issuance under the 2004 ISOP.

As of December 31, 2008 there are 558,312 options outstanding, of which 546,312 are exercisable into Ordinary shares as follows:

<b>December 31, 2008</b>			
<b>Exercise price per share</b>	<b>Outstanding</b>		<b>Exercisable</b>
<b>EURO</b>	<b>Number</b>	<b>Life<sup>(**)</sup></b>	<b>Number</b>
	<b>of options</b>		<b>of options</b>
0.50-1.50	263,112	1.5	263,112
0.80	271,200	6	271,200
2.02-2.53	24,000	8	12,000
	<u>558,312<sup>(*)</sup></u>		<u>546,312</u>

(\*) Including 218,768 options not issued under section 102 of the Israeli Tax Ordinance.

(\*\*) Weighted average contractual life remaining in years.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 11 - SHARE CAPITAL (cont.)**

**C. Stock Option Plans (cont.)**

Exercise price per share <b>EURO</b>	December 31, 2007		
	Outstanding Number of options	Life <sup>(**)</sup>	Exercisable Number of options
0.50-1.50	347,128	2.5	347,128
0.03	6,960	2.5	6,960
0.80	329,201	7.0	246,902
1.12-2.53	<u>80,200</u>	9.0	<u>13,000</u>
	<u>763,489<sup>(*)</sup></u>		<u>613,990</u>

(\*) Including 305,744 options not issued under section 102 of the Israeli Tax Ordinance.

(\*\*) Weighted average contractual life remaining in years.

	December 31, 2008		December 31, 2007	
	Amount	Weighted average exercise price EURO	Amount	Weighted average exercise price EURO
Outstanding at the beginning of the year	763,489	0.88	772,489	0.99
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	<u>(205,177)</u>	<u>1.83</u>	<u>(9,000)</u>	<u>1.61</u>
Outstanding at the end of the year	<u>558,312</u>	<u>1.08</u>	<u>763,489</u>	<u>0.97</u>
Exercisable options	<u>546,312</u>	<u>1.07</u>	<u>613,990</u>	<u>0.88</u>

The fair value of options grants is estimated at the date of grant using the Black-Scholes option pricing model. The following are the data and assumptions used:

Dividend yield (%)	0
Historical Volatility (%)	74
Expected Volatility (%)	74
Risk free interest rate (%)	3.5
Expected life of options (years)	4
Exercise price (US dollars)	2.58-3.23
Share price (US dollars)	3.14
Fair value (US dollars)	1.77-1.93

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The Company recorded employee compensation expense of \$56 and \$88 for the years ended December 31, 2008 and 2007, respectively, with a corresponding increase in equity (additional paid-in capital).

In addition, compensation expense of \$30 and \$33 was recorded for the years ended December 31, 2008 and 2007, respectively, in connection with grants of options by OIS. There were no grants during fiscal years 2008 and 2007.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 12 - SELECTED STATEMENT OF OPERATIONS DATA**

**A. Sales**

	US dollars	
	Year ended December 31,	
	2008	2007
North America	11,676	13,674
Europe	2,578	1,109
Other	156	1,539
	<u>14,410</u>	<u>16,322</u>

**B. Cost of sales**

	US dollars	
	Year ended December 31,	
	2008	2007
Materials consumed	2,769	3,588
Salaries	3,566	1,682
Other	244	1,792
	<u>6,579</u>	<u>7,062</u>
Changes in work in progress and finished products	51	(11)
	<u>6,630</u>	<u>7,051</u>

**C. Research and development expenses**

	US dollars	
	Year ended December 31,	
	2008	2007
Salaries and related expenses	1,612	1,309
Subcontractors and consultants	370	277
Materials and supplies	42	46
Depreciation	24	53
Miscellaneous	811	345
	<u>2,859</u>	<u>2,030</u>

**D. Selling and marketing expenses**

	US dollars	
	Year ended December 31,	
	2008	2007
Salaries and related expenses	3,173	2,709
Advertising and exhibitions	491	378
Foreign travel	549	581
Communications	49	60
Miscellaneous	570	507
	<u>4,832</u>	<u>4,235</u>

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 12 - SELECTED STATEMENT OF OPERATIONS DATA (cont.)**

**E. General and administrative expenses**

	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Salaries and related expenses	936	1,297
Professional services	529	442
Rent	250	336
Communications	72	33
Vehicles maintenance	19	17
Doubtful and bad debts	65	51
Depreciation	55	3
Miscellaneous	393	313
	<u>2,319</u>	<u>2,492</u>

**F. Financial expenses, income**

	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Expenses:</b>		
Bank expenses and interest, net	<u>604</u>	<u>531</u>
<b>Income:</b>		
Interest income	<u>73</u>	<u>297</u>

**G. Other income (loss), net**

	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Gain on issuance of shares by OIS to third parties	-	(62)
Other	-	(10)
	<u>-</u>	<u>(72)</u>

**H. Income tax expense**

Income tax expense is comprised as follows:

	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Current taxes	1	(178)
Deferred taxes	160	170
	<u>161</u>	<u>(8)</u>

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 12 - SELECTED STATEMENT OF OPERATIONS DATA (cont.)**

**I. Earnings per share**

	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Net loss for the year attributed to equity holders of the parent	(2,209)	(475)
Weighted average number of shares used in calculation of basic earnings per share	7,646,086	6,807,299
Basic and diluted earnings per share (in Dollars)	(0.289)	(0.069)

**NOTE 13 - TAXES ON INCOME**

**A. Tax benefits under the Encouragement of Capital Investments Law**

The Company was granted "approved enterprise" status. The main benefits to which the Company will be entitled, if it implements all the terms of the approved program, are exemption from tax on income from the approved enterprise, and reduced tax rates on dividends originating from this income. The income from the approved enterprise will be exempt from tax for a ten year period, commencing on the date that taxable income is first generated by the approved enterprise (limited to the earlier of a maximum period of 12 years from commencing operations or 14 years from the date the approval letter is received). In August 1999, the Company was granted an additional period of extension, thus extending the period of tax exemption until 2009.

Dividend distributions originating in the income of the approved enterprise will be subject to tax at the rate of 15%, provided that the dividend is distributed during the period stipulated in the law. In the event of a dividend distribution (including withdrawals and charges that are deemed to be dividends) out of the income originating from the approved enterprise, and on which the Company received a tax exemption, income from which the dividend is distributed will be subject to corporate tax at the rate of 25%.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published hereunder and the instruments of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2008, management believes that the Company is in compliance with all of the aforementioned conditions.

**B. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (the "Inflationary Adjustment Law")**

The Company reports income for tax purposes in accordance with the provisions of the Inflationary Adjustments Law, whereby taxable income is measured in NIS, adjusted for changes in the Israeli Consumer Price Index.

Results of operations for tax purposes are measured in terms of earnings in NIS after adjustments for changes in the Israeli Consumer Price Index ("CPI"). Commencing January 1, 2008 this law is void and in its place there are transition provisions, whereby the results of operations for tax purposes are to be measured on a nominal basis.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 13 - TAXES ON INCOME (cont.)**

**C. Carry forward tax losses**

The Company has accumulated losses for tax purposes as of December 31, 2008, in the amount of approximately \$ 7,000, which may be carried forward and offset against taxable income in the future for an indefinite period.

In order to realize OIS tax asset in 2008 and 2007, OIS evaluated the deferred tax asset we will more likely than not be able to realize in the future. OIS were not profitable for seventeen consecutive years between 1984 and 2000, and again in 2008. There is significant uncertainty in projecting future profitability due to the history of its business, the rapidly changing medical technology market and current economic conditions in the U.S.

OIS used the following analysis to determine whether to recognize a valuation allowance for its deferred tax asset and the amount recognized, if any. We assumed, based on management's determination, that OIS will use all of our unlimited NOL amounts. As of December 31, 2008, OIS balance of unlimited NOL deductions was \$2,010. We then determined the amount of future capped net operating losses OIS will more likely than not be able to use. We determined that OIS will be able to use an amount equal to seven years of capped net operating losses in the future, or \$2,723. The total of these two calculations brings us to a calculated usable deferred tax asset of \$4,733 of the \$6,443 total possible net operating loss.

**D.** In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be gradually reduced to the following tax rates: 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

**E.** A reconciliation of the theoretical tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax benefit, is as follows:

	<b>US dollars</b>	
	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Profit (loss) before taxes as reported in the consolidated statements of operations	(2,761)	208
Statutory tax rate in Israel	27%	29%
Theoretical tax expense (income)	(745)	60
<b>Increase (decrease) in taxes resulting from:</b>		
Utilization of tax losses	-	(52)
Losses in respect of which no deferred taxes were generated	584	-
Actual tax expense	(161)	8

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 13 - TAXES ON INCOME (cont.)**

**F. Deferred tax assets**

OIS recorded a tax asset due to carry forward losses and other deductible temporary differences in the amount of \$1,502 as of December 31, 2008 (December 31, 2007 – \$1,342). Due to OIS's limited history of profitable operations and as these carry forward losses may not be used to offset taxable profits elsewhere in the Group, an additional tax asset of \$1,750 was not recorded.

The Company has not recorded deferred tax assets in respect of carry forward losses in the amount of \$1,750 due to their uncertainty of realization.

**G. Final tax assessments**

The Company has tax assessments that are deemed final through 2003.

**NOTE 14 - RELATED PARTY TRANSACTIONS AND BALANCES**

**A. Balances**

	US dollars	
	December 31,	
	2008	2007
Accrued expenses to shareholders	<u>211</u>	<u>251</u>
Other liabilities to shareholders	<u>44</u>	<u>148</u>
Convertible loans of shareholders	<u>449</u>	<u>592</u>
Other liabilities to directors	<u>21</u>	<u>5</u>

No advances or loans were granted to Directors of the Company.

**B. Transactions**

	US dollars	
	Year ended	
	December 31,	
	2008	2007
Interest to related parties	<u>40</u>	<u>18</u>
Salaries to key management personnel of the Company (shareholders), including stock-based compensation	<u>171</u>	<u>229</u>
Salaries to key management personnel of a Subsidiary (shareholders)	<u>576</u>	<u>647</u>
Fees to directors of the Company	<u>27</u>	<u>79</u>
Salaries to directors of a Subsidiary	<u>45</u>	<u>69</u>

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 15 - CASH AND CASH EQUIVALENTS**

**(For the purpose of the Cash Flow Statements)**

Cash and cash equivalents are comprised of the following:

	US dollars	
	December 31, 2008	2007
Cash and cash equivalents	2,785	7,992
Short-term bank credit (see Note 7)	(655)	(187)
	<u>2,130</u>	<u>7,805</u>

**NOTE 16 - DEVELOPMENT SHARE CAPITAL OF OIS**

As of December 31, 2008 and 2007, the Company owns approximately 56% of outstanding common stock (9,445 thousand shares).

Warrant activity for the years ended December 31, 2008 and 2007 is summarized as follows:

	2008		2007	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding at beginning of year	929,671	\$1.79	313,000	\$1.64
Granted	-	-	616,671	1.87
Exercised	-	-	-	-
Outstanding at end of year	<u>929,671</u>	<u>1.79</u>	<u>929,671</u>	<u>1.79</u>
Currently exercisable	<u>929,671</u>	<u>\$1.79</u>	<u>929,671</u>	<u>\$1.79</u>

On October 29, 2007, OIS entered into a Purchase Agreement with The Tail Wind Fund and Solomon Strategic Holdings, Inc. Within this agreement, there were warrants issued to purchase an aggregate of 616,671 shares of their common stock at an exercise price of \$1.87 per share. 526,973 of the warrants were issued to The Tail Wind Fund and 89,698 were issued to Solomon Strategic Holdings, Inc. These warrants expire on December 10, 2012.

The 313,000 warrants outstanding as of January 1, 2008 and December 31, 2008 were issued in conjunction with the debt offerings for Laurus Master Fund. The debt related to Laurus Master Fund was completely paid with cash or converted into shares as of December 31, 2006. These warrants expire on April 27, 2009.

There were 929,671 warrants outstanding and exercisable as of December 31, 2008 with a weighted average remaining contractual life of 2.72 years, a weighted average exercise price of \$1.79.

As at December 31, 2008, the price of the OIS share on the stock exchange was US\$ 0.17. As at the date of approval of the financial statements, the value of the share is US\$ 0.33.

See also Note 2W, above.

## MEDIVISION MEDICAL IMAGING LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.) In Thousands of US Dollars

#### NOTE 17 - FINANCIAL RISK MANAGEMENT

##### **Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Company Management designs principles for overall risk management, as well as develops policies covering specific areas, such as foreign exchange risk, pricing risk, interest rate risk, credit risk and liquidity risk.

The Company's principal financial instruments are comprised of accounts receivable, cash and cash equivalents, trade and other payables, short-term bank credit and long-term loans which arise directly from its operations. During the year the Company did not undertake trading in financial instruments (including derivatives).

##### *Credit Risk*

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

Cash (including cash equivalents and restricted cash) is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

##### *Foreign Exchange Risk*

The Company performs purchases of goods and services and sells its products, receives loans and credit lines, which are denominated mainly in USD and partly in Euro and in NIS. As a result, the Company is exposed to foreign exchange risk.

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

##### *Price Risk*

The Company does not hold equity securities or any other publicly traded investments and therefore is not exposed to price risk with respect to financial instruments.

##### *Cash Flow and Fair Value Interest Rate Risk*

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to LIBOR interest rate risk as its borrowings are linked significantly to the LIBOR. The Company has no interest-bearing assets.

##### *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in a short-term perspective. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Company maintains cash and cash equivalents to meet its liquidity requirements for up to 30-day periods.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**  
**In Thousands of US Dollars**

**NOTE 18 - CAPITAL RISK MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to the owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may return the capital to the shareholders, issue new capital and convertible loans or sell assets to reduce debt.

**NOTE 19 - SEGMENT REPORTING**

As of January 2008, with the commencing operation of Abraxas by OIS (see Note 1B, above), the Company began operating through two different core activities, as follows:

1. Electronic record and practice management software;
2. Ophthalmic application.

	US dollars		
	Year ended December 31, 2008		
	Electronic record and practice management software	Ophthalmic application	Total
Revenue from external customers	<u>298</u>	<u>14,112</u>	<u>14,410</u>
Operating loss	<u>(754)</u>	<u>(1,559)</u>	<u>(2,313)</u>
Loss	<u>(754)</u>	<u>(1,846)</u>	<u>(2,600)</u>
Assets	<u>1,904</u>	<u>15,568</u>	<u>17,472</u>

**NOTE 20 - SUBSEQUENT EVENTS**

**A. New Convertible loan Agreement**

During August 2008 in respect of the Term Sheet signed between certain majority shareholders (the "Shareholders"), in connection with a convertible loan provided by the Shareholders to the Company, the Shareholders granted the company an additional loan in the amount of \$400.

Subsequent to the balance sheet date, a new Convertible Loan Agreement was signed with the Shareholders at an aggregate amount of up to additional \$800. The loan agreement shall cover also the principal amount of the above mentioned \$400 provided to the Company during August 2008 and will apply the terms and conditions as detailed in the Convertible Loan Agreement. The loan shall bear interest at an annual rate of 12% and shall be repaid within 12 months from the date of the grant. Loan and any interest due thereon may be converted in a whole or in part into ordinary shares of the Company, at a conversion price equal to the lower between (1) the Company's average share price on the Belgium EuroNext Stock Exchange during the 30 days prior the date of this agreement; and (2) the Company's average share price on the Belgium EuroNext Stock Exchange during the 30 days prior the Conversion, and in each case subject to a discount at the rate of 20% of the Company's average share price on the Belgium EuroNext Stock Exchange at the applicable dates. As security for the Company's obligation including repayments of the loan and any interest due thereon and the Conversion Rights, the Company shall grant to the shareholders a pledge in shares of common stock of OIS held by the Company subject to a discount at a rate of 30% of the price of OIS' shares, to be allocated among each Shareholder pro-rata to the portion of the Loan which he actually provides.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)**

**In Thousands of US Dollars**

**NOTE 20 - SUBSEQUENT EVENTS (cont.)**

**B. Termination of Merger agreement with OIS**

In March 2009, the Company and OIS have mutually agreed to terminate their merger agreement. The termination of the agreement is due to exorbitant costs the companies and associated shareholders would incur as a result of regulatory requirements. The companies initially announced the merger agreement in March 2008.

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