Interim Results 2008

BATM Advanced Communications

2008

Interim Results

2008

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Directors and Advisers

Directors

P. Sheldon	Chairman, Non-executive
Dr. Z. Marom	Chief executive
O. Bar-Ner	Finance director
K. Gavish	Non-executive
Dr. D. Kaznelson	Non-executive
A. Zochovitzky	Non-executive

Registered Office

P.O.B.3737
Kfar Netter 40593
Israel

Company Number

520042813 – Registered in Israel

Auditors

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Tel-Aviv 67021
Israel

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London W1S 1AX

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London W1X 1RE
UK

Corporate Solicitors in Israel

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Corporate Solicitors in the UK

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UK

Financial Performance

It gives me great pleasure to report on a highly successful first six months of 2008 with record growth and revenues of $66,440,000 (H1 2007: $39,615,000) - an increase of 68% compared with the same period last year. This increase is primarily related to stronger demand from major customers and sales from newly developed businesses. We have benefited particularly in this half from strong demand for our products to support the communications systems, including for the Beijing Olympic Games.

Gross profit margin increased to 50% of revenue during the period (H1 2007: 46%). Continuing efforts to remove cost through ever more efficient product design have played a significant role in gross profit improvement. Further benefit has resulted from a favorable product mix and a strong Euro, which is one of our important trading currencies.

Sales and marketing expenses were $6,925,000 (H1 2007: $5,702,000) - an increase of 21% over the same period last year. Spending increased in this area in support of our higher operating level. As a percentage of revenue, sales and marketing expenses were 10% (H1 2007: 14%). Expanded sales and marketing activities in new geographic territories have had powerful results as evidenced by our revenue performance in the first half.

General and administrative expenses were $4,553,000 (H1 2007: $2,171,000) representing 6.8% of revenue compared with 5.5% in 2007. This increase is primarily related to the support activities for newly acquired businesses.

Net R&D expense in the first half of 2008 was $6,564,000 (H1 2007: $4,924,000) – representing 9.8% of revenue compared with 12.4% in H1 2007. This increase resulted from a higher level of spending on new products and the integration of engineering efforts from newly acquired businesses. In addition, higher spending is reflective of reduced participation by the Israeli Chief Scientist compared with last year and the appreciation of the Israeli Shekel and the Euro against the US dollar.

Operating profit was $14,272,000 (H1 2007: $4,799,000), an increase of $9,473,000 or 197% a result of increased revenue and gross profit percentage.

Net finance income was $604,000 (H1 2007: $1,194,000). During the first half of 2008, we recorded a charge of $381,000 relating to a loss incurred on a forward exchange contract used to hedge against currency fluctuations. In addition, the average interest rate earned was lower in 2008 versus 2007.

Net profit after tax amounted to $15,386,000 (H1 2007: $5,177,000), resulting in a basic profit per share of 3.90 cents (H1 2007: 1.33 cents) - increases of 196% and 193%, respectively.

Our balance sheet remains strong with effective liquidity of $61.7m (H1 2007: $51.9m). Period end cash is comprised as follows: cash and deposits up to three months duration of $46.0 million; short-term investments up to one year of $5.2 million; and long-term investments for more than one year of $10.5 million. We continue to exercise careful stewardship over our financial resources during these uncertain economic times through a conservative investment strategy, maintaining most balances in secure bank deposits and exercising prudent spending control.

Sales and Marketing

We have expanded our investment in sales and marketing to allow for additional growth in new areas and territories. Eastern Europe has been a focus for us this year and we increased our investment in this region. We also invested in additional marketing and sales efforts to expand our expertise into other areas. An example of this initiative is our venture into the newly acquired medical instrument business.

Research and Development and New Products

We continue to expand our offerings on our Carrier Ethernet product line. These programs include product enhancements to improve the speed of our existing platforms and new features to differentiate our products. We are also expanding resources on several core technologies to expand the carrier's ability to transform their transport networks to Ethernet. This includes focus on circuit emulation technology to allow TDM services over Ethernet and Ethernet services extended over PDH.

Investment

In February of this year, we acquired the broadband multiplexer product line from Charles Industries. Products from this acquisition provide a strategic complement to our EdgeLink product family. With the addition of these products, our play in the cellular backhaul space is significantly strengthened with the added feature of Ethernet over PDH.

We have also invested in a medical instruments company in Eastern Europe. This investment furthers our strategy to expand our IP expertise into other vertical markets as IP controllers play a major role in the management software for these devices. We believe that this business has significant potential for growth in the coming years.

On Wednesday 20th August, we received approval from the shareholders of Vigilant Technology Ltd. for our proposed acquisition of the company. Vigilant is a developer and manufacturer of intelligent video recording and surveillance solutions for mission-critical applications. This modest acquisition provides entry into a niche market where our expertise in IP technology can add value to Vigilant's innovative product portfolio. With our management expertise and careful cost control, we believe that this business will soon operate in line with our current business model.

Principal Risks and Uncertainties

* Loss of key personnel

* A major downturn in the purchasing pattern of telecoms companies

Prospects

The results of the first half of 2008 point to another successful outcome for the full year. As always we keep a close eye on general developments in the world economy and in our industry in particular. Notwithstanding the uncertainties of the economic environment in which we operate we continue to be confident that our business strategy is sound and that we can continue to build on our success.

Peter Sheldon,
Chairman

26 August 2008

Responsibility statement

The Directors confirm that the condensed set of financial statements for the six months ended 30 June 2008, which have been prepared in accordance with International financial reporting standards (IFRS), give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and that the accompanying Chairman's statement includes a fair review of the information required by the United Kingdom Listing Authority Disclosure and Transparency Rules DTR 4.2.7 R and DTR 4.2.8 R. There have been no appointments or resignations as Directors since the publication of the Annual Report for the year ended 31 December 2007. The names of the Directors are listed on page 1 of this statement.

Consolidated Income Statements

	Six months ended June 30	
	2008 $US'000 Unaudited	2007 $US'000 Unaudited
Revenues	66,440	39,615
Cost of revenues	33,310	21,501
Gross profit	**33,130**	**18,114**
Operating expenses		
Sales and marketing expenses	6,925	5,702
General and administrative expenses	4,553	2,171
Research and development expenses	6,564	4,924
Amortization of intangible assets	816	518
Total operating expenses	**18,858**	**13,315**
Operating profit	**14,272**	**4,799**
Investment revenue	1,234	1,340
Finance cost	(630)	(146)
Other expenses	(7)	(310)
Profit before tax	14,869	5,683
Tax	815	(470)
Profit for the period	**15,684**	**5,213**
Attributable to:		
Equity holders of the parent	15,386	5,177
Minority interest	298	36
Income for the period	**15,684**	**5,213**
Income per share (in cents) basic	**3.90**	**1.33**
Income per share (in cents) diluted	**3.85**	**1.32**

Consolidated Balance Sheets

	June 30, 2008 $US'000 Unaudited	June 30, 2007 $US'000 Unaudited	December 31, 2007 $US'000 Audited
Non-current assets			
Goodwill	5,653	1,984	3,184
Other intangible assets	9,228	6,672	6,737
Property, plant and equipment	10,127	9,262	8,702
Held to maturity investments	10,527	8,905	10,501
Other investment	4,844	-	-
Deferred tax asset	2,068	505	2,217
	42,447	27,328	31,341
Current assets			
Inventories	19,614	13,929	12,211
Investments	5,209	30,950	18,462
Trade and other receivables	31,107	19,361	26,216
Cash and cash equivalents	45,968	12,027	35,809
	101,898	76,267	92,698
Total assets	**144,345**	**103,595**	**124,039**
Current liabilities			
Short-term bank credit	1,610	134	90
Trade and other payables	26,545	18,191	22,266
Current tax liabilities	-	177	280
provisions	2,464	2,310	2,952
	30,619	20,812	25,588
Net current assets	71,279	55,455	67,110
Non-current liabilities			
Long-term payables	3,016	2,425	2,388
Retirement benefit obligation	824	293	335
Long-term provisions	-	385	-
	3,840	3,103	2,723
Total liabilities	**34,459**	**23,915**	**28,311**
Net assets	**109,886**	**79,680**	**95,728**
Equity			
Share capital	1,195	1,186	1,186
Share premium account	401,990	400,118	400,646
Translation reserve	10	-	(29)
Accumulated Deficit	(295,583)	(321,832)	(307,033)
Equity attributable to equity holders of the:			
Parent	107,612	79,472	94,770
Minority Interest	2,274	208	958
Total equity	**109,886**	**79,680**	**95,728**

Consolidated Statements of Changes in Equity

Six month ended on June 30th 2008							
	Share Capital	Share Premium Account	Translation reserve	Accumulated Deficit	Parent	Minority Interest	Total equity
	$US'000						
As at January 1, 2008	1,186	400,646	(29)	(307,033)	94,770	958	95,728
Exercise of share based options by employees	9	1,016			1,025	-	1,025
Stock options granted to employees		328			328	-	328
Translation adjustment			39		39	-	39
Minority Interest acquired					-	1,018	1,018
Proposed Dividend				(3,936)	(3,936)	-	(3,936)
Profit for the period	-	-	-	15,386	15,386	298	15,684
As at June 30, 2008 (unaudited)	**1,195**	**401,990**	**10**	**(295,583)**	**107,612**	**2,274**	**109,886**

Six month ended on June 30th 2007							
	Share Capital	Share Premium Account	Revaluation reserve	Accumulated Deficit	Parent	Minority Interest	Total equity
	$US'000						
As at January 1, 2007	1,180	399,068	118	(327,009)	73,357	-	73,357
Exercise of share based options by employees	6	608			614	-	614
Stock options granted to employees		442			442	-	442
Released on disposal of available for sale investment			(118)		(118)	-	(118)
Minority Interest acquired					-	172	172
Profit for the period	-	-	-	5,177	5,177	36	5,213
As at June 30, 2007 (unaudited)	**1,186**	**400,118**	**-**	**(321,832)**	**79,472**	**208**	**79,680**

Consolidated Cash Flow Statements

	Six months ended June 30, 2008 $US'000 Unaudited	Six months ended June 30, 2007 $US'000 Unaudited
Net cash from operating activities (Appendix A)	**5,624**	**1,559**
Investing activities		
Interest received	1,610	1,195
Dividend received from available for sale investments	-	15
Proceeds on disposal of held to maturity investments	222	-
Proceeds on disposal of available for sale investments	7,609	24,370
Proceeds on disposal of deposits	13,908	16,075
Proceeds on disposal of investment in a company	-	691
Purchases of property, plant and equipment	(688)	(653)
Purchases of held to maturity investments	(1,050)	(5,494)
Purchases of available for sale investments	(5,000)	(26,398)
Purchases of deposits	(4,000)	(13,387)
Investment in a company	(4,844)	-
Acquisition of subsidiaries (Appendix B)	(*) (4,052)	(1,969)
Net cash from (used in) investing activities	**3,715**	**(5,555)**
Financing activities		
Increase (decrease) in short-term bank credit	(205)	46
Proceeds on issue of shares	1,025	614
Net cash from financing activities	**820**	**660**
Increase (decrease) in cash and cash equivalents	10,159	(3,336)
Cash and cash equivalents at the beginning of the period	35,809	15,363
Cash and cash equivalents at the end of the period	**45,968**	**12,027**

(*) see note 3

APPENDIX A

RECONCILIATION OF OPERATING PROFIT FOR THE PERIOD TO NET CASH FROM OPERATING ACTIVITIES	Six months ended June 30, 2008 $US'000 Unaudited	Six months ended June 30, 2007 $US'000 Unaudited
Operating profit from continuing operations	**14,272**	**4,799**
Adjustments for:		
Amortization of intangible assets	816	518
Depreciation of property, plant and equipment	1,073	837
Stock options granted to employees	328	442
Increase (decrease) in retirement benefit obligation	160	(17)
Increase (decrease) in provisions	140	(6)
Operating cash flow before movements in working capital	**16,789**	**6,573**
Decrease (increase) in Inventory	(4,110)	435
Increase in receivables	(2,871)	(2,138)
Decrease in payables	(3,577)	(3,139)
Cash generated by operations	**6,231**	**1,731**
Income taxes paid	(376)	(26)
Interest paid	(231)	(146)
Net cash from operating activities	**5,624**	**1,559**

APPENDIX B

ACQUISITION OF SUBSIDIARIES	Six months ended June 30, 2008 $US'000 Unaudited	Six months ended June 30, 2007 $US'000 Unaudited
Net assets acquired		
Property, plant and equipment	1,810	261
Inventory	2,993	1,188
Trade and other receivables	2,149	863
Trade and other payables	(3,142)	(2,031)
Short-term bank credit	(1,725)	(88)
Retirement benefit obligation	(329)	-
Provisions	(178)	-
Minority Interest	(1,018)	(171)
	560	**22**
Intangible assets	5,392	2,634
Total consideration	**5,952**	**2,656**
Less-consideration recorded as liability	(1,900)	(687)
Total cash consideration	**(*) 4,052**	**1,969**

(*) see note 3

Notes to the Financial Statements

Note 1 – General

The unaudited results for the six months ended 30th June 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) set out in the Annual Report and Financial Statements for the year ended 31 December 2007. The unaudited results for the six months ended 30th June 2007 were prepared on the same basis.

In accordance with the change of accounting policies regarding government grants set out in Note 3 to the Financial Statements for the year ended 31 December 2007, the comparative numbers have been restated. The effect on the period ended June 2007 is not material.

Note 2 – Profit per share

Profit per share is based on the weighted average number of shares in issue for the period of 394,362,614 (2007 H1: 390,778,083). The number used for the calculation of the diluted profit per share for H1:2008 (which includes the effect of dilutive stock option plans) is 399,634,970 shares (2007 H1: 395,288,758).

Note 3 – Acquisition of Subsidiaries

During February 2008 the Group acquired 100% of the issued share capital of Resolute Ltd. ("Resolute") for a consideration of $3,086,000. Resolute is engaged in the development, manufacturing, sales and servicing of modules containing solutions for circuit emulation service (CES) and synchronization for Ethernet and IP based communications equipment, as well as the cable modems business niche.

This transaction has been accounted for by the purchase method of accounting.

Resolute	US$ in thousands
Net assets acquired (excluding cash) (*)	
Property, plant and equipment	779
Inventory	923
Trade and other receivables	416
Trade payables	(803)
Retirement benefit obligation	(22)
	1,293
Intangible assets	549
Total consideration	**1,842**

(*) Total cash acquired in Resolute $1,244,000.

Note 3 – Acquisition of Subsidiaries (cont.)

During February 2008 the Group acquired 51% of the issued share capital of CAT Technologies Ltd. and IC Port Ltd. for a consideration of $3,908,000.

CAT develops and manufactures control systems for medical devices. IC Port is engaged in the manufacturing and marketing of the new generation autoclave sterilizer equipment.

This transaction has been accounted for by the purchase method of accounting.

CAT & IC Port	US$ in thousands
Net assets acquired (excluding cash) (*)	
Property, plant and equipment	887
Inventory	2,070
Trade and other receivables	1,733
Trade payables and other liabilities	(3,742)
Long term payables	(322)
Retirement benefit obligation	(307)
Minority Interest	(1,018)
	(699)
Intangible assets	2,624
	1,925
Less-consideration recorded as liability	(1,900)
Total consideration	**25**

(*) Total cash acquired in CAT & IC Port $1,983,000.

Notes to the Financial Statements

Note 3 – Acquisition of Subsidiaries (cont.)

During February 2008 the Group acquired a product line from Charles Industries Ltd. ("Charles") for a consideration of $2,185,000. The broadband multiplexer product line provides a strategic complement to our EdgeLink product family.

This transaction has been accounted for by the purchase method of accounting.

Charles	US$ in thousands
Net assets acquired	
Property, plant and equipment	144
Provision	(178)
	(34)
Intangible assets	2,219
Total consideration	**2,185**

Note 4 –Geographical Segment

Six months ended June 30, 2008					
	Americas	Europe	Israel	Far East and other	Total
	US$ in thousands				
Revenues	23,700	18,950	6,389	17,401	**66,440**
Segment profit	2,422	5,622	242	7,100	**15,386**

Six months ended June 30, 2007					
	Americas	Europe	Israel	Far East and other	Total
	US$ in thousands				
Revenues	18,597	10,161	2,444	8,413	**39,615**
Segment profit	1,881	1,596	169	1,531	**5,177**

Note 5 – Events after the balance sheet date

Vigilant Acquisition

During August 2008 the Company received approval from the shareholders of Vigilant Technology Ltd. ("Vigilant") for our proposed acquisition of the Vigilant's share capital. Vigilant is a developer and manufacturer of intelligent video recording and surveillance solutions for mission-critical applications. This modest acquisition provides entry into a niche market where our expertise in IP technology can add value to Vigilant's innovative product portfolio. With our management expertise and careful cost control, we believe that this business will soon operate in line with our current business model.

Dividend

A dividend of $0.01 per share, aggregating to $3,936 thousands, was declared on February 21, 2008 and paid on July 18, 2008.

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