ELBIT VISION SYSTEMS LTD.

(An Israeli Corporation)

2003 CONSOLIDATED FINANCIAL STATEMENTS

ELBIT VISION SYSTEMS LTD.

2003 CONSOLIDATED FINANCIAL STATEMENTS

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The amounts are stated in U.S. dollars ($) in thousands.

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REPORT OF INDEPENDENT AUDITORS

To the shareholders of

ELBIT VISION SYSTEMS LTD.

We have audited the consolidated balance sheet of Elbit Vision Systems Ltd. (the "Company") and its subsidiaries as of December 31, 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Israel and in the United States of America, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2003 and the results of their operations, the changes in shareholders' equity and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Haifa, Israel
March 21, 2004

ELBIT VISION SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

	Note	December 31 2003	December 31 2002
		U.S. dollars in thousands	
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents		1,789	1,485
Restricted deposit	11a	537	
Accounts receivable:	12a		
Trade		1,021	652
Other		620	413
Inventories	2	3,139	3,211
T o t a l current assets		7,106	5,761
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Funds in respect of employee rights upon retirement	5	622	431
Other long-term receivables	3	99	103
		721	534
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	4	414	533
T o t a l assets		8,241	6,828

(Chairman of the Board of Directors)

(President, Chief Executive Officer)

	Note	December 31 2003	December 31 2002
		U.S. dollars in thousands	
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Credit from banks	12c	1,006	
Current maturities of loan from shareholder	6	160	438
Accounts payable and accruals:			
Trade		651	612
Deferred revenues	1h	355	1,310
Other	12b	2,427	2,291
T o t a l current liabilities		4,599	4,651
LONG-TERM LIABILITIES:			
Liability for employee rights upon retirement	5	979	751
Loan from shareholder – net of current maturities	6	287	
T o t a l long-term liabilities		1,266	751
COMMITMENTS AND CONTINGENT LIABILITIES	7		
T o t a l liabilities		5,865	5,402
SHAREHOLDERS' EQUITY:	8		
Share capital - ordinary shares of NIS 1 par value ("Ordinary Shares"); Authorized - 20,000,000 Ordinary Shares as of December 31, 2003 and 2002 Issued and outstanding: December 31, 2003 – 13,006,466 Ordinary shares; December 31, 2002 – 10,166,667 Ordinary shares		1,856	1,208
Receipts on account of shares to be allotted		140	
Warrants		267	
Additional paid-in capital		18,662	17,785
Accumulated deficit		(18,549)	(17,567)
T o t a l shareholders' equity		2,376	1,426
T o t a l liabilities and shareholders' equity		8,241	6,828

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

ELBIT VISION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	2003	2002	2001
		U.S. dollars in thousands (except per share data)		
REVENUES:	12d			
Sale of products		4,043	4,773	6,859
Services rendered		2,285	2,455	2,444
		6,328	7,228	9,303
COST OF REVENUES:	12e			
Cost of products sold		2,294	2,723	4,973
Cost of services rendered		1,454	1,937	1,830
		3,748	4,660	6,803
GROSS PROFIT		2,580	2,568	2,500
RESEARCH AND DEVELOPMENT COSTS - net	12f	1,431	1,340	1,405
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:				
Marketing and selling		1,598	1,545	1,625
General and administrative		637	1,404	886
OPERATING LOSS		(1,086)	(1,721)	(1,416)
FINANCIAL INCOME - net	12g	60	34	89
OTHER INCOME		47	9	20
LOSS BEFORE TAXES ON INCOME		(979)	(1,678)	(1,307)
TAXES ON INCOME	9e	3	6	6
LOSS FOR THE YEAR		(982)	(1,684)	(1,313)
LOSS PER SHARE – BASIC AND DILUTED	1o	(0.10)	(0.17)	(0.13)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF LOSS PER SHARE – BASIC AND DILUTED (IN THOUSANDS)		10,175	10,167	9,817

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

ELBIT VISION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital		Receipts on account of shares to be allotted	Warrants (see note 8a3))	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Number of shares	Amount					
	In thousands		U.S. dollars in thousands				
BALANCE AT JANUARY 1, 2001	8,667	852			16,728	(14,570)	3,010
CHANGES DURING 2001:							
Loss						(1,313)	(1,313)
Issuance of share capital (note 8a)	1,500	356			*1,057		1,413
BALANCE AT DECEMBER 31, 2001	10,167	1,208			17,785	(15,883)	3,110
CHANGES DURING 2002 -							
loss						(1,684)	(1,684)
BALANCE AT DECEMBER 31, 2002	10,167	1,208			17,785	(17,567)	1,426
CHANGES DURING 2003:							
Loss						(982)	(982)
Issuance of share capital and warrants (note 8a)	2,769	633		*267	*865		1,765
Employee stock options exercised and paid	70	15			12		27
Receipts on account of shares to be allotted (note 8a)			140				140
BALANCE AT DECEMBER 31, 2003	13,006	1,856	140	267	18,662	(18,549)	2,376

* Net of share issuance costs.

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

ELBIT VISION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2003	2002	2001
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss	(982)	(1,684)	(1,313)
Adjustments to reconcile loss to net cash provided by or used in operating activities:			
Depreciation and amortization	238	256	312
Trading marketable securities - net		812	(812)
Liability for employee rights upon retirement	228	155	(6)
Capital loss (gain) from disposal of property and equipment	(6)	4	(13)
Exchange differences on long-term receivables		2	15
Accrued interest on loan from related party	9	12	
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable:			
Trade (including non-current portion)	(342)	516	372
Other	(207)	(111)	240
Increase (decrease) in accounts payable and accruals:			
Trade	39	(339)	(354)
Deferred revenues	(955)	(701)	(504)
Other	136	46	(57)
Decrease in inventories	72	940	854
Net cash used in operating activities	(1,770)	(92)	(1,266)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(156)	(49)	(56)
Collection of long-term receivables	43	24	
Investment in long-term deposits	(5)	(8)	(13)
Investment in restricted deposit	(537)		
Proceeds from disposal of property and equipment	43	1	63
Long-term loan granted	(61)		
Funds in respect of employee rights upon retirement	(191)	(5)	(17)
Net cash used in investing activities	(864)	(37)	(23)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of share capital and warrants -net of issuance costs	1,765		1,413
Short-term credit from bank – net	1,006		(73)
Proceeds from exercise of options	27		
Receipts on account of shares to be allotted	140		
Discharge of loan from related party			(100)
Net cash provided by financing activities	2,938	-,-	1,240
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	304	(129)	(49)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,485	1,614	1,663
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	1,789	1,485	1,614
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - cash paid during the year for:			
Interest paid	20	-,-	1
Income taxes paid – net	16	15	23

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies, applied on a consistent basis are as follows:

a. General:

1) Nature of operations

Elbit Vision Systems Ltd. (the "Company") is an Israeli corporation, which, together with its subsidiaries, is principally engaged in the design, development, manufacture and marketing automatic vision inspection and quality monitoring systems, and rendering services related to those systems.

Elbit Vision Systems Inc. ("EVS Inc") incorporated in Delaware U.S.A. and Elbit Vision Systems B.V. ("EVS BV") incorporated in Netherlands are wholly-owned subsidiaries, engaged in the selling and marketing of the Company's products worldwide.

2) Accounting principles

The consolidated financial statements are prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America.

3) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with GAAP 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

4) Functional currency:

(a) The currency of the primary economic environment in which operations of the Company and its subsidiaries are conducted is the U.S. dollar (the "dollar").

Virtually all sales by the Company and its subsidiaries are made outside Israel in non-Israeli currencies, mainly the dollar. Most purchases of materials and components are made in dollars or in Israeli currency under contracts linked to the dollar. In addition, most marketing and service costs are incurred outside Israel, primarily in dollars, through the Company's wholly-owned non-Israeli subsidiaries. Thus, the functional currency of the Company and its subsidiaries is the dollar.

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 and other items (stated below) reflected in the statements of operations, the following exchange rates are used: (i) for transactions - exchange rates at transaction dates or average rates; and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization, changes in inventories, etc.) - historical exchange rates. The resulting currency transaction gains or losses are carried to financial income or expenses, as appropriate.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) The exchange rate of the U.S. dollar at December 31, 2003 was NIS 4.379 (December 31, 2002 – NIS 4.737, December 31, 2001 – NIS 4.416).

b. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Intercompany balances and transactions have been eliminated in consolidation. Profits from intercompany sales, not yet realized outside of the Company and its subsidiaries, have also been eliminated.

c. Cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to three months from the date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

d. Concentration of credit risks and allowance for doubtful accounts

As of December 31, 2003 and 2002, the Company held cash and cash equivalents and short-term bank deposits, most of which were deposited with major Israeli, European and U.S. banks. The Company is of the opinion that the credit risk in respect of these balances is insignificant.

The allowance for doubtful accounts is determined for specific debts doubtful of collection.

e. Inventories

Inventories are valued at the lower of cost or market. Cost is determined as follows:
Raw materials and spare parts - on moving average basis.
Product in process and finished products – on basis of production costs.

Inventories are written-down for estimated obsolescence, based on assumptions about future demand and market conditions.

f. Property and equipment

These assets are stated at cost and are depreciated by the straight-line method over their estimated useful lives.

Annual rates of depreciation are as follows:

	%
Machinery and equipment	10-33 (mainly 33%)
Office furniture and equipment	6-10
Vehicles	15

Leasehold improvements are amortized by the straight-line method over the term of the lease, or the estimated useful life of the improvements, whichever is shorter.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Impairment of long-lived assets

The Company has adopted FAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective January 1, 2002. FAS 144 requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets would be written down to their estimated fair values.

The adoption of FAS 144 did not have any material impact on the consolidated financial position and consolidated results of operations of the Company.

h. Revenue recognition:

1) Sale of products

Revenues from sales of products and supplies are recognized when an arrangement exists, delivery has occurred and title passed to the customer, Company's price to the customer is fixed or determinable and collectibility is reasonably assured.

With respect to systems sold with installation requirements, the installation is not considered to be a separate earnings process; thus, revenue is recognized when all of the above criteria are met and installation is completed. In case that Company's agreement with the customer includes an "acceptance" clause, revenue recognition will take place after the Company receives the "acceptance certificate" from the customer. In some cases, the Company grants its customers a trial period, usually several months, in order to evaluate prototype the system's performance. In case that the systems performance meets the customer's requirements, he purchases the system at the end of the trial period. The Company does not recognize sales revenue from products shipped to customers for trial until such products are actually purchased. Until purchased, these products are recorded as consignment inventory at the lower of cost or market.

The Company does not provide, in the normal course of business, a right of return to its customers. If uncertainties exist, such as the granting to the customer of a right of cancellation, revenue is recognized when the uncertainties are resolved.

The Company grants its customers support services, including warranty in respect of products sold; these services are usually provided for a period of six to twelve months. Upon revenue recognition, the Company defers a portion of the sale price and recognizes it as service revenue ratably over the abovementioned period.

2) Services rendered

Service revenue in respect of the Company's products is recognized ratably over the contractual period, or as services are performed.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Research and development

Research and development expenses are charged to income as incurred. Government funding for development of approved projects is recognized as a reduction of expenses as the related cost is incurred.

j. Shipping and handling costs

Shipping and handling costs, which amounted to $ 110,000, $ 58,000 and $ 57,000 for the years ended December 31, 2003, 2002 and 2001, respectively, are included in selling expenses.

k. Advertising expenses

Advertising expenses are charged to income as incurred. Advertising expenses for the years ended December 31, 2003, 2002 and 2001 were $ 45,000, $ 18,000 and $ 2,000, respectively.

l. Comprehensive income

The Company has no comprehensive income components other than net loss.

m. Deferred income taxes:

1) Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all the deferred tax assets will not be realized.

2) Taxes, which would apply in the event of disposal of investments in non-Israeli subsidiaries, have not been taken into account in the computation of deferred taxes, as it is the Company's intention to hold these investments, not to realize them.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Stock-based compensation

1) The Company accounts for employee stock based compensation in accordance with Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations. In accordance with FAS 123 – “Accounting for Stock-Based Compensation” (“FAS 123”), the Company discloses pro forma data assuming the Company had accounted for employee stock option grants using the fair value-based method defined in FAS 123.

2) The following table illustrates the effect on loss and loss per share assuming the Company had applied the fair value recognition provisions of FAS No. 123, to its stock-based employee compensation:

	Year ended December 31		
	2003	**2002**	**2001**
	$ in thousands (except per share data)		
Loss as reported	982	1,684	1,313
Add - stock-based employee compensation expense determined under fair value method	145	270	130
Pro forma loss	1,127	1,954	1,443
Loss per share:			
Basic and diluted - as reported	$ 0.10	$ 0.17	$ 0.13
Basic and diluted - pro forma	$ 0.11	$ 0.19	$ 0.15

As to information about the stock option plans and assumptions used in calculating the pro forma information, see note 8b.

o. Loss per share (“LPS”)

Basic LPS is computed based on the weighted average number of shares outstanding during each year. All stock options and warrants were not reflected in diluted LPS for all periods presented, because the effect of such options and warrants is antidilutive. Total common stock equivalents, related to options and warrants outstanding is 2,592,000, 2,000,000 and 1,509,000 shares for the years 2003, 2002 and 2001, respectively.

p. Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Recently issued accounting pronouncements:

1) In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" (FIN 46). Under FIN 46, entities are separated into two populations: (1) those for which voting interests are used to determine consolidation (this is the most common situation) and (2) those for which variable interests are used to determine consolidation. FIN 46 explains how to identify Variable Interest Entities (VIEs) and how to determine when a business enterprise should include the assets, liabilities, noncontrolling interests, and results of activities of a VIE in its consolidated financial statements.
Since issuing FIN 46, the FASB has proposed various amendments to the Interpretation and has deferred its effective date. Most recently, in December 2003, the FASB issued a revised version of FIN 46 (FIN 46-R), which also provides for a partial deferral of FIN 46. This partial deferral established the effective date for public entities to apply FIN 46 and FIN 46-R based on the nature of the variable interest entity and the date upon which the public company became involved with the variable interest entity. In general, the deferral provides that (i) for variable interest entities created before February 1, 2003, a public entity must apply FIN 46-R at the end of the first interim or annual period ending after March 15, 2004, and may be required to apply FIN 46 at the end of the first interim or annual period ending after December 15, 2003, if the variable interest entity is a special purpose entity, and (ii) for variable interest entities created after January 31, 2003, a public company must apply FIN 46 at the end of the first interim or annual period ending after December 15, 2003, as previously required, and then apply FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

   The Company currently has no variable interests in any VIE. Accordingly, the Company believes that the adoption of FIN 46 and FIN 46-R will not have a material impact on its financial position, results of operations and cash flows.

2) FAS 132 (revised 2003)

   In December 2003, the FASB issued FAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendement of FASB Statements No. 87,88 and 106, and a revision of FASB Statement No. 132 ("FAS 132 (revised 2003)"). This Statement revises employer's disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

   Part of the new disclosures provisions are effective for 2003 calendar year-end fiancial statements, and accordingly have been applied by the Company in these consolidated financial statements.

   The remaining provisions of FAS 132 (revised 2003), which have a later effective date, are currently being evaluated by the Company.

NOTE 2 – INVENTORIES:

	December 31	
	2003	2002
	$ in thousands	
Raw materials*	744	591
Spare parts	786	741
Work in process	556	865
Finished products**	1,053	1,014
	3,139	3,211

* In the year ended December 31, 2001, the Company recorded a writedown in the amount of $ 220 thousands (2002 and 2003 – nil).

** Mainly systems in trial by customers (see note 1h1)).

NOTE 3 – OTHER LONG-TERM RECEIVABLES

	December 31	
	2003	2002
	$ in thousands	
Deposits on leased vehicle (see also note 7a2)(b)	26	21
Loan to employees (see also note 7b1))(1)	12	55
Loan to other(2)	61	
Non-current trade receivable		27
	99	103

(1) The loans are mainly denominated in NIS and linked to the Israeli CPI.

(2) Representing a loan to a company; the loan is convertible into 8% of this company's share capital. The loan is denominated in dollars, with no interest. The Company can convert the loan into share capital after December 31, 2003. The Company has not yet resolved whether to convert the loan or not.

NOTE 4 - PROPERTY AND EQUIPMENT:

a. Composition of assets, grouped by major classifications, is as follows:

	December 31	
	2003	2002
	$ in thousands	
Machinery and equipment	1,762	1,729
Leasehold improvements	452	440
Office furniture and equipment	399	416
Vehicles	43	37
	2,656	2,622
Less - accumulated depreciation and amortization	2,242	2,089
	414	533

b. Depreciation and amortization expenses totaled $ 238,000, $ 256,000 and $ 312,000, in the years ended December 31, 2003, 2002 and 2001, respectively.

NOTE 5 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT:

a. Israeli law generally requires the payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The severance pay liability of the Company to its Israeli employees is based upon the number of years of service and the latest monthly salary. The liability is partly covered by regular deposits with recognized pension funds, deposits with severance pay funds and purchases of insurance policies. Under labor agreements, these deposits and insurance policies are in the employees' names and are, subject to certain limitations, the property of the employees.

The Company may only make withdrawals from the funds for the purpose of paying severance pay.

The liability for employee rights upon retirement covers the severance pay liability of the Company and its Dutch subsidiary in accordance with labor agreements in force and based on salary components, which, in management's opinion, create entitlement to severance pay. The Company records the obligation as if it was payable at each balance sheet date on an undiscounted basis.

b. The U.S. subsidiary provides defined contribution plan for the benefit of its employees. Under these plans, contributions are based on specific percentages of pay.

c. Severance pay and defined contribution plan expenses were \$ 160,000, \$ 176,000 and \$ 195,000 in the years ended December 31, 2003, 2002 and 2001, respectively. The earnings on the amounts funded were \$ 54,000 for the year ended December 31, 2003.

d. The Company expects to contribute in 2004 \$ 185,000 to the insurance companies and provident fund, in respect of its severance pay obligation.

NOTE 6 – LOAN FROM SHAREHOLDER:

During 2003, the Company and Elbit Ltd. (a shareholder), reached an agreement, whereby the Company's debt to Elbit of \$ 400,000 and accrued interest thereon that was due in 2003, will have the following terms:

a. The loan will bear annual interest of Libor+2% (formerly Libor+0.5%) payable quarterly.

b. The loan is repayable in quarterly installments of \$ 40,000 each, commencing in the third quarter of 2003, but only if the cash flows provided by Company's operating activities in the quarter preceding the payment, exceeds \$ 50,000.
No scheduled payments were made in 2003.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES:

a. Commitments:

1) Royalty commitments:

(a) The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. At the time the grants were received, successful development of the related projects was not assured.

In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties.

Under the terms of Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the Company (dollar linked); as from January 1, 2001 - with the addition of an annual interest rate based on Libor.

Royalty expenses to the Government of Israel totaled $ 213,000, $ 108,000 and $ 264,000 in the years ended December 31, 2003, 2002 and 2001, respectively, and are included in the statements of operations among cost of revenues.

(b) The Company is committed to pay royalties to the Government of Israel in respect of marketing expenses in which the government participates by way of grants. At the time the grants were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties. The royalties are payable at the rate of 4% of the increase in export sales, up to the amount of the dollar-linked grant received. No royalties were paid in the reported years to the Government of Israel.

The maximum royalty amount payable by the Company to the Government of Israel at December 31, 2003 is $ 3,467,000 (see (a) and (b) above).

(c) Effective upon its initial public offering on July 3, 1997, the Company agreed to pay Elbit Ltd. ("Elbit") royalties in an amount dependent upon the sales of the Company's vision system products in the textile, automotive and food industries. The royalties will in turn be paid in full by Elbit to the original developer of certain elements of the technology licensed by the Company from Elbit.

In 2002, the Company and Elbit amended the abovementioned agreement, effective as of July 1, 2001; pursuant to the agreement the royalties will be paid directly to the developer, twice a year, at a rate of 0.9375%-1.5% of sales of certain products in the immediately preceding six months.

As a result of the amendment of the agreement, the Company recorded net royalty income of $64,000 in the year ended December 31, 2002. The royalty expenses totaled $ 32,000 and $300,000 in the years ended December 31, 2003 and 2001, respectively, and are included in the statements of operations among cost of revenues.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

2) Lease commitments:

(a) The premises occupied by the Company and a certain subsidiary are rented under various operating lease agreements. The lease agreements for the premises expire in 2005.

Minimum lease commitments of the Company and the subsidiary under the above leases, at rates in effect on December 31, 2003, are as follows:

	$ in thousands
Year ending December 31:	
2004	175
2005	169
2006	29
	373

The rental payments for the premises in Israel, which constitute most of the above amounts, are payable in Israeli currency linked to the Israeli CPI.

Rental expenses totaled $ 150,000, $ 247,000 and $ 248,000 in the years ended December 31, 2003, 2002 and 2001, respectively.

(b) The Company leases motor vehicles under long-term operating lease agreements. The lease agreements expire on various dates ending in 2004 – 2006 (with prior notice of cancellation clauses).
Minimum lease commitments of the Company under the above leases, at rates in effect on December 31, 2003, are as follows:

	$ in thousands
2004	202
2005	152
2006	49
	403

To secure the amounts due to the lessor, the Company has deposited a total of U.S. $ 38,000. Equal to three-month lease payments. The deposits are unlinked and presented among other receivables and long-term receivables.
Lease expenses in 2003, 2002 and 2001, amounted to $ 154,000, $ 204,000 and $ 221,000.

b. Contingent liabilities:

1) The Company guarantees its employees' bank loans. The loans are repayable through 2005. In case of failure in repayment by the employee, the Company is liable to the bank for the loan. The Company requires collateral to secure these guarantees. The Company's maximum exposure under these guarantees is $ 40 thousands. This exposure is not indicative of the likelihood of the expected loss under the guarantee. As of December 31, 2003, the fair value of these guarantees was insignificant.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

2) Panoptes claim

In November 2002, the Company filed in the Haifa District Court an application for a permanent injunction against Panoptes Ltd. ("Panoptes") to cease all production and marketing of its current products. The Company also claimed damages from Panoptes in the amount of at least NIS 2.6 million ($600,000). The claim was also brought against the CEO of Panoptes and former founder of the Company. The claim states that Panoptes, which was established by the CEO of Panoptes and former founder of the Company, recruited several former company employees, and currently markets products which are unlawfully based on Company's technology.

Panoptes filed a counter claim in December 2002, alleging that the Company had conducted negotiations with Panoptes in bad-faith and had failed to execute an agreement regarding Panoptes products as a result of bad faith. The claim was for a minimum of NIS 3 million ($700,000). Panoptes also filed a defense to the statement of claim of the Company.

On February 2, 2004, Panoptes filed an application with the Haifa District Court to have the part of the Company's claim relating to intellectual property infringement summarily dismissed. The pre-trial hearing which had been scheduled for February 3, 2004 was abandoned. Currently the parties are negotiating a compromise whereby all of the claims with respect to one another will be dropped, with the exception of the NIS 2.6 million damages claim filed by the Company and the NIS 3 million damages claim filed by Panoptes. Should the compromise be executed by the parties, they will remit the claims for financial damages to the District Court for a summary ruling.

Management is presently unable to predict the ultimate outcome of the above legal proceedings, including whether they will eventually result in a lawsuit against the Company. Accordingly, no provision in respect thereof has been recorded in the financial statements.

NOTE 8 - SHAREHOLDERS' EQUITY:

a. Authorized, issued and outstanding shares:

1) The Company's Ordinary Shares are traded in the United States on the OTC Bulletin Board over the counter market under the symbol EVSNF.

2) In March 2001, Mr. Alon, the Company's chairman, as from March 2001, purchased 1,500,000 of its ordinary shares at a price per share of $1.00. At that time, Mr. Alon also agreed to complete a second investment in which he would purchase by no later than March 15, 2002, an additional 1,500,000 shares at a price per share of $1.00; provided that the Company's financial results for 2001 met certain minimum thresholds. In March 2002, the Company agreed to permit Altro Warenhandelsgesmbh (hereafter – Altro), an Austrian company controlled by Mr. Alon, to complete the second investment in nine equal monthly installments commencing March 2002. In May 2002, the Company deferred payment of the first four of these installments until no later than June 30, 2002. This investment was not done by Altro.

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

Under a plan of arrangement (hereafter – the arrangement) between the Company, its shareholders and Altro, approved by the Company's shareholders in October 2003 and the District Court of Haifa in November 2003, the Company agreed to cancel Altro's prior commitment to invest in the Company and replace it with new investment terms, and at the same time grant warrant to purchase shares to the other shareholders. According to the plan of arrangement, Altro will purchase 2,000,000 of the Company's ordinary shares for a purchase price of $0.35 per share, payable in up to five quarterly installments to be completed by November 2004. To date, Altro has paid the first two installments in the aggregate amount of $385,000 (through December 31, 2003, the Company received $ 140,000 [net of issuance costs amounting to $ 30,000] and additional $245,000 in 2004).

The shares are to be held by a trustee and will be released, pro rata (after Altro completes an investment in the amount of $ 460,000), as the payments are received by the Company.

Also, pursuant to the arrangement, the Company will distribute, without consideration, warrants to purchase approximately 4 million of its ordinary shares to all of its shareholders (other than Altro, Mr. Alon and a group of investors which purchased the Company's shares in private placements which occurred in December 2003 and January 2004 (see 3) below and note 14a), as of a record date to be set, on a pro rata basis. Each warrant will be exercisable for a period of four years following the grant date, at a price of $0.35 per share. The fair value of the said warrants granted was $ 0.1. The fair value was determined in accordance with the Black & Scholes model, based on the following assumptions: dividend yield – 0%, expected volatility – 137%, risk free interest 1.91%, expected life – 2 years.
Completion of the transaction, including issuance of warrants and allotment of shares will take place in 2004.

3) In December 2003 and in January 2004, the Company entered into shares and warrants purchase agreements with several private investors. Under these agreements, the Company issued to the said investors 3,569,299 shares of NIS 1 par value at a price of $0.68 per share and 892,325 warrants. Each warrant entitles its holder to purchase one ordinary share of NIS 1 par value at the exercise price, payable in cash, of $ 0.85; the warrants are exercisable for a period of 24 months from date of issuance.

   Through December 31, 2003, the Company received $ 1,765,000 (net of issuance costs amounting to $ 118,000), in respect of 2,769,299 shares and 692,325 warrants, issued as above. The amount received was recorded in Company's shareholders' equity as of December 31, 2003.
   In January 2004, the Company received $ 511,360 (net of issuance costs amounting to $ 32,640), in respect of 800,000 shares and 200,000 warrants issued as above.

   The said private investors participating in the issuance of shares and warrants as above, do not participate in the warrant distribution Arrangement mentioned in 2) above.

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

As part of the issuance as above, the Company issued 293,300 warrants to consultants and providers of financial services. The said warrants were issued to consultants and service providers in respect of their assistance in the said capital raising. Through December 31, 2003, the Company issued 245,300 warrants: 51,500 warrants have the same terms as the warrants issued to the investors as above, and 193,800 warrants are exercisable at a price of $ 0.68 per share, for a period of 24 months from date of issuance (In January 2004, the Company issued additional 48,000 warrants at the same terms).

The Company has divided the amount raised from issuance, as above, between shareholders' equity components: share capital, additional paid-in capital and warrants. The warrants granted to the said private investors were recorded in shareholders' equity at their fair value. Also, the value of the warrants issued to consultants and providers of financial services was offset from the premium component. The weighted average fair value of warrants granted was $ 0.28. The said weighted average fair value of all warrants was determined in accordance with the Black & Scholes model, based on the following assumptions: dividend yield – 0%, expected volatility - 137%, risk free interest rate 1.31%, expected life - 1 year.

4) As to raising of additional capital in January 2004, see note 14a.

b. Share option plans:

1) The plans:

(a) In February 1996, the Company's board of directors adopted the Company's Employee Share Option Plan (1996) (hereafter – The 1996 Plan). Under the 1996 plan, 565,720 options can be granted to directors, employees and consultants of the Company and its subsidiaries. Each option can be exercised into one ordinary share of the Company.
The 1996 plans is valid for ten years and will expire February 2006, except for option awards outstanding on that date.
Under the 1996 Plan, options usually vest as follows: 50% - two years after the effective date of grant; 75% - after three years; and 100% - after four years.

(b) In April 2000, the board of directors of the Company adopted the Employee Share Option Plan (2000) (hereafter – The 2000 Plan).

Under the 2000 plan, options to purchase an aggregate of 4,500,000 ordinary shares are available to be awarded to employees, directors or consultants of the Company or any of its subsidiaries.
Under the 2000 plan, options usually vest over a period of three or four years from the date of grant, in equal parts each year.
The 2000 Plan is valid for ten years and will expire on April 3, 2010, except for options outstanding on that date.
Through December 31, 2003, 70,450 options were exercised to purchase 70,450 shares. The proceeds from exercise amounted to $ 27 thousands.

(c) In November 2003, the Board of Directors of the Company adopted the Employee Share Option Plan (2003) (hereafter – The 2003 Plan).

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

Under the 2003 plan, options to purchase an aggregate of 2,000,000 ordinary shares are available to be awarded to employees, directors or consultants of the Company or any of its subsidiaries.
Under the 2003 plan, options usually vest over a period of four years from the date of grant, in equal parts each year.
The 2003 Plan is valid for ten years and will expire on November 30, 2013, except for options outstanding on that date.
The exercise price of options granted under the 1996, 2000 and 2003 plans is to be not less than 85% of the fair market value of the ordinary share on the date of grant.
All of the outstanding options from the 1996, 2000 and 2003 plan are to expire no later than 10 years following the date of grant.

The 2000 and 2003 plans are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company will be allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plan, as follows:

Through December 31, 2002, the amount that the Company will be allowed to claim as an expense for tax purposes will be the amount of the benefit chargeable to tax in the hands of the employee.

As from January 1, 2003, the amount that the Company will be allowed to claim as an expense for tax purposes, will be the amount of the benefit chargeable to tax as work income in the hands of the employee, while that part of the benefit that is chargeable to capital gains tax in the hands of the employee shall not be allowable. All being subject to the restrictions specified in Section 102 of the Income Tax Ordinance.

The aforementioned expense will be recognized in the tax year that the benefit is credited to the employee.

On March 19, 2002, the Board of Directors approved an exchange program to give all the employees a choice to cancel stock options granted to them from May 7, 1997 through and including May 24, 2000 in exchange for an equal number of new options, in the future. The new options will be granted no sooner than September 20, 2002, and the exercise price shall be the market value of the shares on the replacement grant date. All employees who were offered the exchange program accepted the offer. On September 20, 2002, in accordance with the decision of the Company's Board of Directors, 88,500 options were granted to employees in connection with the exchange program.
As to options issued in 2004, to employees of acquired company, see note 14b.

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

2) Options granted to employees:

(a) A summary of the status of the above plans in respect of options granted to employees and directors of the Company and its subsidiaries as of December 31, 2003, 2002 and 2001, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	2003		2002		2001	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding at beginning of year	2,413,486	0.76	1,447,835	1.11	979,085	1.54
Changes during the year:						
Granted (1)	934,000	0.57	1,291,400	0.44	708,000	0.36
Exercised	(70,450)	0.39				
Forfeited	(119,950)	0.57	(325,749)	1.04	(239,250)	0.64
Options outstanding at end of year	3,157,086	0.72	2,413,486	0.76	1,447,835	1.11
Options exercisable at year end	1,388,682	0.96	1,050,074	1.03	577,494	1.54
Weighted average fair value of options granted during the year (2)	0.24		0.22		0.32	

(1) Except for 500,000 options granted in 2003 (weighted average exercise price of 0.77 and fair value of $ 0.22) and 200,000 options, granted in 2002 (weighted average exercise price of $ 1 and fair value of $ 0.05), at the above market value exercise price. All other grants were made at market value, or near market value exercise price, as follows:

	Number	Weighted average exercise price	Weighted average fair value
Year ended December 31:			
2003	934,000	0.57	0.24
2002	1,291,400	0.44	0.22
2001	708,000	0.36	0.32

(2) The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31		
	2003	2002	2001
Dividend yield	0%	0%	0%
Expected volatility	137%	132%	143%
Risk-free interest rate	1.9%	1.5%	2%
Expected life - in years	3.3	2.3	2.3

NOTE 8 - SHAREHOLDERS' EQUITY (continued):

(b) The following table summarizes certain information about options granted to employees which were outstanding and exercisable under the above plans as of December 31, 2003:

	Options outstanding		Options exercisable	
Exercise prices	**Number outstanding at December 31, 2003**	**Weighted average remaining contractual life**	**Number exercisable at December 31, 2003**	**Weighted average remaining contractual life**
$		Years		Years
3.00	99,447	2.68	99,447	2.68
1.68	110,000	5.01	110,000	5.01
1.17	533,639	6.42	475,889	6.42
1.00	200,000	8.59	94,338	8.59
0.48	444,700	8.21	129,100	8.21
0.36	373,500	7.07	208,500	7.07
0.20	375,800	9.49	61,800	8.72
0.68	266,000	9.89	11,091	9.89
0.85	234,000	9.89	9,750	9.89
0.83	20,000	9.95		
0.15	400,000	8.58	188,767	8.58
0.75	100,000	9.92		
	3,157,086	8.04	1,388,682	6.9

c. Dividends

In the event the Company declares cash dividends, such dividends will be paid in Israeli currency. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency, at the rate of exchange prevailing at the time of conversion.

NOTE 9 - TAXES ON INCOME:

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter – the law)

Under the law, by virtue of the "approved enterprise" status granted to investments in certain assets the Company is entitled to various tax benefits.

The main tax benefits available to the Company are:

1) Reduced tax rates

Tax exemption during the period of benefits – 10 years – commencing in the first year in which the Company earns taxable income from the approved enterprises (provided that the maximum period to which it is restricted by the law has not elapsed).

NOTE 9 - TAXES ON INCOME (continued)**:**

The Company has three approved enterprises; the benefit period in respect of the first, second and third enterprises commenced in 1994, 1995, and 1997, respectively.

The period of benefits for the first approved enterprise expired in 2003.
The periods of benefits for the second and third approved enterprises will expire in 2004 and 2006, respectively.

In the event of distribution of cash dividends from income, which was tax exempt as above, the Company would have to pay 25% tax in respect of the amount distributed. The amount distributed for this purpose includes the amount of the tax that applies as a result of the distribution.

2) Accelerated depreciation

The Company is entitled to claim accelerated depreciation in respect of equipment used by the approved enterprises during five tax years.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the certificate 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, with the addition of linkage differences to the Israeli CPI and interest.

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

Under the Inflationary Adjustments Law, results for tax purposes are measured in real terms, having regard to the changes in the Israel CPI. The Company is taxed under this law.

As explained in note 1a(4), the financial statements are measured in dollars. The difference between the changes in the Israeli CPI and in the exchange rate of the dollar relative to Israeli currency, both on annual and cumulative bases, creates a difference between taxable income and income reflected in these financial statements.

Paragraph 9(f) of FAS 109, "Accounting for Income Taxes", prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

c. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company is an "industrial company" as defined by this law and as such is entitled to certain tax benefits, consisting mainly of accelerated depreciation as prescribed by regulations published under the Inflationary Adjustments Law, amortization of patents and certain other intangible property, and the right to claim public issuance expenses.

NOTE 9 - TAXES ON INCOME (continued):

d. Other applicable tax rates:

1) Income from other sources in Israel

Income not eligible for approved enterprise benefits mentioned in a. above is taxed at the statutory corporate rate of 36%.

2) Income of non-Israeli subsidiaries

Non-Israeli subsidiaries are taxed according to the tax laws in their countries of residence.

e. Taxes on income

1) Loss (income) before taxes on income is composed as follows:

	2003	2002	2001
Domestic	763	1,763	1,534
Subsidiaries abroad	216	(85)	(227)
	979	1,678	1,307

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the statutory corporate tax rate applicable to Israeli corporations (see d1) above), and the actual expense:

	Year ended December 31		
	2003	2002	2001
Loss before taxes on income	(979)	(1,678)	(1,307)
Theoretical tax benefit on the above amount	(352)	(604)	(471)
Increase in taxes in respect of tax losses incurred in the reported year for which deferred taxes were not created (see f. below)	352	604	471
Other	3	6	6
Actual tax expense	3	(6)	6

Taxes on income included in the statement of operations relate to Company's subsidiaries.

f. Deferred income taxes

The Company has unutilized carryforward tax losses from prior years. Therefore, no current tax liability has been provided in 2003, 2002, and 2001.
Virtually all the Company's temporary differences are in respect of carryforward tax losses. The Company expects that during the period in which its tax losses are utilized, its income would be tax exempt, as described in a1) above. Accordingly, no deferred tax assets have been included in these financial statements in respect of the Company's carryforward tax losses.

NOTE 9 - TAXES ON INCOME (continued):

g. Carryforward tax losses

Carryforward tax losses aggregate approximately $ 16.5 million at December 31, 2003.

h. Tax assessments

Final tax assessments have been received by the Company through the tax year 1999.

NOTE 10 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. General

The Company operates internationally, which gives rise to exposure to market risks, mainly from changes in foreign exchange rates.

b. Fair value of financial instruments

The fair value of financial instruments included in working capital is usually identical or close to their carrying amount. The fair value of long-term receivables also approximate the carrying amounts, since they bear interest at rates close to prevailing market rates.

NOTE 11 – LIABILITIES SECURED BY PLEDGES AND RESTRICTION PLACED IN RESPECT OF LIABILITIES:

a. The Company has registered fixed charge on a bank deposits in favor of a certain banks. The bank deposits are used to secure a credit line granted to the Company by the banks. The bank deposits – amounting to $ 537 thousands – are linked to the dollar, and bear no interest. The bank deposits are for a period of one month.

b. The Company has registered floating charges on all of its assets if favor of banks and lease companies.

NOTE 12 - SUPPLEMENTARY BALANCE SHEET INFORMATION:

	December 31	
	2003	**2002**
	$ in thousands	
a. Accounts receivable		
1) Trade – **allowance for doubtful accounts:**		
Balance at beginning of year	1,527	898
Charged to general and administrative expenses	(310)	629
Balance at end of year	1,217	1,527

NOTE 12 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

	December 31 2003	December 31 2002
	$ in thousands	
2) Other:		
Employees	57	25
Prepaid expenses	100	68
Israeli Government departments and agencies	346	230
Sundry	117	90
	620	413
b. Accounts payable and accruals - other:		
Employees and employee institutions	241	482
Israeli Government departments and agencies	1,388	1,175
Provision for vacation and recreation pay	336	288
Commissions to agents	195	150
Accrued expenses and sundry	267	196
	2,427	2,291

c. Credit from banks

Composed as follows:

	% interest rate as of December 31, 2003	December 31 2003 $ in thousands
Unlinked credit from bank*	8.2	195
Short-term loans from banks*		
Unlinked	8.2	683
Linked to the Euro	4.25	128
		1,006

* In 2003, the Company entered into agreements for bank credit facilities, pursuant to which the Company may, from time to time, borrow an aggregate amount of up to $ 537,000; to secure the credit facilities, the Company registered a fixed charge on certain bank deposits in favor of the said banks (see note 11a). As of December 31, 2003, the Company fully utilized its credit facilities.

NOTE 12 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

d. Revenues

1) The Company's revenues by geographic areas (based on location of customers) are as follows:

	2003	2002	2001
	$ in thousands		
U.S.A.	2,531	3,278	5,267
Europe	2,893	3,253	2,894
Other (mainly Japan and China)	904	697	1,142
	6,328	7,228	9,303

2) The following customers accounted for 10% or more of the Company's sales:

	2003	2001
Customer A		21%
Customer B	17%	

3) The Company's long-lived assets by geographic areas are as follows:

	2003	2002
	$ in thousands	
Israel	340	514
U.S.A.	74	19
	414	533

e. Cost of revenues:

	2003	2002	2001
	$ in thousands		
Industrial operations:			
Materials consumed	1,002	1,025	913
Payroll and related expenses	1,452	1,427	1,727
Subcontracted work	132	70	90
Depreciation	65	99	118
Other production expenses	582	1,153	1,528
Royalties	245	44	564
Decrease in inventories:			
Finished products	(39)	462	1,297
Products in process	309	380	566
	3,748	4,660	6,803

f. Research and development expenses – net:

Total expenses	1,827	1,490	1,531
L e s s – grants and participations, see note 7a1).	(396)	(150)	(126)
	1,431	1,340	1,405

NOTE 12 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

g. Financial income – net:

	2003	2002	2001
		$ in thousands	
Income:			
Interest:			
In respect of bank deposits and securities	6	59	50
In respect of marketable securities		44	10
Exchange differences	19		5
Other	67	2	37
	92	105	102
Expenses:			
Interest -			
in respect of liability to related party	9	12	13
Exchange differences		46	
Other	23	13	
	32	71	13
	60	34	89

NOTE 13 – RELATED PARTIES:

	2003	2002	2001
Income (expenses):			
Royalties*			300
Financing expenses on long-term loan granted by shareholder**	9	12	13

* See note 7a1)(c).
** See note 6.

NOTE 14 – SUBSEQUENT EVENTS:

a. In January 2004, the Company issued 1,530,612 shares at a price of $0.98 per share and 382,653 warrants for a total consideration of $ 1,500,000.
Each warrant is exercisable to one ordinary share of NIS 1 par value, at an exercise price of $ 1.40 per share. The warrants are exercisable for a period of 24 months, commencing in the date of issuance.

As part of the issuance as above, the Company issued 100,816 warrants to consultants and providers of financial services. The said warrants were issued to consultants and service providers in respect of their assistance in the said capital raising.
The said warrants are exercisable at a price of $ 0.98 per share for a period of 24 months from the date of issuance.

NOTE 14 – SUBSEQUENT EVENTS (continued):

b. As part of its strategy to expand into additional fields of visual inspection systems, on December 2, 2003, the Company signed a term sheet (the validity of which was extended on February 16, 2004) to acquire 100% of the shares of Yuravision Co. Ltd. (hereafter – Yuravision), a Korea-based company, which develops visual inspection software and systems for the microelectronics industry as well as flat panel display industries. Under the term sheet all shares of Yuravision will be acquired in exchange for ordinary shares of the Company, in aggregate value of $ 1.5 million to be calculated using the average closing price of the Company's ordinary shares for the whole of December 2003 ($ 0.96), and options to purchase an aggregate of 500,000 shares of the Company, at an exercise price of $ 0.75, which shall be vesting within two years following the closing of the agreement. Consummation of the transaction is subject to completion of due diligence by the Company, execution of definitive documentation and other customary closing conditions.

c. In March 2004, the Company entered into a standby equity distribution agreement with Cornell Capital Partnership (hereafter – Cornell). Pursuant to this agreement the Company will be entitled to issue Cornell with put notices requiring it to purchase, six days following each put notice, a number of Company's ordinary shares with a value of up to $ 300,000 per put notice and up to an aggregate value of $ 10,000,000 over two years. The price per share payable by Cornell will be determined based on the minimum price of Company's shares during the five days period following Company's put notice to Cornell to purchase Company's shares. Cornell will deduct 5% from the price payable for Company's ordinary shares as a commitment fee.