

XXX Technologies

Business Plan Update

April, 2005

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A. Executive Summary

1. Content of Business Plan Update

This document is an update of the business plan that was prepared for Xxx at December 2005. This update was prepared to the request of a specific potential investor.

This document presents the changes made in relation to the previous, basic, business plan, and it does not reiterate the data that was presented in it. This update focuses on the future products development in the company. Xxx's products are developed in three generations (stages), which were introduced in detail in the basic business plan.

The first stage of development has ended in almost all products. The update focuses on second and third generation products, since a number of changes have occurred regarding the development of these products. The company has build up detailed development plans for the second and third generation products and revised its financial forecast for the sales and production costs of these products.

In addition, several changes have been made in the company since the writing of the previous business plan. The company is considering entering another field of Unmanned Aerial Systems (JDAM, or "smart" bombs). It has also signed a joint venture agreement with XXX Ltd. Corporation. All these issues and more are addressed in this business plan update.

The goal of this business plan update is to present the developments and the changes Xxx have over gone since the writing of the basic business plan, to present a financial forecast for the future developments, mainly of the smart systems second and third generations, and to provide a revised view of the company and its products.

2. The Market and Marketing Effort

The company has signed a cooperation agreement with YYYLtd. YYY is an Israeli unmanned systems manufacturer that does not manufacture smart componenets. The two companies have executed a marketing geographical division of the world, in which YYY has received marketing rights in North America, Western Europe and some of Eastern Asia, including Singapore, the pailot state.

In addition to this, the two companies would cooperate in the payload production. Each company will manufacture 50% of the payload (each according to its areas of expertise), while the final assembly will be done by Bental. The profits of the payload sales will be divided 50%-50%.

As the company's products become more and more sophisticated, the company plans to market its products to the JDAM (Joint Direct Attack Munition) market, since now it

possesses the knowledge, the technology and the ability to manufacture JDAM. JDAM is a guidance tail kit with an inertial guidance system and a GPS guidance control unit, that converts existing unguided gravity bombs into accurate, adverse-weather "smart" munitions. This is a growing market, since in the future JDAM and similar types of smart bombs are expected to replace the existing gravity bombs.

There are some marketing limitations on the company's operation, mainly Israeli Ministry of Defense limitations on marketing to certain countries and USA government limitations on unauthorized marketing of certain products. For these reasons, the company is considering relocation to another country, where no such limitations apply.

Xxx's current concepts and products of the second and third generations offer significant improvements to the aviation industry and the Unmanned Aerial Systems market, compared with the current suppliers of Unmanned Aerial Systems, whose products are usually over-engineered, over-weighted and costly. A comparison between Xxx's products of the second and the third generations and the products of competing companies around the world was conducted in order to provide a full picture of the market competition.

For detailed information on the above, see Chapter B.

3. Company's Products

The products in this business plan update refer mainly to the future development of products. Also, only the main products of the company appear in the update. These are the products that include all Xxx's other products.

The three main products of the company are:

1. Stabilized Payload
2. Auto Pilot
3. Ground Control Station (GCS)

The other products would not be put on sale individually, but mainly with the main products.

As stated earlier, the company is planning to enter the JDAM field. For a successful exploitation of JDAM, autopilot is needed that would navigate the bomb to the correct drop-point. The autopilot is activated and controlled by the Ground Control Station. The second generation of company's products is sufficient for JDAM operation. The company assesses that it could to enter the JDAM market in the following years.

For detailed description of the main products see chapter C

4. Business Strategy

The purpose of the chapter (see Chapter D) is to present the business and the business idea in a complete and comprehensive form. In order to present a complete picture, this chapter was presented as it was presented in the previous business plan, and not just in the form of updates.

The company will take advantage of its relative strengths and use them as a “lever” for its business and marketing development.

In order to increase its number of customers and avoid the marketing limitations (Ministry of Defense and USA government limitations stated earlier and detailed in Chapter B) that apply on Israeli based military related companies, the company will consider relocation to another country, where there exist no such limitations.

The company’s production costs enable it to offer competitive prices in relation to the market, a fact that is expected to enable the company to execute a smooth penetration to the market. As a rule, the demand in the market grows in parallel to the decrease in pricing levels. This situation is an advantage to the company because of its competitive price levels. This fact is expected to improve the company’s position in the market.

The company will take advantage of its products in terms of size, weight and cost as a marketing lever in penetration to the world market.

Its JDAM abilities should be used as a lever for the creation and maintenance of bonds with JDAM customers and thus should aid in more exposure and sales scope.

5. Financial Status and Cash Flow Forecast

We should remind that the company produces its products in three generations. The first generation are products of capabilities similar and competitive to the current market. The second and the third generations are innovative products with higher capabilities than the competition, smaller and lighter than the competition and less costly.

Also, the company plans to be active in two fields of activity – the main line of activity is the smart systems market and the secondary and optional line of activity is the complete systems market. A complete system consists typically of three planes and a Ground Control Station. This business plan update deals mainly with the smart systems and the complete systems are presented in the financial chapter only (see chapter E).

From the cash flow, whose summary is presented below and presented in detail in Chapter E, the investment needs are derived. In addition to these investment needs, exist also immediate investment needs, that include the company’s obligation to third parties and other investment needs and total about \$840 K (about \$300 K obligations to third parties and about \$550 K for demonstrators and patents registration). It should be

mentioned that the immediate investment needs do not include the obligations of the company to the shareholders.

Table 1 below presents the sales and gross profit for the future development of the smart systems in 5 years forecast period.

The total of smart systems that the company expects to sell in the next 5 years tops 52 thousand units, starting from a level of about 320 units in the first year and reaching the level of about 25 thousand units in the fifth year

The total revenues are expected to total about \$470 M and the gross profit for that period is expected to reach about \$320 M, or about 68% of the revenues.

In the first year of activity, the revenue is expected to amount to about \$2.5 M and the gross profit to about \$2 M. The costs that are presented here are the gross costs that include manufacturing the products by subcontractors.

Project year	1	2	3	4	5	Total	Percent
Total of units sold	320	3,267	8,483	15,833	24,500	52,403	
Total revenue	2,450	27,817	76,500	143,417	221,500	471,683	100%
Total costs	370	9,022	24,936	45,033	70,738	150,098	32%
Total gross profit	2,080	18,795	51,564	98,383	150,763	321,585	68%

This document, which presents an update to the basic business plan, focuses on the future developments, mainly second and third generations of the smart systems. The smart systems sales and gross profit summary is presented above and presented in detail in Chapter E. However, the cash flow forecast of the company is not derived only from the future developments, but also from sales of products, whose development ended, and possibly also from complete systems sales.

We should explain that the investment in products whose development ended has already been done, and in that sense, their marginal profit is higher than the marginal profit of future development products. For this reason, for the needs of cash flow analysis, a total forecast of the company is presented (for details see sections 2 and 3, Chapter E).

Table 2 presents the sales, profit and cash flow forecast of smart systems and complete systems sales. The revenues from sales of both the smart systems and complete systems are expected to reach about \$590 M. Production costs of both the smart systems and the complete systems are expected to reach about \$181 M. The gross profit of the company totals about \$405 M, which is 69% of the total revenues.

After deduction of the operation and the R&D costs, the operating profit is expected to reach \$371M in 5-years period.

Marketing and managing expenses are expected to reach about \$105 M. The profit before taxes is expected to total about \$270 M.

Profit after taxes is expected to total about \$181 M in the forecast period.

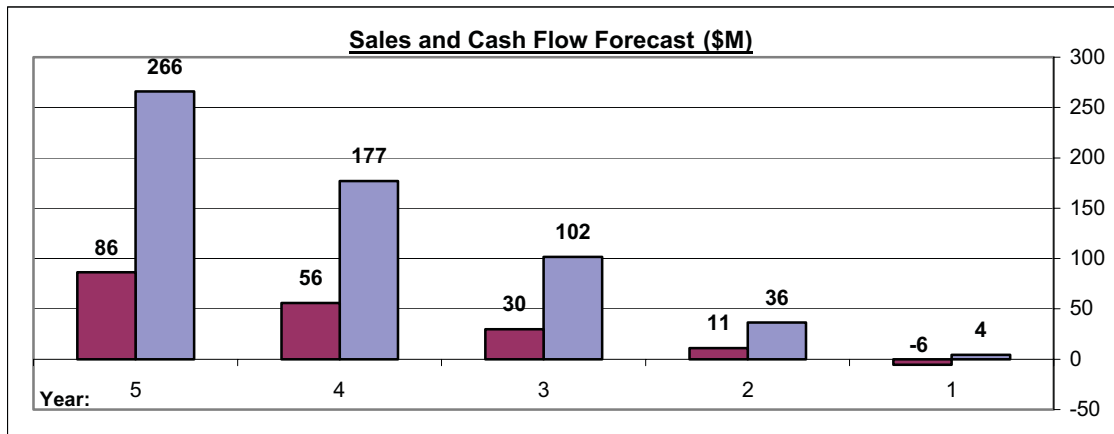
The cash flow is negative in the first year and amounts to about -\$5.6 M. It becomes positive in the second year and reaches the level of about \$11 M. In the 5 years of the forecast the cash flow totals about \$180 M. The main difference between cash flow and the net profit is the presentation of the R&D costs. In the profit and loss forecast, the R&D costs are deployed over the forecast period, while in the cash flow forecast, main part of them is presented in the first project year.

Table 2: Sales, Profit and Cash Flow Forecast (\$K, before VAT)

Project year	1	2	3	4	5	Total	Percent
revenue	4,388	36,429	101,678	176,997	266,025	585,516	100%
costs of goods	765	11,087	31,791	54,222	83,105	180,969	31%
gross profit	3,623	25,343	69,886	122,775	182,920	404,547	69%
Operation expenses	630	1,918	3,685	5,745	7,403	19,381	3%
R & D expenses	<u>2,090</u>	<u>2,307</u>	<u>3,473</u>	<u>2,550</u>	<u>3,500</u>	13,920	2%
Operation & R&D costs	2,720	4,225	7,159	8,295	10,903	33,301	6%
operating profit	903	21,118	62,728	114,480	172,017	371,245	63%
Total marketing & management	2,363	8,069	18,821	31,026	45,054	105,334	18%
Profit before taxes	-1,460	13,048	43,907	83,453	126,963	265,912	45%
Profit after taxes	-1,460	9,340	29,857	56,748	86,335	180,820	31%
Cash Flow	-5,640	10,997	29,830	55,798	86,335	177,320	30%
Cumulative Cash Flow	-5,640	5,356	35,187	90,985	177,320		

The chart below presents the sales and the cash flow forecast of the company. The sales grow gradually from year to year and rise from about \$4 M in the first project year to about \$270 M in the fifth year.

The cash flow is negative in the first project year and becomes positive in the second year. In the fifth year it reaches the level of about \$90 M.



6. General Remarks

All figures in this business plan are given in US dollars, before VAT and in fixed prices, unless stated differently. In case of discrepancies between the information in tables and charts and the information in the text, information in tables and charts should be taken as the correct one.

This business plan includes certain estimates and other forward-looking statements, such as statements about anticipated operating and financial performance, etc. These statements are subject to uncertainties that could cause actual future performance to differ materially. The company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, receipt of new information or otherwise.