AUDIO PIXELS LTD.
(A Development Stage Company)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

U.S. DOLLARS IN THOUSANDS

INDEX

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

AUDIO PIXELS LTD.
(A Development Stage Company)

We have audited the accompanying balance sheet of Audio Pixels Ltd. a development stage company ("Audio Pixels" or "the Company") as of December 31, 2007, and the related statement of operations, changes in shareholders' equity and cash flows for the period from July 10, 2006 (date of inception) to December 31, 2007. These financial statements are the responsibility of the Company's 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 the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for the period from July 10, 2006 (date of inception) to December 31, 2007, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1b to the financial statements, the Company is in the development stage and is not generating sufficient revenues from operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
August 20, 2008

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

AUDIO PIXELS LTD.
(A Development Stage Company)

BALANCE SHEET

U.S. dollars in thousands, except share and per share data

	Note	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents		$ 803
Other accounts receivable and prepaid expenses		46
Total current assets		849
EQUIPMENT, NET	3	623
LONG-TERM DEPOSITS		10
Total assets		$ 1,482
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables		$ 78
Other accounts payable and accrued expenses	4	171
Total current liabilities		249
COMMITMENTS AND CONTINGENCIES	5	
SHAREHOLDERS' EQUITY:	6	
Share capital -		
Ordinary shares of NIS 0.01 par value - Authorized: 1,886,561 shares at December 31, 2007; Issued and Outstanding: 1,018,544 shares at December 31, 2007		2
Series A Preferred shares of NIS 0.01 par value - Authorized: 674,939 shares at December 31, 2007; Issued and Outstanding: 511,318 shares at December 31, 2007		1
Additional paid-in capital		3,159
Deficit accumulated during the development stage		(1,929)
Total shareholders' equity		1,233
Total liabilities and shareholders' equity		$ 1,482

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

AUDIO PIXELS LTD.
(A Development Stage Company)

STATEMENT OF OPERATIONS

U.S. dollars in thousands, except share data

	Period ended December 31, 2007 *)
Research and development expenses	1,287
General and administrative expenses	539
Total operating expenses	1,826
Operating loss	1,826
Financial expenses, net	105
Other income	(2)
Net loss	$ 1,929

*) For the period ended from inception of the Company (July 10, 2006), until December 31, 2007.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares		Series A Preferred shares		Additional paid-in capital	Accumulated deficit	Total
	Number	Amount	Number	Amount			
Balance as of July 10, 2006 *)	-	$ -	-	$ -	$ -	$ -	$ -
Issuance of shares at inception (see Note 1)	1,000,000	2	-	-	(2)	-	-
Conversion of loan to shares	18,544	**) -	20,453	**) -	135	-	135
Beneficial conversion feature on convertible bridge loans	-	-	-	-	103	-	103
Issuance of shares and conversion of bridge loan, net ***) (see Note 6(c))	-	-	490,865	1	2,923	-	2,924
Net loss	-	-	-	-	-	(1,929)	(1,929)
Balance as of December 31, 2007	1,018,544	$ 2	511,318	$ 1	$ 3,159	$ (1,929)	$ 1,233

*) Date of inception of the Company.
**) Less than $1.
***) Net of issuance expenses of $85 (including issuance of warrants at the fair value of $9).

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

STATEMENT OF CASH FLOWS

U.S. dollars in thousands, except share data

		Period ended December 31, 2007 *)
Cash flows from operating activities:		
Net loss	$	(1,929)
Adjustments to reconcile net loss to net cash used in operating activities:		
Beneficial conversion feature on convertible bridge loans		103
Depreciation		74
Changes in operating assets and liabilities:		
Increase in other accounts receivable and prepaid expenses		(46)
Increase in lease deposit		(10)
Increase in trade payables		78
Increase in other accounts payable and accrued expenses		171
Net cash used in operating activities		(1,559)
Cash flows from investing activities:		
Purchase of equipment		(697)
Net cash used in investing activities		(697)
Cash flows from financing activities:		
Receipt of convertible bridge loans		260
Issuance of shares, net		2,799
Net cash provided by financing activities		3,059
Increase in cash and cash equivalents		803
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	$	803
Non-cash transactions:		
Conversion of convertible bridge loans	$	260
Issuance of warrants in respect of issuance of shares	$	9

*) For the period ended from inception of the Company (July 10, 2006), until December 31, 2007.

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

NOTE 1:- GENERAL

a. Audio Pixels Ltd. (the "Company") was established in 2006. The Company has developed a new audio speaker platform that exceeds the performance, design costs, and production demands of the electronic manufacturers. The Company's technology allows achieving long-travel actuation using low cost micro-electromechanical structures.

In March, 2007, the Company signed an agreement ("Agreement") with investors for the issuance of 674,939 Series A Preferred shares in consideration for $ 4 million, upon completion of certain milestones. As of December 31, 2007, the amount of $3 million was received from the shareholders. Subsequent to the balance sheet, the remaining balance of $1 million of the above transaction was received by the Company. In addition, the convertible bridge loans of $135 issued by the investors were converted to 18,544 Ordinary shares and 20,453 Series A Preferred shares. (See note 6(b)).

b. The Company is in the development phase. It is currently not generating sufficient revenues from operations and is therefore dependent on external sources for financing its operations. There can be no assurance that the Company will succeed in generating revenues necessary for its operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

The financial statements have been prepared in U.S. dollars since the currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar ("dollar").

A substantial portion of the Company's purchases, as well as other costs, are incurred in dollars. In addition, the Company raised financing in U.S. dollars. Thus, the functional and reporting currency of the Company is the dollar.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies have been remeasured into dollars in accordance with the principles set forth in Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" ("SFAS No. 52").

Accordingly, items have been remeasured as follows: monetary items - at the exchange rate in effect on the balance sheet date; non-monetary items - at historical exchange rates and expense items - at the exchange rates in effect as of the date of recognition of those items (excluding depreciation and other items deriving from non-monetary items).

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of operations under financial expenses, net. The representative exchange rate of the new Israeli shekel ("NIS") at December 31, 2007 was $ 1.00 = NIS 3.846.

c. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

d. Equipment:

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Annual rates of depreciation are as follows:

	%
Computers and related equipment	33
Office furniture and equipment	7 – 20
Leasehold improvements	Over the shorter of the estimated useful life or the lease term.

e. Research and development expenses:

Research and development expenses consist primarily of salary and related costs for personnel, as well as costs related to materials, supplies and equipment depreciation. All research and development costs are expensed as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Income taxes:

The Company accounts for income taxes under the asset and liability method of accounting in accordance with the provisions of SFAS 109, "Accounting for Income Taxes". Under the asset and liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities and are measured using enacted tax rates expected to apply in the year in which the differences are expected to be recovered or settled. Valuation allowances are provided, when necessary, to reduce deferred tax assets to amounts expected to be realized.

g. Fair value of financial instruments:

Unless otherwise noted, the carrying amount of financial instruments approximates their fair value.

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Through December 31, 2007, no impairment losses were identified.

i. Stock-based compensation:

The Company applied the Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)") and EITF No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," with respect to warrants issued to non-employees. SFAS No. 123 (R) requires the use of option valuation models to measure the fair value of the warrants at the measurement date as defined in EITF No. 96-18.

j. Severance pay:

The Company signed agreements with employees, in accordance with section 14 of the Severance Pay Law -1963, according to which the Company's contributions for severance pay shall be instead of severance compensation and that upon release of the policy to the employee, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Furthermore, related obligation and amounts deposits on behalf of such obligation are not stated on the balance sheet, as they are legally released from obligation to employees once the deposit amounts have been paid.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Recently issued accounting standards:

In September 2006, the FASB issued FASB No. 157, "Fair Value Measurements" ("FASB 157"). FASB 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. FASB 157 applies only to fair value measurements that are already required or permitted by other accounting standards. FASB 157 is effective for fiscal years beginning after November 15, 2007. The Company believes that adoption of FASB 157 will not have a material effect on its operations and financial condition.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"), which would delay the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. The adoption of FSP 157-2 is not expected to have a material impact on Company's financial statements and disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company believes that adoption of SFAS No. 159 will not have a material impact on its financial statements and disclosures.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109” (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. As of February 1, 2008, the FASB issued FSP 48-2 "Effective date of Interpretation No. 48 for Certain Nonpublic Enterprises", which defers the effective date of the adoption of FIN 48, for certain nonpublic enterprise, except for nonpublic consolidated entities of public enterprises that apply U.S GAAP and unless the nonpublic enterprises issued a full set of annual financial statements using the recognition, measurement, and disclosure provision of FIN 48 before the issuance of FSP FIN 48-2. This interpretation shall be effective for annual financial statements for fiscal years beginning after December 31, 2007. Management is in the process of evaluating the possible impact of the adoption of FIN 48 on its consolidated financial statements.

U.S. dollars in thousands, except share and per share data

NOTE 3:- EQUIPMENT, NET

	December 31, 2007
Cost:	
Computers and related equipment	$ 102
Property and equipment	433
Leasehold improvements	162
	697
Accumulated depreciation:	
Computers and related equipment	21
Property and equipment	35
Leasehold improvements	18
	74
Depreciated cost	$ 623

Depreciation expense for the period ended December 31, 2007 was $ 74.

NOTE 4:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2007
Payroll and related expenses *)	$ 124
Other accrued expenses	47
	$ 171
*) Includes accrued vacation and recreation pay	$ 63

NOTE 5:- COMMITMENTS AND CONTINGENCIES

a. The Company operates from leased premises in Rehovot, Israel. The lease agreement expires in the year 2011. Annual minimum future rental payments due under the above agreement, at exchange rates in effect on December 31, 2007, are approximately as follows:

2008	$ 35
2009	37
2010	41
2011	18
	$ 131

NOTE 5:- COMMITMENTS AND CONTINGENCIES (Cont.)

As a security of the future lease payments the Company provided the lender with a bank guarantee in the amount of approximately $20. In addition, the Company deposited a promissory note in the amount of approximately $60 as a security for the leased property.

b. The Company has an operating lease contract for the rental of vehicles for a period of 36 months. The rental payments are linked to the Consumer Price Index ("CPI"). The Company has deposited $10 covering rental payment for the last three months in respect of these contracts. The deposit is linked to the CPI and bears no interest.

NOTE 6:- SHAREHOLDERS' EQUITY

a. On July 10, 2006, the Company issued 100 Ordinary shares of NIS 1.00 par value each to the founders of the Company for no consideration.

In February 2007, the Board of Directors and shareholders approved a 1:100 stock split of the Company's share capital. As a result of this action, each one share (including all authorized, issued and outstanding shares) will be divided into 100 shares of the same respective class of shares bearing a par value of NIS 0.01 each. All of the Company's authorized, issued and outstanding shares as of December 31, 2007 reflect the effect of the stock split.

In addition, in February 2007, the Board of Directors and shareholders approved the issuance of bonus shares of the Company to each of the existing shareholders, pursuant to which 99 Ordinary shares will be issued for each one share held by the shareholder. All of the Company's authorized, issued and outstanding shares as of December 31, 2007 reflect the effect of the issuance of bonus shares.

b. In September 2006, the Company received a convertible bridge loan of $ 135 from third parties to be converted to Ordinary shares upon the closing of the equity investment at a price reflecting a discount of 40%-50% of such future equity investment. The loan may be repaid by mutual consent, plus interest at a rate of Prime + 5%, from the date of the loan until the date of the closing of the equity investment. Upon the closing of the investment, described in c below, the convertible bridge loan was converted to 18,544 Ordinary shares and 20,453 Series A Preferred shares.

The beneficial conversion feature attributed to the convertibility of the loans to Ordinary shares was calculated based on the guidance of EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Feature of Contingent Adjusted Conversion Ratios" and EITF 00-27, "Application of EITF 98-5 to Certain Convertible Instruments". As a result of the aforementioned accounting an amount of $ 103 was recorded as a debt discount with a corresponding increase to additional paid-in capital. As of December 31, 2007, the entire discount was amortized and recorded as financing expense.

NOTE 6:- SHAREHOLDERS' EQUITY (Cont.)

c. In March 2007, the Company signed a Share Purchase Agreement ("SPA") for the issuance of 674,939 Series A Preferred shares in consideration for $ 4 million (including the conversion of the bridge loan, as described below), upon completion of certain milestones. As of December 31, 2007, the amount of $ 3 million was received from the investors. Subsequent to the balance sheet, the remaining balance of $ 1 million of the above transaction was received by the Company.

In December 2006, the Company received a convertible bridge loan of $125 from the abovementioned shareholders to be converted to Series A Preferred shares upon the closing of the equity investment at a price of such future equity investment. The loan may be repaid by mutual consent, plus interest at a rate of 8%, compounded annually. Upon the closing of the investment, the convertible bridge loan was converted to 20,452 Series A Preferred shares as part of the total consideration of the SPA.

d. In 2006, the Company issued 2,454 warrants to purchase Ordinary shares with respect to services rendered to the Company in connection with the SPA. The Company estimated the fair value of the services rendered based on the fair value of the shares issued using the Black and Scholes pricing model and recorded an issuance expense of $ 9 which was recorded in additional paid-in capital for the period ended December 31, 2007.

e. The Company adopted an Equity Compensation Plan (the "Plan") in 2007, which provides for the grant of options by the Company to officers, directors, employees and consultants of the Company. The options expire 10 years from the date of grant. The exercise price of option awards under the Plan can be at varying prices determined by the board of directors or any of its committees. As of December 31, 2007, no options were granted under the Plan and 188,165 options to purchase Ordinary shares are available for future grants under the Plan.

NOTE 7:- TAXES ON INCOME

The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985, which measures income on the basis of changes in the Israeli Consumer Price Index.

On July 25, 2005, the Knesset (Israeli Parliament) passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%.

Final tax assessments for the Company have not yet been received since commencement of operations.

The Company had net operating loss carryforwards in the amount of approximately $ 900 for the period ended December 31, 2007.

NOTE 8:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES

a. The Company provides nominal historical data for income tax purposes only.

b. The financial statements have been prepared in accordance with generally accepted accounting principles based on the historical cost convention, without taking into consideration the changes in the general purchasing power of the Israeli currency.

c. Balance sheet:

	December 31, 2007
	NIS in thousands
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	3,090
Other accounts receivable and prepaid expenses	178
Total current assets	3,268
EQUIPMENT, NET	2,572
LONG-TERM DEPOSITS	37
Total assets	5,877
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Trade payables	299
Other accounts payable and accrued expenses	659
Total current liabilities	958
SHAREHOLDERS' EQUITY:	
Share capital	15
Additional paid-in capital	13,037
Accumulated deficit	(8,133)
Total shareholders' equity	4,919
Total liabilities and shareholders' equity	5,877

NOTE 8:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

d. Statement of operations:

	Period ended December 31, 2007
	NIS in thousands
Research and development expenses	5,248
General and administrative expenses	2,215
Total operating expenses	7,463
Operating loss	7,463
Financial expenses, net	677
Other income	(7)
Net loss	8,133

*) For the period ended from inception of the Company (July 10, 2006), until December 31, 2007.

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