AUDIO PIXELS LTD.
(A Development Stage Company)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

U.S. DOLLARS IN THOUSANDS

INDEX

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ERNST & YOUNG

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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 sheets of Audio Pixels Ltd. (a development stage company) ("Audio Pixels" or "the Company") as of December 31, 2008 and 2007, and the related statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2008, for the period from July 10, 2006 (date of inception) to December 31, 2007 and for the period from July 10, 2006 (date of inception) to December 31, 2008. 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 audits.

We conducted our audits 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 audits provide 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, 2008 and 2007, and the results of its operations and its cash flows for the year ended December 31, 2008, for the period from July 10, 2006 (date of inception) to December 31, 2007 and for the period from July 10, 2006 (date of inception) to December 31, 2008, 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 & Kasierer

Tel-Aviv, Israel
June 25, 2009

KOST FORER GABBAY & KASIERER
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BALANCE SHEETS

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

	Note	December 31, 2008	December 31, 2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 2,346	$ 803
Accounts receivable and prepaid expenses		88	46
Total current assets		2,434	849
EQUIPMENT, NET	3	576	623
OTHER ASSETS:			
Deferred charges	6	34	-
Long-term deposits		14	10
Total other assets		48	10
Total assets		$ 3,058	$ 1,482
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturity of long-term loan	6	$ 148	$ -
Trade payables		23	78
Other accounts payable and accrued expenses	4	201	171
Total current liabilities		372	249
LONG-TERM LIABILITIES			
Long-term loan	6	297	-
Total long-term liabilities		297	-
COMMITMENTS AND CONTINGENCIES	5		
SHAREHOLDERS' EQUITY:	7		
Share capital -			
Ordinary shares of NIS 0.01 par value - Authorized: 2,869,942 and 1,886,561 shares at December 31, 2008 and 2007, respectively; Issued and outstanding: 1,018,544 shares at December 31, 2008 and 2007		2	2
Series A Preferred shares of NIS 0.01 par value - Authorized: 1,660,758 and 674,939 shares at December 31, 2008 and 2007, respectively; Issued and outstanding: 1,165,802 and 511,318 shares at December 31, 2008 and 2007, respectively		3	1
Additional paid-in capital		7,133	3,159
Accumulated deficit		(4,749)	(1,929)
Total shareholders' equity		2,389	1,233
Total liabilities and shareholders' equity		$ 3,058	$ 1,482

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

STATEMENTS OF OPERATIONS

U.S. dollars in thousands

	Year ended December 31, 2008	Period from July 10, 2006 (date of inception) to December 31, 2007	Period from July 10, 2006 (date of inception) to December 31, 2008
Research and development expenses	$ 2,278	1,465	$ 3,743
General and administrative expenses	581	361	942
Total operating expenses	2,859	1,826	4,685
Operating loss	2,859	1,826	4,685
Financial expenses (income), net	(39)	105	66
Other income	-	(2)	(2)
Net loss	$ 2,820	$ 1,929	$ 4,749

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

STATEMENTS 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 7 (a))	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 7(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
Issuance of shares (see Note 7(c))	-	-	163,620	1	999	-	1,000
Issuance of shares, net ***) (see Note 7 (d))	-	-	490,864	1	2,958	-	2,959
Issuance of warrants (see Note 6)	-	-	-	-	17	-	17
Net loss						(2,820)	(2,820)
Balance as of December 31, 2008	1,018,544	$ 2	1,165,802	$ 3	$ 7,133	$ (4,749)	$ 2,389

*) Date of inception of the Company.
**) Represents an amount lower than $ 1.
***) Net of issuance expenses of $ 41.

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

STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2008	Period from July 10, 2006 (date of inception) to December 31 2007	Period from July 10, 2006 (date of inception) to December 31, 2008
Cash flows from operating activities:			
Net loss	$ (2,820)	$ (1,929)	$ (4,749)
Adjustments to reconcile net loss to net cash used in operating activities:			
Beneficial conversion feature on convertible bridge loans	-	103	103
Depreciation	155	74	229
Amortization of discount and deferred charges	5	-	5
Changes in operating assets and liabilities:			
Increase in accounts receivable and prepaid expenses	(42)	(46)	(88)
Increase in lease deposit	(4)	(10)	(14)
Increase (decrease) in trade payables	(55)	78	23
Increase in other accounts payable and accrued expenses	30	171	201
Net cash used in operating activities	(2,731)	(1,559)	(4,290)
Cash flows from investing activities:			
Purchase of equipment	(108)	(697)	(805)
Net cash used in investing activities	(108)	(697)	(805)
Cash flows from financing activities:			
Receipt of long term loan, net of issuance expenses	462	-	462
Repayment of long term loan	(39)	-	(39)
Receipt of convertible bridge loans	-	260	260
Issuance of shares, net	3,959	2,799	6,758
Net cash provided by financing activities	4,382	3,059	7,441
Increase in cash and cash equivalents	1,543	803	2,346
Cash and cash equivalents at beginning of period	803	-	-
Cash and cash equivalents at end of period	$ 2,346	$ 803	$ 2,346
Non-cash transactions:			
Issuance of warrants	$ 17	$ -	$ 17
Conversion of convertible bridge loans	$ -	$ 260	$ 260
Issuance of warrants in respect of issuance of shares	$ -	$ 9	$ 9

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

NOTE 1:- GENERAL

a. Audio Pixels Ltd. (a development stage company) (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.

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"). The significant accounting policies followed in the preparation of the financial statements, are as follows:

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.

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).

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, 2008 was $ 1.00 = NIS 3.802.

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. Deferred charges:

Costs incurred to obtain financing through the issuance of long-term debt have been reflected as an asset in the balance sheet. These costs are amortized as financial expenses over the term of the related financing. Gross deferred charges were $ 38 and $ 0, less accumulated amortization of $ 4 and $ 0 as of December 31, 2008 and 2007, respectively.

f. 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.

g. 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.

h. Fair value of financial instruments:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. 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, 2008, no impairment losses were identified.

j. 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.

k. 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 in lieu 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.

l. Recently issued accounting standards:

On December 30, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises", which further delays the effective date of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", for certain nonpublic enterprises until annual financial statements for fiscal years beginning after December 15, 2008. The FSP is effective upon issuance. The Company does not expect the impact of this adoption to be material.

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 SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective for the Company beginning January 1, 2009. The Company does not expect the impact of this adoption to be material.

m. Reclassifications:

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

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

NOTE 3:- EQUIPMENT

	December 31, 2008	December 31, 2007
Cost:		
Computers and related equipment	$ 125	$ 102
Office furniture and equipment	518	433
Leasehold improvements	162	162
	805	697
Accumulated depreciation:		
Computers and related equipment	58	21
Property and equipment	110	35
Leasehold improvements	61	18
	229	74
Depreciated cost	$ 576	$ 623

Depreciation expense for the year ended December 31, 2008 and for period ended December 31, 2007 were $ 155 and $ 74, respectively.

NOTE 4:- ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2008	December 31, 2007
Payroll and related expenses *)	$ 154	$ 124
Other accrued expenses	47	47
	$ 201	$ 171
*) Includes accrued vacation and recreation pay	$ 97	$ 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, 2008, are approximately as follows:

2009	$ 38
2010	41
2011	18
	$ 97

As security for 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 security for the leased property.

b. The Company has an operating lease agreement for the rental of motor vehicles for a period of 36 months. The rental payments are linked to the Consumer Price Index ("CPI"). The Company has deposited $ 14 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 5:- COMMITMENTS AND CONTINGENCIES (Cont.)

c. The Company granted a first rank fixed charge on the Company's fixed assets and floating charges to the bank in support of the bank loan described in Note 6 below.

NOTE 6:- BANK LOAN

In September 2008, the Company received a loan facility from Silicon Valley Bank (the "lender") in the amount of $ 500, to be paid in 36 equal installments, bearing an interest of 9.37% per annum. In addition, the lender received 4,092 warrants to purchase Series A Preferred shares which vest immediately and are exercisable for seven years, at an exercise price of $ 6.11 per Series A Preferred share. Costs incurred with respect to the issuance of the above loan in the amount of $ 38 were recorded as an asset in the balance sheet, as described in Note 2(e). The amortization expenses for the year ended December 31, 2008 were $ 4.

The proceeds were allocated based on the relative fair value of the loan and the warrants in accordance with APB No.14, "Accounting for Convertible Debts and Debt Issued with Stock Purchase Warrants". The fair value of the warrants of $ 17 was calculated in accordance with the Black and Scholes model, in accordance with SFAS 123 (R) and EITF 96-18, which was recognized as a debt discount with a corresponding increase to additional paid-in capital. The discount is amortized over the term of the loan.

NOTE 7:- SHAREHOLDERS' EQITY

a. On July 10, 2006, the Company issued 100 Ordinary shares of NIS 1.00 par value each to the founders of the Company, at 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 for all periods presented 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 for all periods presented 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 Contingently 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 7:- SHAREHOLDERS' EQITY (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 of $ 4,000 (including the conversion of the bridge loan, as described below), upon completion of certain milestones. As of December 31, 2008, the entire amount was received from the investors.

In December 2006, the Company received a convertible bridge loan of $ 125 from the abovementioned shareholders to be converted into 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 November 2008, the Company signed a new Share Purchase Agreement ("SPA") for the issuance of 490,864 Series A Preferred shares in consideration for $ 3,000. As of December 31, 2008, the entire amount was received from the investors.

e. 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.

f. In 2008, upon the signature of the loan agreement with Silicon Valley Bank, the Company issued 4,092 warrants to purchase Series A Preferred shares, as described in Note 6.

g. 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 ten years from the date of grant. The exercise price of option awards under the Plan may be at varying prices determined by the board of directors or any of its committees. As of December 31, 2008, no options were granted under the Plan and 188,165 options to purchase Ordinary shares are available for future grants under the Plan.

NOTE 8:- 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 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 $ 3,000 for the period ended December 31, 2008.

NOTE 9:- 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 sheets:

	December 31,	
	2008	2007
	NIS in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	8,919	3,090
Other accounts receivable and prepaid expenses	332	178
Total current assets	9,251	3,268
EQUIPMENT, NET	2,317	2,572
OTHER ASSETS:		
Deferred charges	131	-
Long-term deposits	53	37
Total other assets	184	37
Total assets	11,752	5,877
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturity of long-term loan	564	-
Trade payables	86	299
Other accounts payable and accrued expenses	765	659
Total current liabilities	1,415	958
LONG-TERM LIABILITIES		
Long-term loan	1,130	-
Total long-term liabilities	1,130	-
SHAREHOLDERS' EQUITY:		
Share capital	22	15
Additional paid-in capital	28,310	13,037
Accumulated deficit	(19,125)	(8,133)
Total shareholders' equity	9,207	4,919
Total liabilities and shareholders' equity	11,752	5,877

NOTE 9:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

d. Statements of operations:

	Year ended December 31, 2008	Period from July 10, 2006 (date of inception) to December 31, 2007	Period from July 10, 2006 (date of inception) to December 31, 2008
		NIS in thousands	
Research and development expenses	8,266	5,964	14,230
General and administrative expenses	2,118	1,499	3,617
Total operating expenses	10,384	7,463	17,847
Operating loss	10,384	7,463	17,847
Financial expenses, net	608	677	1,285
Other income	-	(7)	(7)
Net loss	10,992	8,133	19,125

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