

Condensed Consolidated Balance Sheets
(U.S. Dollars in Thousands)

| | December 31, 2004 | September 30, 2005 |
|--|------------------------------|-------------------------------|
| | (Audited) | (Unaudited) |
| Current assets | | |
| Cash and cash equivalents | 8,792 | 58,250 |
| Short-term bank deposits | 64,892 | 10,098 |
| Short-term marketable securities | 35,336 | 52,397 |
| Trade receivables, net | 13,166 | 14,402 |
| Other receivables and prepaid expenses | 1,332 | 2,413 |
| Inventories | 4,094 | 4,637 |
| | <u>127,612</u> | <u>142,197</u> |
| Long-term investments | | |
| Long-term bank deposits | 9,224 | 9,522 |
| Long-term marketable securities | 38,797 | 38,484 |
| Severance pay funds | 1,921 | 2,022 |
| | <u>49,942</u> | <u>50,028</u> |
| Property and equipment, net | 4,452 | 5,709 |
| Other assets, net | 1,235 | 1,338 |
| Total assets | <u>183,241</u> | <u>199,272</u> |
| Current liabilities | | |
| Trade payables | 5,075 | 4,719 |
| Deferred revenues, other payables and accrued expenses | 14,850 | 18,180 |
| | <u>19,925</u> | <u>22,899</u> |
| Accrued severance pay | 2,399 | 2,527 |
| Total liabilities | <u>22,324</u> | <u>25,426</u> |
| Shareholders' equity | | |
| Share capital | 457 | 468 |
| Additional paid-in capital | 145,439 | 151,694 |
| Accumulated other comprehensive loss | (52) | (335) |
| Deferred stock compensation | - | (44) |
| Retained earnings | 15,073 | 22,063 |
| Total shareholders' equity | <u>160,917</u> | <u>173,846</u> |
| Total liabilities and shareholders' equity | <u>183,241</u> | <u>199,272</u> |

Condensed Consolidated Statements Of Operations
(U.S. Dollars In thousands, except share and per share data)

| | <u>For the Three months ended September 30, 2004</u> (Unaudited) | <u>For the Three months ended September 30, 2005</u> (Unaudited) | <u>For the Nine months ended September 30, 2004</u> (Unaudited) | <u>For the Nine months ended September 30, 2005</u> (Unaudited) |
|---|--|--|---|---|
| Revenues | 17,572 | 19,018 | 49,392 | 56,546 |
| Cost of revenues | <u>3,130</u> | <u>3,797</u> | <u>8,789</u> | <u>10,843</u> |
| Gross profit | 14,442 | 15,221 | 40,603 | 45,703 |
| Operating expenses: | | | | |
| Research and development | 2,660 | 3,298 | 7,464 | 9,655 |
| Sales and marketing | 7,989 | 10,279 | 23,496 | 28,892 |
| General and administrative | <u>1,192</u> | <u>1,316</u> | <u>3,250</u> | <u>3,873</u> |
| Total operating expenses | 11,841 | 14,893 | 34,210 | 42,420 |
| Operating income | 2,601 | 328 | 6,393 | 3,283 |
| Financial income, net | <u>1,137</u> | <u>1,300</u> | <u>3,212</u> | <u>3,817</u> |
| Income before income taxes | 3,738 | 1,628 | 9,605 | 7,100 |
| Income taxes | <u>113</u> | <u>39</u> | <u>206</u> | <u>110</u> |
| Income before minority interest in losses of a subsidiary | 3,625 | 1,589 | 9,399 | 6,990 |
| Minority interest in losses of a subsidiary | <u>-</u> | <u>-</u> | <u>34</u> | <u>-</u> |
| Net income | <u><u>3,625</u></u> | <u><u>1,589</u></u> | <u><u>9,433</u></u> | <u><u>6,990</u></u> |
| Basic net earnings per share | <u><u>\$ 0.20</u></u> | <u><u>\$ 0.08</u></u> | <u><u>\$ 0.53</u></u> | <u><u>\$ 0.37</u></u> |
| Weighted average number of shares used to compute basic net earnings per share | 18,055,063 | 18,920,493 | 17,912,380 | 18,731,111 |
| Diluted net earnings per share | <u><u>\$ 0.19</u></u> | <u><u>\$ 0.08</u></u> | <u><u>\$ 0.48</u></u> | <u><u>\$ 0.35</u></u> |
| Weighted average number of shares used to compute diluted net earnings per share | 19,399,481 | 19,814,061 | 19,684,063 | 20,118,693 |