

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

	December 31, 2007	December 31, 2008
	(Audited)	
Current assets		
Cash and cash equivalents	61,376	28,065
Short-term marketable securities	80,498	60,731
Structured deposit	10,236	-
Trade receivables, net	17,192	13,348
Other receivables and prepaid expenses	3,195	2,046
Inventories	5,428	6,712
	<u>177,925</u>	<u>110,902</u>
Long-term investments		
Long-term marketable securities	2,735	45,112
Severance pay funds	3,940	1,995
	<u>6,675</u>	<u>47,107</u>
Property and equipment, net	<u>12,217</u>	<u>11,693</u>
Other assets		
Intangible assets, net, long-term deferred taxes and other long-term assets	5,776	2,288
Goodwill	13,474	13,474
	<u>19,250</u>	<u>15,762</u>
Total assets	<u><u>216,067</u></u>	<u><u>185,464</u></u>
Current liabilities		
Trade payables	7,537	4,646
Deferred revenues	18,395	19,042
Other payables and accrued expenses	8,043	9,868
	<u>33,975</u>	<u>33,556</u>
Accrued severance pay	<u>5,379</u>	<u>3,846</u>
Total liabilities	<u><u>39,354</u></u>	<u><u>37,402</u></u>
Shareholders' equity		
Share capital	482	465
Additional paid-in capital	176,004	185,985
Accumulated other comprehensive income (loss)	150	(873)
Treasury stock, at cost	(11,049)	(17,619)
Retained earnings	11,126	(19,896)
Total shareholders' equity	<u>176,713</u>	<u>148,062</u>
Total liabilities and shareholders' equity	<u><u>216,067</u></u>	<u><u>185,464</u></u>

Condensed Consolidated Statements of Operations

(U.S. Dollars in thousands, except share and per share data)

	<u>For the Three</u> <u>months ended</u> <u>December 31,</u> <u>2007</u> (Unaudited)	<u>For the Three</u> <u>months ended</u> <u>December 31,</u> <u>2008</u> (Unaudited)	<u>For the Year</u> <u>ended</u> <u>December 31,</u> <u>2007</u> (Audited)	<u>For the Year</u> <u>ended</u> <u>December 31,</u> <u>2008</u>
Revenues	24,430	24,888	88,631	94,581
Cost of revenues	<u>4,960</u>	<u>7,172</u>	<u>19,028</u>	<u>21,574</u>
Gross profit	<u>19,470</u>	<u>17,716</u>	<u>69,603</u>	<u>73,007</u>
Operating expenses:				
Research and development	6,342	6,741	23,515	28,357
Selling and marketing	15,124	13,614	57,977	63,591
General and administrative	<u>1,888</u>	<u>2,328</u>	<u>7,114</u>	<u>12,066</u>
Total operating expenses	<u>23,354</u>	<u>22,683</u>	<u>88,606</u>	<u>104,014</u>
Operating loss	(3,884)	(4,967)	(19,003)	(31,007)
Financial income, net	<u>2,296</u>	<u>519</u>	<u>7,420</u>	<u>3,612</u>
Loss before income taxes	(1,588)	(4,448)	(11,583)	(27,395)
Income taxes	<u>(191)</u>	<u>(2,684)</u>	<u>(428)</u>	<u>(3,627)</u>
Net loss	<u>(1,779)</u>	<u>(7,132)</u>	<u>(12,011)</u>	<u>(31,022)</u>
Basic and diluted net loss per share	<u>\$ (0.09)</u>	<u>\$ (0.38)</u>	<u>\$ (0.62)</u>	<u>\$ (1.60)</u>
Weighted average number of shares used to compute basic and diluted net loss per share	19,533,663	18,918,438	19,477,222	19,439,776

Reconciliation of GAAP to Non-GAAP Financial Information
(U.S. Dollars in thousands, except share and per share data)

	<u>For the Three months ended December 31, 2007</u>	<u>For the Three months ended December 31, 2008</u>	<u>For the Year ended December 31, 2007</u>	<u>For the Year ended December 31, 2008</u>
GAAP Net loss	(1,779)	(7,132)	(12,011)	(31,022)
Stock-based compensation expenses, included in:				
Cost of revenues	20	26	81	103
Research and development	338	302	1,243	1,459
Selling and marketing	449	539	1,869	2,337
General and administrative	397	503	1,344	2,737
	<u>1,204</u>	<u>1,370</u>	<u>4,537</u>	<u>6,636</u>
Amortization and impairment of intangible assets and acquisition related expenses, included in:				
Cost of revenues	196	2,218	599	2,782
Research and development	79	-	316	-
Selling and marketing	190	39	330	156
General and administrative	(8)	-	-	-
Income taxes	40	41	135	163
	<u>497</u>	<u>2,298</u>	<u>1,380</u>	<u>3,101</u>
Write-off of deferred tax assets	-	2,600	-	2,600
Non recurring retention expenses, included in General and Administrative	-	-	-	2,231
Unrealized losses in severance pay funds, included in:				
Research and development	-	303	-	303
Selling and marketing	-	63	-	63
General and administrative	-	55	-	55
	<u>-</u>	<u>421</u>	<u>-</u>	<u>421</u>
One-time inventory write-off	-	-	1,200	-
Non-GAAP net loss	<u>(78)</u>	<u>(443)</u>	<u>(4,894)</u>	<u>(16,033)</u>
Non-GAAP diluted net loss per share	<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ (0.25)</u>	<u>\$ (0.82)</u>
Weighted average number of shares used to compute Non-GAAP diluted net loss per share	19,533,663	18,918,438	19,477,222	19,439,776