

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

	<u>For the Three months ended March 31, 2006</u>	<u>For the Three months ended March 31, 2007</u>
Revenues	20,046	19,719
Cost of revenues	<u>3,865</u>	<u>5,087</u>
Gross profit	<u>16,181</u>	<u>14,632</u>
Operating expenses:		
Research and development, net	3,832	5,207
Sales and marketing	12,123	13,026
General and administrative	<u>1,478</u>	<u>1,756</u>
Total operating expenses	<u>17,433</u>	<u>19,989</u>
Operating loss	(1,252)	(5,357)
Financial income, net	<u>1,600</u>	<u>1,763</u>
Income (loss) before income taxes	348	(3,594)
Income taxes	<u>(38)</u>	<u>23</u>
Net income (loss)	<u><u>310</u></u>	<u><u>(3,571)</u></u>
Basic net earnings (loss) per share	<u><u>\$ 0.02</u></u>	<u><u>\$ (0.18)</u></u>
Weighted average number of shares used to compute basic net earnings (loss) per share	19,182,115	19,424,479
Diluted net earnings (loss) per share	<u><u>\$ 0.02</u></u>	<u><u>\$ (0.18)</u></u>
Weighted average number of shares used to compute diluted net earnings (loss) per share	20,217,182	19,424,479

Reconciliation of Supplemental Financial Information
(U.S. Dollars in thousands, except share and per share data)

	<u>For the Three months ended March 31, 2006</u>	<u>For the Three months ended March 31, 2007</u>
GAAP Net income (loss)	310	(3,571)
Stock-based compensation expenses, included in:		
Cost of revenues	20	18
Research and development, net	299	217
Sales and marketing	757	318
General and administrative	113	381
Income taxes	(116)	-
	<u>1,073</u>	<u>934</u>
One-time inventory write-off	-	1,200
Non-GAAP Net income (loss)	<u>1,383</u>	<u>(1,437)</u>
Non-GAAP Diluted net earnings (loss) per share	<u>\$ 0.07</u>	<u>\$ (0.07)</u>
Weighted average number of shares used to compute Non-GAAP Diluted net earnings (loss) per share	20,217,182	19,424,479

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

	December 31, 2006	March 31, 2007
Current assets		
Cash and cash equivalents	25,324	20,168
Short-term marketable securities	115,051	117,779
Trade receivables, net	17,453	15,514
Other receivables and prepaid expenses	1,996	2,322
Inventories	6,892	6,213
	<u>166,716</u>	<u>161,996</u>
Long-term investments		
Long-term bank deposit	9,602	9,692
Long-term marketable securities	14,154	17,189
Severance pay funds	2,907	3,008
	<u>26,663</u>	<u>29,889</u>
Property and equipment, net	<u>9,253</u>	<u>10,733</u>
Other assets		
Intangible assets, net, long-term deferred taxes and other long-term assets	3,582	3,482
Goodwill	9,454	9,454
	<u>13,036</u>	<u>12,936</u>
Total assets	<u><u>215,668</u></u>	<u><u>215,554</u></u>
Current liabilities		
Trade payables	6,956	5,000
Deferred revenues, other payables and accrued expenses	22,354	26,191
	<u>29,310</u>	<u>31,191</u>
Accrued severance pay	<u>3,944</u>	<u>4,203</u>
Total liabilities	<u>33,254</u>	<u>35,394</u>
Shareholders' equity		
Share capital	478	479
Additional paid-in capital	170,110	171,360
Accumulated other comprehensive loss	(242)	(176)
Treasury stock, at cost	(11,069)	(11,069)
Retained earnings	23,137	19,566
Total shareholders' equity	<u>182,414</u>	<u>180,160</u>
Total liabilities and shareholders' equity	<u><u>215,668</u></u>	<u><u>215,554</u></u>