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

	For the Three months ended	For the Three months ended	For the Year ended	For the Year ended
	December 31,	December 31,	December 31,	December 31,
	<u>2006</u>	2007	2006	<u>2007</u>
	(Audited)	(Audited)	(Audited)	(Audited)
Revenues	21,093	24,430	81,410	88,631
Cost of revenues	4,125	4,960	15,791	19,028
Gross profit	16,968	19,470	65,619	69,603
Operating expenses:				
Research and development, net	4,961	6,342	17,659	23,515
Sales and marketing	12,319	15,124	50,128	57,977
General and administrative	1,545	1,888	6,178	7,114
Total operating expenses	18,825	23,354	73,965	88,606
Operating loss	(1,857)	(3,884)	(8,346)	(19,003)
Financial income, net	2,069	2,296	7,422	7,420
Income (loss) before income taxes	212	(1,588)	(924)	(11,583)
Income taxes	(102)	(191)	(356)	(428)
Net income (loss)	110	(1,779)	(1,280)	(12,011)
Basic net earnings (loss) per share	<u>\$ 0.01</u>	\$ (0.09)	\$ (0.07)	\$ (0.62)
Weighted average number of shares used to compute basic net earnings (loss) per				
share	19,265,536	19,533,663	19,325,055	19,477,222
Diluted net earnings (loss) per share	<u>\$ 0.01</u>	\$ (0.09)	\$ (0.07)	<u>\$ (0.62)</u>
Weighted average number of shares used to compute diluted net earnings (loss) per share	19,531,928	19,533,663	19,325,055	19,477,222
	, ,	, ,	,,	, , ,

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

	For the Three months ended December 31,	For the Three months ended December 31,	For the Year ended December 31,	For the Year ended December 31,
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
GAAP Net income (loss)	110	(1,779)	(1,280)	(12,011)
Stock-based compensation expenses, included in:		_		
Cost of revenues	2	20	63	81
Research and development, net	197	338	1,111	1,243
Sales and marketing	324	449	2,541	1,869
General and administrative	311	397	798	1,344
Income taxes				
	834	1,204	4,513	4,537
Amortization of intangible assets and acquisition related expenses, included in:				
Cost of revenues	74	196	296	599
Research and development, net	21	79	84	316
Sales and marketing	39	190	156	330
General and administrative	-	(8)	-	-
Income taxes	16	40	64	135
	150	497	600	1,380
One-time inventory write-off				1,200
Non-GAAP net income (loss)	1,094	(78)	3,833	(4,894)
Non-GAAP diluted net earnings (loss) per share	\$ 0.06	\$ -	\$ 0.19	\$ (0,25)
Silaio	y 5.00	<u>¥</u>	y 0.13	<u> </u>
Weighted average number of shares used to compute Non-GAAP diluted net earnings (loss) per share	19,531,928	19,533,663	19,808,950	19,477,222

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

Current assets Cash and cash equivalents 25,324 70,547 Short-term marketable securities 115,051 71,327 Trade receivables, net 17,453 17,192 Other receivables and prepaid expenses 1,996 3,195 Inventories 6,892 5,428 Long-term investments Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 Total assets 215,668 216,067 Current liabilities 215,668 216,067 Current revenues 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043 Other payables and accrued expenses 29,310		December 31, 2006	December 31, 2007
Cash and cash equivalents 25,324 70,547 Short-term marketable securities 115,051 71,327 Trade receivables, net 17,453 17,192 Other receivables and prepaid expenses 1,996 3,195 Inventories 6,892 5,428 Long-term investments 166,716 167,689 Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043		(Audited)	(Audited)
Short-term marketable securities 115,051 71,327 Trade receivables, net 17,453 17,192 Other receivables and prepaid expenses 1,996 3,195 Inventories 6,892 5,428 Long-term investments 166,716 167,689 Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 Total assets 215,668 216,067 Current liabilities 7,537 Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Current assets		
Trade receivables, net 17,453 17,192 Other receivables and prepaid expenses 1,996 3,195 Inventories 6,892 5,428 166,716 167,689 Long-term investments Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities 7,537 Deferred revenues 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Cash and cash equivalents	25,324	70,547
Other receivables and prepaid expenses 1,996 3,195 Inventories 6,892 5,428 Long-term investments Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities 7,537 Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043		· · · · · · · · · · · · · · · · · · ·	71,327
The state of the	Trade receivables, net	17,453	
Long-term investments Long-term bank deposit 9,602 10,236 Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 Property and equipment, net 9,253 16,911 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities 7,537 Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Other receivables and prepaid expenses		3,195
Long-term investments Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 26,663 16,911 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Inventories	6,892	5,428
Long-term bank deposit 9,602 10,236 Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 26,663 16,911 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043		166,716	167,689
Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 26,663 16,911 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Long-term investments		
Long-term marketable securities 14,154 2,735 Severance pay funds 2,907 3,940 26,663 16,911 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Long-term bank deposit	9,602	10,236
Severance pay funds 2,907 3,940 26,663 16,911 Property and equipment, net 9,253 12,217 Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043			
Property and equipment, net 26,663 16,911 Other assets 9,253 12,217 Other assets 3,582 5,776 Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043			3,940
Other assets Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043		26,663	16,911
Intangible assets, net, long-term deferred taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Property and equipment, net	9,253	12,217
taxes and other long-term assets 3,582 5,776 Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Other assets		
Goodwill 9,454 13,474 13,036 19,250 Total assets 215,668 216,067 Current liabilities Trade payables 5,566 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Intangible assets, net, long-term deferred		
Current liabilities 215,668 216,067 Current liabilities 5,537 5,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	taxes and other long-term assets	3,582	5,776
Current liabilities 215,668 216,067 Current liabilities 5 7,537 Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Goodwill	9,454	13,474
Current liabilities Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043		13,036	19,250
Trade payables 6,956 7,537 Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Total assets	215,668	216,067
Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Current liabilities		
Deferred revenues 15,712 18,395 Other payables and accrued expenses 6,642 8,043	Trade payables	6,956	7,537
	1 7		
29,310 33,975	Other payables and accrued expenses	6,642	8,043
	-	29,310	33,975

Accrued severance pay	3,944	5,379
Total liabilities	33,254	39,354
Shareholders' equity		
Share capital	478	482
Additional paid-in capital	170,110	176,024
Accumulated other comprehensive		
income (loss)	(242)	150
Treasury stock, at cost	(11,069)	(11,069)
Retained earnings	23,137	11,126
Total shareholders' equity	182,414	176,713
Total liabilities and shareholders' equity	215,668	216,067