

Consolidated Balance Sheets

(in thousands, except share data)

| | <u>December</u> <u>2007</u> | <u>December</u> <u>2006</u> |
|---|--------------------------------|--------------------------------|
| | <u>U.S. Dollars</u> | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 18,601 | 23,358 |
| Marketable securities | 1,395 | 2,099 |
| Accounts receivable, net | 23,500 | 29,434 |
| Inventories | 34,243 | 41,414 |
| Due from affiliates | 251 | 180 |
| Other current assets | 2,623 | 2,372 |
| Deferred tax | 65 | 65 |
| Total current assets | <u>80,678</u> | <u>98,922</u> |
| Fixed assets, net | <u>15,325</u> | <u>10,729</u> |
| Marketable securities | 1,075 | - |
| Deferred tax | 380 | 369 |
| Other assets | 993 | 786 |
| | <u>2,448</u> | <u>1,155</u> |
| Total assets | <u>98,451</u> | <u>110,806</u> |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable –trade | 7,960 | 11,801 |
| Due to affiliates | 866 | 814 |
| Other current liabilities | 11,233 | 12,831 |
| Total current liabilities | <u>20,059</u> | <u>25,446</u> |
| Convertible loan | 5,000 | 5,000 |
| Liability for employee severance benefits | 268 | 222 |
| Total liabilities | <u>25,327</u> | <u>30,668</u> |
| SHAREHOLDERS' EQUITY | | |
| Ordinary shares NIS 0.01 par value, authorized 100,000,000 shares, issued 31,145,334 in 2007 and 31,052,474 in 2006, outstanding 30,133,715 in 2007 and 30,040,855 in 2006. | 132 | 132 |
| Additional paid-in capital | 59,878 | 59,420 |
| Accumulated other comprehensive loss | | |
| Unrealized loss on marketable securities | - | (1) |
| Retained earnings | 14,107 | 21,580 |
| | <u>74,117</u> | <u>81,131</u> |
| Treasury stock, at cost (1,011,619 shares in 2007 and 2006) | (993) | (993) |
| Total shareholders' equity | <u>73,124</u> | <u>80,138</u> |
| Total liabilities and shareholders' equity | <u>98,451</u> | <u>110,806</u> |

Note: Without impact of FIN 48 review

Consolidated Statements of Operations

(in thousands, except share data)

| | Three Months ended | | Year ended | |
|--|--------------------|---------|----------------|---------|
| | December 31, | | December 31, | |
| | 200 | 200 | 200 | 200 |
| | U.S. dollars | | U.S. dollars | |
| Revenues | 21,028 | 21,006 | 70,969 | 100,055 |
| Cost of revenues | 11,841 | 11,666 | 41,940 | 48,442 |
| Gross profit | 9,187 | 9,340 | 29,029 | 51,613 |
| Research and development costs | 2,963 | 3,662 | 12,111 | 11,831 |
| Selling, general and administrative expenses | 6,098 | 8,120 | 24,119 | 27,850 |
| | 9,061 | 11,782 | 36,230 | 39,681 |
| Operating income (loss) | 126 | (2,442) | (7,201) | 11,932 |
| Financial income (expenses), net | 66 | (115) | (128) | (288) |
| Income (loss) before income taxes | 192 | (2,557) | (7,329) | 11,644 |
| Income tax | 55 | 333 | (144) | (41) |
| Net income (loss) | 247 | (2,224) | (7,473) | 11,603 |
| Net income (loss) per ordinary share: | | | | |
| Basic | 0.01 | (0.07) | (0.25) | 0.40 |
| Diluted | 0.01 | (0.07) | (0.25) | 0.39 |
| Weighted average number of ordinary shares outstanding: | | | | |
| Basic | 30,212 | 30,200 | 30,145 | 29,176 |
| Diluted | 30,212 | 30,200 | 30,145 | 29,553 |

Note: Without impact of FIN 48 review