

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except per share data

| | Six months ended June 30, | | Three months ended June 30, | |
|---|------------------------------|-------------------|--------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | Unaudited | | | |
| Revenues: | | | | |
| Software and products | \$ 4,145 | \$ 2,848 | \$ 1,565 | \$ 2,008 |
| Services | 1,113 | 1,946 | 779 | 990 |
| Maintenance | 4,716 | 4,713 | 2,427 | 2,501 |
| <u>Total revenues</u> | <u>9,974</u> | <u>9,507</u> | <u>4,771</u> | <u>5,499</u> |
| Cost of revenues: | | | | |
| Software and products | 818 | 372 | 290 | 142 |
| Services | 1,033 | 1,512 | 565 | 689 |
| Maintenance | 444 | 466 | 221 | 146 |
| <u>Total cost of revenues</u> | <u>2,295</u> | <u>2,350</u> | <u>1,076</u> | <u>977</u> |
| Gross profit | <u>7,679</u> | <u>7,157</u> | <u>3,695</u> | <u>4,522</u> |
| Operating expenses: | | | | |
| Research and development | 1,931 | 2,270 | 928 | 956 |
| Sales and marketing | 5,398 | 6,525 | 2,777 | 2,580 |
| General and administrative | 2,742 | 3,108 | 1,430 | 1,396 |
| <u>Total operating expenses</u> | <u>10,071</u> | <u>11,903</u> | <u>5,135</u> | <u>4,932</u> |
| Operating loss | (2,392) | (4,746) | (1,440) | (410) |
| Financial income, net | 635 | 337 | 357 | 177 |
| Net loss | <u>\$ (1,757)</u> | <u>\$ (4,409)</u> | <u>\$ (1,083)</u> | <u>\$ (233)</u> |
| Basic and diluted net loss per share | <u>\$ (0.09)</u> | <u>\$ (0.23)</u> | <u>\$ (0.06)</u> | <u>\$ (0.01)</u> |
| Weighted average number of shares used in computing basic and diluted net loss per share | <u>19,637,106</u> | <u>19,432,243</u> | <u>19,655,063</u> | <u>19,484,239</u> |

NON-GAAP CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except per share data

| | Six months ended June 30, | | Three months ended June 30, | |
|---|------------------------------|-------------------|--------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | <u>Unaudited</u> | | | |
| Revenues: | | | | |
| Software and products | \$ 4,145 | \$ 2,848 | \$ 1,565 | \$ 2,008 |
| Services | 1,113 | 1,946 | 779 | 990 |
| Maintenance | 4,716 | 4,713 | 2,427 | 2,501 |
| <u>Total revenues</u> | <u>9,974</u> | <u>9,507</u> | <u>4,771</u> | <u>5,499</u> |
| Cost of revenues: | | | | |
| Software and products | 612 | 159 | 186 | 35 |
| Services | 1,007 | 1,512 | 553 | 689 |
| Maintenance | 438 | 466 | 218 | 146 |
| <u>Total cost of revenues</u> | <u>2,057</u> | <u>2,137</u> | <u>957</u> | <u>870</u> |
| Gross profit | <u>7,917</u> | <u>7,370</u> | <u>3,814</u> | <u>4,629</u> |
| Operating expenses: | | | | |
| Research and development | 1,885 | 2,270 | 907 | 956 |
| Sales and marketing | 5,346 | 6,525 | 2,765 | 2,580 |
| General and administrative | 2,653 | 3,108 | 1,360 | 1,396 |
| <u>Total operating expenses</u> | <u>9,884</u> | <u>11,903</u> | <u>5,032</u> | <u>4,932</u> |
| Operating loss | (1,967) | (4,533) | (1,218) | (303) |
| Financial income, net | 635 | 337 | 357 | 177 |
| Net loss | <u>\$ (1,332)</u> | <u>\$ (4,196)</u> | <u>\$ (861)</u> | <u>\$ (126)</u> |
| Basic and diluted net loss per share | <u>\$ (0.07)</u> | <u>\$ (0.22)</u> | <u>\$ (0.04)</u> | <u>\$ (0.01)</u> |
| Weighted average number of shares used in computing basic and diluted net loss per share | <u>19,637,106</u> | <u>19,432,243</u> | <u>19,655,063</u> | <u>19,484,239</u> |

RECONCILIATION OF GAAP TO NON-GAAP CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except per share data

| | Six months ended June 30, 2006 (unaudited) | | | Non-GAAP |
|---|--|---|---|------------|
| | GAAP | Adjustments | | |
| | | Amortization of acquired intangible assets | Stock-based compensation expenses | |
| Revenues: | | | | |
| Software and products | \$ 4,145 | | | \$ 4,145 |
| Services | 1,113 | | | 1,113 |
| Maintenance | 4,716 | | | 4,716 |
| <u>Total revenues</u> | 9,974 | | | 9,974 |
| Cost of revenues: | | | | |
| Software and products | 818 | (206) | | 612 |
| Services | 1,033 | | (26) | 1,007 |
| Maintenance | 444 | | (6) | 438 |
| <u>Total cost of revenues</u> | 2,295 | (206) | (32) | 2,057 |
| Gross profit | 7,679 | 206 | 32 | 7,917 |
| Operating expenses: | | | | |
| Research and development | 1,931 | | (46) | 1,885 |
| Sales and marketing | 5,398 | | (52) | 5,346 |
| General and administrative | 2,742 | | (89) | 2,653 |
| <u>Total operating expenses</u> | 10,071 | | (187) | 9,884 |
| Operating loss | (2,392) | 206 | 219 | (1,967) |
| Financial income, net | 635 | | | 635 |
| Net loss | \$ (1,757) | \$ 206 | \$ 219 | \$ (1,332) |
| Basic and diluted net loss per share | \$ (0.09) | | | \$ (0.07) |
| Weighted average number of shares used in computing basic and diluted net loss per share | 19,637,106 | | | 19,637,106 |

RECONCILIATION OF GAAP TO NON-GAAP CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except per share data

| | Three months ended June 30, 2006 (unaudited) | | | Non-GAAP |
|---|--|---|---|------------|
| | GAAP | Adjustments | | |
| | | Amortization of acquired intangible assets | Stock-based compensation expenses | |
| Revenues: | | | | |
| Software and products | \$ 1,565 | | | \$ 1,565 |
| Services | 779 | | | 779 |
| Maintenance | 2,427 | | | 2,427 |
| <u>Total revenues</u> | 4,771 | | | 4,771 |
| Cost of revenues: | | | | |
| Software and products | 290 | (104) | | 186 |
| Services | 565 | | (12) | 553 |
| Maintenance | 221 | | (3) | 218 |
| <u>Total cost of revenues</u> | 1,076 | (104) | (15) | 957 |
| Gross profit | 3,695 | 104 | 15 | 3,814 |
| Operating expenses: | | | | |
| Research and development | 928 | | (21) | 907 |
| Sales and marketing | 2,777 | | (12) | 2,765 |
| General and administrative | 1,430 | | (70) | 1,360 |
| <u>Total operating expenses</u> | 5,135 | | (103) | 5,032 |
| Operating loss | (1,440) | 104 | 118 | (1,218) |
| Financial income, net | 357 | | | 357 |
| Net loss | \$ (1,083) | \$ 104 | \$ 118 | \$ (861) |
| Basic and diluted net loss per share | \$ (0.06) | | | \$ (0.04) |
| Weighted average number of shares used in computing basic and diluted net loss per share | 19,655,063 | | | 19,655,063 |

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|--|--------------------------|------------------------------|
| | <u>Unaudited</u> | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents *) | \$ 4,558 | \$ 3,461 |
| Marketable securities *) | 12,331 | 14,655 |
| Trade receivables | 2,103 | 1,614 |
| Other current assets | 884 | 905 |
| <u>Total current assets</u> | <u>19,876</u> | <u>20,635</u> |
| LONG-TERM INVESTMENTS: | | |
| Marketable securities *) | 18,142 | 17,535 |
| Severance pay fund | 895 | 825 |
| <u>Total long-term investments</u> | <u>19,037</u> | <u>18,360</u> |
| PROPERTY AND EQUIPMENT, NET | 1,032 | 997 |
| OTHER ASSETS, NET: | | |
| Other intangibles, net | 784 | 990 |
| Goodwill | 4,630 | 4,630 |
| <u>Total other assets</u> | <u>5,414</u> | <u>5,620</u> |
| <u>Total assets</u> | <u>\$ 45,359</u> | <u>\$ 45,612</u> |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 1,171 | \$ 981 |
| Deferred revenues | 5,695 | 5,533 |
| Accrued expenses and other liabilities | 3,527 | 3,373 |
| <u>Total current liabilities</u> | <u>10,393</u> | <u>9,887</u> |
| LONG-TERM LIABILITIES: | | |
| Deferred revenues | 613 | - |
| Accrued severance pay | 1,376 | 1,250 |
| <u>Total long-term liabilities</u> | <u>1,989</u> | <u>1,250</u> |
| SHAREHOLDERS' EQUITY: | | |
| Share capital | 57 | 57 |
| Additional paid-in capital | 70,517 | 70,297 |
| Accumulated other comprehensive loss | (330) | (369) |
| Accumulated deficit | (37,267) | (35,510) |
| <u>Total shareholders' equity</u> | <u>32,977</u> | <u>34,475</u> |
| <u>Total liabilities</u> | <u>\$ 45,359</u> | <u>\$ 45,612</u> |
| *) Total Cash and Investments | <u>\$ 35,031</u> | <u>\$ 35,651</u> |