BACKWEB TECHNOLOGIES LTD
Form 10-Q
August 14, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2006

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from to

Commission File Number 000-26241

BackWeb Technologies Ltd.

(Exact Name of Registrant as Specified in its Charter)

Israel	**51-2198508**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
10 Ha amal Street, Park Afek, RoshHa ayin, Israel	**48092**
(Address of Principal Executive Offices)	*(Zip Code)*

(972) 3-6118800

(Registrant s Telephone Number, Including Area Code)

3 Abba Hillel Street, Ramat Gan, Israel

(Former Address, if Changed Since Last Report

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The registrant had 41,250,497 Ordinary Shares outstanding as of August 1, 2006.

BACKWEB TECHNOLOGIES LTD.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2006
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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains express or implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. For example, our statements regarding the expected impact of the restructuring we implemented in the second quarter of 2006 and regarding our revenue and expense trend expectations in this Quarterly Report under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. The words believes, expects, anticipates, intends, forecasts, projects, plans, estimates, ant similar expressions may identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, as they involve many risks and uncertainties. Our actual results may differ materially from such statements. Factors that may cause or contribute to such differences include those discussed in Item 1A. of Part II of this Quarterly Report under the caption Risk Factors. Forward-looking statements reflect our current views with respect to future events and financial performance or operations and speak only as of the date of this report. We undertake no obligation to issue any updates or revisions to any forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.

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PART I FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

BACKWEB TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,029	$ 1,583
Short-term investments	4,139	6,293
Trade accounts receivable, net	1,308	1,554
Other accounts receivable and prepaid expenses	427	325
Total current assets	7,903	9,755
Long-term investments and long-term assets	44	35
Property and equipment, net	177	213
Total assets	$ 8,124	$ 10,003
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 154	$ 247
Accrued liabilities	1,690	1,731
Deferred revenue	890	976
Total current liabilities	2,734	2,924
Long-term liabilities		8
Commitments and contingencies (Note 2)		
Shareholders equity:		
Ordinary Shares	152,050	151,763
Accumulated other comprehensive income		(2)
Accumulated deficit	(146,660)	(144,720)
Total shareholders equity	5,390	7,041
Total liabilities and shareholders equity	$ 8,124	$ 10,003

Note: The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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BACKWEB TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(Unaudited)		(Unaudited)	
Revenue:				
License	$ 462	$ 859	$ 1,253	$ 1,626
Service	680	859	1,545	1,749
Total revenue	1,142	1,718	2,798	3,375
Cost of revenue:				
License	19	7	40	13
Service	182	193	422	351
Total cost of revenue	201	200	462	364
Gross profit	941	1,518	2,336	3,011
Operating expenses:				
Research and development	619	547	1,201	1,140
Sales and marketing	979	805	2,054	1,530
General and administrative	479	446	1,084	850
Total operating expenses	2,077	1,798	4,339	3,520
Loss from operations	(1,136)	(280)	(2,003)	(509)
Interest and other income, net	40	47	64	27
Net loss	$ (1,096)	$ (233)	$ (1,939)	$ (482)
Basic and diluted net loss per share	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.01)
Weighted average number of shares used in computing basic and diluted net loss per share	41,250	40,993	41,181	40,923

The accompanying notes are an integral part of the condensed consolidated financial statements.

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BACKWEB TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended	
	June 30, 2006	June 30, 2005
	Unaudited	
Operating Activities		
Net loss	$ (1,939)	$ (482)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	75	68
Changes in operating assets and liabilities:		
Trade accounts receivable	246	459
Other receivables, prepaid expenses, and other long-term assets	(111)	194
Accounts payable and accrued liabilities	(134)	(327)
Deferred revenue	(94)	(1,083)
Net cash used in operating activities	(1,957)	(1,171)
Investing Activities		
Disposals of property and equipment	(37)	(121)
Purchases / (sales) of short-term investments	2,154	(1,072)
Net cash provided by / (used for) investing activities	2,117	(1,193)
Financing Activities		
Proceeds from issuance of ordinary shares, net	286	65
Net cash provided by financing activities	286	65
Net increase (decrease) in cash and cash equivalents	446	(2,299)
Cash and cash equivalents at beginning of the period	1,583	5,213
Cash and cash equivalents at end of the period	$ 2,029	$ 2,914

The accompanying notes are an integral part of the condensed consolidated financial statements.

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BACKWEB TECHNOLOGIES LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization BackWeb Technologies Ltd. was incorporated under the laws of Israel in August 1995 and commenced operations in November 1995. BackWeb Technologies Ltd., together with its subsidiaries (collectively, BackWeb or the Company), is a provider of offline Web infrastructure and application-specific software that enables companies to extend the reach of their Web assets to the mobile community of their customers, partners, and employees. The Company s products address the need of mobile users who are disconnected from a network to access and transact with critical enterprise Web content, such as sales tools, forecast management, contact lists, service repair guides, expense report updates, pricing data, time sheets, collaboration sessions, work orders, and other essential documents and applications. The Company s products are designed to reduce network costs and improve the productivity of increasingly mobile workforces. BackWeb sells its products primarily to end users in a variety of industries, including the telecommunications, financial and computer industries, through its direct sales force, resellers, OEMs and sales/marketing partners.

Basis of Presentation The unaudited interim condensed consolidated financial statements include the accounts of BackWeb Technologies Ltd. and its wholly owned subsidiaries. They have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and with the instructions of Form 10-Q and Article 10 of Regulation S-X. All significant intercompany balances and transactions have been eliminated upon consolidation. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) required to fairly state the Company s financial position, results of operations and cash flows for the periods indicated. The condensed consolidated balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The interim condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The results of the Company s operations for the interim periods presented are not necessarily indicative of operating results for the full fiscal year ending December 31, 2006 or any future interim period.

Net Loss Per Share Basic net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during each period. Diluted net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during the period plus potentially dilutive Ordinary Shares considered outstanding during the period in accordance with Statement of Financial Accounting Standard (SFAS) No. 128, Earnings per Share. The total number of Ordinary Shares subject to outstanding options excluded from the diluted net loss per share calculation because they would be considered anti-dilutive was 6,067,211 and 6,196,416 at June 30, 2006 and 2005, respectively.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended		**Six Months Ended**	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
	Unaudited		**Unaudited**	
Net loss	$ (1,096)	$ (233)	$ (1,939)	$ (482)
Basic and diluted:				
Weighted-average shares	41,250	40,993	41,181	40,923
Less weighted-average shares subject to forfeiture				
	41,250	40,993	41,181	40,923

Weighted average number of shares used in computing basic and diluted net loss per share				
Basic and diluted net loss per share	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.01)

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Comprehensive Loss The following table presents the components of comprehensive loss (in thousands):

	Three Months Ended June 30, 2006	June 30, 2005	Six Months Ended June 30, 2006	June 30, 2005
	Unaudited		Unaudited	
Net loss	$ (1,096)	$ (233)	$ (1,939)	$ (482)
Change in net unrealized loss on investments		6	1	(8)
Total comprehensive loss	$ (1,096)	$ (227)	$ (1,938)	$ (490)

Stock-Based Compensation In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 123R, which revised FAS 123 *Accounting for stock based compensation,* (SFAS 123R). SFAS 123R requires all share-based payments to employees, or to non-employee directors as compensation for service on the Board of Directors, to be recognized as compensation expense in the consolidated financial statements based on the fair values of such payments. The Company maintains shareholder approved stock-based compensation plans, pursuant to which it grants stock-based compensation to its employees, and to non-employee directors for Board service. These grants are primarily in the form of options that allow a grantee to purchase a fixed number of shares of the Company s common stock at a fixed exercise price equal to the market price of the shares at the date of the grant. The options may vest on a single date or in tranches over a period of time, but normally they do not vest unless the grantee is still employed by, or is a director of, the Company on the vesting date. The compensation expense for these grants will be recognized over the requisite service period, which is typically the period over which the stock-based compensation awards vest.

The Company made no modifications to outstanding options with respect to vesting periods or exercise prices prior to adopting SFAS 123R. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107), which provides guidance on the implementation of SFAS 123R. The Company applied the principles of SAB 107 in conjunction with its adoption of SFAS 123R.

The Company adopted SFAS 123R effective January 1, 2006, using the modified-prospective transition method. Under this transition method, compensation expense will be recognized based on the grant date fair value estimated in accordance with the provisions of SFAS 123R for all new grants effective January 1, 2006, and for options granted prior to but not vested as of December 31, 2005. Prior periods were not restated to reflect the impact of adopting the new standard and therefore do not include compensation expense related to stock option grants for those periods. In accordance with SFAS 123R, the Company recognized stock option related compensation expense of approximately $110,000 for the three-month period ended June 30, 2006 and a total of approximately $217,000 for the six-month period ended June 30, 2006. All options granted in the periods were stock options and the related compensation expense will be recognized on a straight-line basis over the vesting period of each grant, net of estimated forfeitures. The Company s estimated forfeiture rates are based on its historical experience. The estimated fair value of the options granted through the first half of 2006 and prior years was calculated using a Black Scholes Merton option pricing model (Black Scholes model). The following summarizes the assumptions used in the Black Scholes model as applied in the three and six-month periods ended June 30, 2006:

Stock Options	Three Months Ended June 30, 2006
Risk-free interest rates (1)	5.1%
Expected lives (in years) (2)	6.25
Dividend yield (3)	0%
Expected volatility (4)	113%

Stock Options	Six Months Ended June 30, 2006
Risk-free interest rates (1)	4.7% - 5.1%
Expected lives (in years) (2)	6.25
Dividend yield (3)	0%
Expected volatility (4)	83% - 113%

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Stock Purchase Plan Shares	Three Months Ended June 30, 2006
Risk-free interest rates (1)	4.8%
Expected lives (in years) (2)	.5
Dividend yield (3)	0%
Expected volatility (4)	113%

Stock Purchase Plan Shares	Six Months Ended June 30, 2006
Risk-free interest rates (1)	4.8 5.2%
Expected lives (in years) (2)	.5
Dividend yield (3)	0%
Expected volatility (4)	82% - 113%

(1) The risk-free interest rate is based on U.S. Treasury debt securities with maturities close to the expected term of the option.

(2) The expected term represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior

(3) No cash dividends have

been declared on the Company s common stock since the Company s inception, and the Company currently does not anticipate paying cash dividends over the expected term of the option.

(4) Expected volatility is based on relevant historical volatility of the Company s stock factoring in daily share price observations.

At June 30, 2006, approximately $300,000 of unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of approximately 4.7 years. The resulting effect on net loss and net loss per share attributable to common shareholders is not likely to be representative of the effects in future periods, due to additional grants and subsequent periods of vesting.

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*. In accordance with APB 25, the Company recognized no compensation expense for qualified stock option grants. For options issued with an exercise price less than the fair market value of the shares at the date of grant, the Company recognized the difference between the exercise price and fair market value as compensation expense in accordance with APB 25. Prior to January 1, 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 123 *Accounting for Stock-Based Compensation,* (SFAS 123) as amended by SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148). As compensation expense was disclosed but not recognized in periods prior to January 1, 2006, no cumulative adjustment for forfeitures was recorded in any subsequent period. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation in the prior three and six-month periods ended June 30, 2005:

		Three Months ended June 30, 2005
Net loss as reported	$	(233)
Stock based compensation expense determined under the fair value method		(115)

Pro forma net loss		$	(348)
Net loss per share:			
Basic and diluted	as reported	$	(0.01)
Basic and diluted	pro forma	$	(0.01)

		Six Months ended June 30, 2005
Net loss as reported	$	(482)
Stock based compensation expense determined under the fair value method		(271)
Pro forma net loss	$	(753)
Net loss per share:		
Basic and diluted as reported	$	(0.01)
Basic and diluted pro forma	$	(0.02)

The Company accounts for stock options granted to non-employees in accordance with SFAS 123 and Emerging Issues Task Force (EITF) 96-18 *Accounting For Equity Instruments That Are Issued To Other Than Employees For Acquiring, Or In Conjunction With Selling, Goods Or Services*, and, accordingly, recognizes as expense the estimated fair value of such options as calculated using the Black Scholes model. The fair value is remeasured during the service period and is amortized over the vesting period of each option or the recipient s contractual arrangement, if shorter. No stock options were issued to non-employees other than options granted to non-employee members of the Board of Directors for service as Board members.

Recent Accounting Pronouncements.

In December 2004, the FASB issued Staff Position SFAS No. 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes (FSP No. 109-1) to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 which was signed into law by the President of the United States on October 22, 2004. Companies that qualify for the tax law s deduction for domestic production activities must account for it as a special deduction under SFAS No. 109 and reduce their tax expense in the period or periods the amounts are deductible, according to FSP No. 109-1. FSP No. 109 is effective for the Company in fiscal 2006. The FASB s guidance is not expected to have a material impact on the Company s financial results.

In December 2004, the FASB also issued Staff Position SFAS No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision (FSP No. 109-2) within the American Jobs Creation Act of 2004. The Act provides for a one-time deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise s last tax year that began before the date of enactment, or the first tax year that begins during the one-year period beginning on the date of enactment. FSP No. 109-2 allows companies additional time to evaluate whether foreign earnings will be repatriated under the repatriation provisions of the new tax law and requires specified disclosures for companies needing the additional time to complete the evaluation. The Company is currently evaluating the repatriation provisions of the Act and will complete its evaluation once guidance has been issued by the Treasury Department on the repatriation provision.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). Under FIN 48, companies are required to apply the more likely than not threshold to the recognition and derecognition of tax positions. FIN 48 also provides guidance on the measurement of tax positions, balance sheet classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective beginning January 1, 2007. The Company is currently evaluating the provisions in FIN 48; however, at the present time the Company does not anticipate the adoption of FIN 48 will have a material impact on its consolidated financial position, results of operations and cash flows.

Note 2. Contingencies

Litigation

On November 13, 2001, BackWeb, six of our officers and directors, and various underwriters for our initial public offering were named as defendants in a consolidated action captioned *In re BackWeb Technologies Ltd. Initial Public Offering Securities Litigation,* Case No. 01-CV-10000, a purported securities class action lawsuit filed in the United States District Court, Southern District of New York. Similar cases have been filed alleging violations of the federal securities laws in the initial public offerings of more than 300 other companies, and these cases have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation,* 21 MC 92. A consolidated amended complaint filed in the case asserts that the prospectus from BackWeb s June 8, 1999 initial public offering failed to disclose certain alleged improper actions by the underwriters for the offering, including the receipt of excessive brokerage commissions and agreements with customers regarding aftermarket purchases of shares of our stock. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. On or about July 15, 2002, an omnibus motion to dismiss was filed in the coordinated litigation on behalf of defendants, including BackWeb, on common pleadings issues. In October 2002, the Court dismissed all six individual defendants from the litigation without prejudice, pursuant to a stipulation. On February 19, 2003, the Court denied the motion to dismiss with respect to the claims against BackWeb. No trial date has yet been set.

A proposal has been made for the settlement and release of claims against the issuer defendants, including BackWeb. BackWeb has agreed to the proposal. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. In September 2004, an agreement of settlement was submitted to the court for preliminary approval.

If the settlement does not occur, and litigation against BackWeb continues, BackWeb believes it has meritorious defenses and intends to defend the case vigorously. However, the results of any litigation are inherently uncertain and can require significant management attention, and BackWeb could be forced to incur substantial expenditures, even if it ultimately prevails. In the event there were an adverse outcome, BackWeb s business could be harmed. Thus, BackWeb cannot assure you that this lawsuit will not materially and adversely affect its business, results of operations or the price of its Ordinary Shares.

Additionally, BackWeb was jointly named in a judgment during September 2005 for approximately $500,000 related to a claim against its dormant French subsidiary. The judgment is related to a dispute between a former French distributor of BackWeb and one of the distributor s end user customers. While BackWeb believes it has additional defenses against the claim and will ultimately not be responsible for payments under the judgment, BackWeb accrued approximately $250,000, or approximately one-half of the total judgment against the distributor and BackWeb, in the third quarter of 2005.

From time to time we are involved in litigation incidental to the conduct of our business. Apart from the litigation described above, BackWeb is not party to any lawsuit or proceeding that, in its opinion, is likely to seriously harm its business.

Significant Risks

Due to uncertainties in the technology market in particular and the economy in general, the Company has limited visibility to forecast future revenues. While the Company believes there is a market for its products, this lack of revenue visibility exposes the Company to risk should it not be able to adjust its expenditures to mitigate unfavorable trends in its revenue.

Letter of Credit

In February 2001, the Company signed a thirty-day revolving letter of credit of $300,000 in favor of Equity Office LLC (formerly Speiker Properties LLC). In conjunction with its lease renegotiation in San Jose, CA, the Company extended this letter of credit to a total of $500,000 in favor of Equity Office LLC in October 2003. The letter of credit extends to the end of the lease in January 2007.

Line of Credit

As of June 30, 2006, the Company had a $500,000 line of credit with a lender. The amount of borrowings available under the line of credit is based on a formula using accounts receivable. The line of credit has a stated maturity date of January 31, 2007 and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all of the Company s assets. The line requires that the Company meet certain financial covenants, provides payment penalties for noncompliance and prepayment, limits the amount of other debt the Company can incur, and limits the amount of spending on fixed assets. During the third quarter of 2004, the Company moved the $500,000 deposit related to its lease space in San Jose, California under the line of credit. At June 30, 2006, the Company had no unused borrowing capacity.

Note 3. Restructuring Liabilities

During the fourth quarter of 2004, the Company recorded a charge of approximately $500,000 related to the termination of 19 employees throughout the Company, including the Company s Chief Executive Officer and Chief Financial Officer. All amounts related to this action were expensed in 2004, and at June 30, 2005, there was an accrual of approximately $20,000 related to severance and other payments yet to be distributed. At June 30, 2006, there was no balance remaining related to restructuring charges and all amounts had either been disbursed or reversed.

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The following table summarizes the costs and activities related to the 2004 restructuring (in thousands):

	Involuntary Terminations	Involuntary Terminations
Total charge 2004 restructuring	$ 500	500
Cash payments 2004 restructuring	(400)	(400)
Balance at December 31, 2004	100	$ 100
Cash payments 2005 restructuring	(100)	(100)
Balance at December 31, 2005	$	$

Note 4. Segments and Geographic Information

BackWeb operates in one industry segment, the development, marketing and sales of network application software. Operations in Israel are primarily related to research and development. Operations in North America and Europe include sales and marketing, and administration. The following is a summary of operations within geographic areas based on the location of the legal entity making that sale (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
	Unaudited		Unaudited	
Revenue:				
North America	$ 972	$ 1,193	$ 2,216	$ 2,703
Israel		1		2
Europe	170	524	582	670
	$ 1,142	$ 1,718	$ 2,798	$ 3,375

	June 30, 2006	December 31, 2005 Unaudited
Total assets:		
North America	$ 1,690	$ 2,204
Israel	6,138	7,566
Other	296	233
	$ 8,124	$ 10,033

Revenue generated in the U.S. and Canada (collectively, North America) and Europe is all to customers located in those geographic regions. Revenue generated in Israel consists of export sales to end-customers located in the rest of the world, excluding North America and Europe. OEM sales are made to all geographic regions. One customer accounted for approximately $200,000, or 16% of our total revenue, and another customer accounted for approximately $150,000, or 13% of our total revenue, in the three months ended June 30, 2006. One customer accounted for approximately $330,000, or 12% of our total revenue, and another customer accounted for approximately $325,000, or 12% of our total revenue, in the six months ended June 30, 2006.

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Note 5. Guarantees

Under the terms of the Company s standard contract with its customers, the Company agrees to indemnify the customer against certain liabilities and damages to the extent such liabilities and damages arise from claims that such customer s use of the Company s software or services infringes intellectual property rights of a third party. The Company believes that these terms are common in the high technology industry. The Company does not record a liability for potential litigation claims related to indemnification obligations with its customers as it cannot be estimated accurately. The Company does not believe the likelihood of a material obligation is probable.

Note 6. Short-Term Investments

The following is a summary of the Company s available-for-sale marketable securities (in thousands):