BACKWEB TECHNOLOGIES LTD
Form 10-Q
May 17, 2007

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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 March 31, 2007

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, Rosh Ha ayin, Israel	**48092**
(Address of Principal Executive Offices)	*(Zip Code)*

(972) 3-6118800

(Registrant s Telephone Number, Including Area Code)

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 41,303,704 Ordinary Shares outstanding as of May 2, 2007.

BACKWEB TECHNOLOGIES LTD.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2007
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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 revenue and expense trend expectations, our ability to achieve profitability and our ability to establish partnerships with application vendors in our target markets 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, 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. Except as required by law, 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)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,025	$ 2,426
Short-term investments	1,488	2,068
Trade accounts receivable, net	1,297	1,369
Other accounts receivable and prepaid expenses	449	495
Total current assets	6,259	6,358
Long-term investments and long-term assets	68	42
Property and equipment, net	116	127
Total assets	$ 6,443	$ 6,527
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 384	$ 249
Accrued liabilities	1,402	1,499
Deferred revenue	1,277	948
Total current liabilities	3,063	2,696
Commitments and contingencies (Note 2)		
Shareholders equity:		
Ordinary Shares	152,285	152,258
Accumulated other comprehensive income		
Accumulated deficit	(148,905)	(148,427)
Total shareholders equity	3,380	3,831
Total liabilities and shareholders equity	$ 6,443	$ 6,527

Note: The balance sheet at December 31, 2006 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 March 31, 2007	March 31, 2006
	(Unaudited)	
Revenue:		
License	$ 468	$ 791
Service	705	865
Total revenue	1,173	1,656
Cost of revenue:		
License	31	21
Service	179	240
Total cost of revenue	210	261
Gross profit	963	1,395
Operating expenses:		
Research and development	473	582
Sales and marketing	617	1,075
General and administrative	377	605
Total operating expenses	1,467	2,262
Loss from operations	(504)	(867)
Interest and other income/(expense), net	25	25
Net loss	$ (479)	$ (842)
Basic and diluted net loss per share	$ (0.01)	$ (0.02)
Weighted average number of shares used in computing basic and diluted net loss per share	41,144	41,143

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)

	Three Months Ended March 31, 2007	March 31, 2006
	Unaudited	
Operating Activities		
Net loss	$ (479)	$ (842)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	28	40
SFAS 123R equity based compensation expense	25	
Changes in operating assets and liabilities:		
Trade accounts receivable	72	(867)
Other receivables, prepaid expenses, and other long-term assets	20	31
Accounts payable and accrued liabilities	40	(12)
Deferred revenue and long-term liabilities	328	235
Net cash provided by (used in) operating activities	34	(1,415)
Investing Activities		
Purchases of property and equipment	(17)	(21)
Proceeds from sales of short-term investments	580	2,203
Net cash provided by investing activities	563	2,182
Financing Activities		
Proceeds from issuance of Ordinary Shares, net	2	25
Net cash provided by financing activities	2	25
Increase in cash and cash equivalents	599	792
Cash and cash equivalents at beginning of the period	2,426	1,583
Cash and cash equivalents at end of the period	$ 3,025	$ 2,375

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

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. The Company believes that its current cash, cash equivalents, and short-term investment balances will be sufficient to fund its operations for at least the next 12 months. However, since its inception, the Company has not achieved profitability and expects to continue to incur net losses for the foreseeable future. In addition, the Company s business may not go as planned and it might need to raise additional funds prior to the expiration of this period. If the Company decides to raise additional funds, it could be difficult to obtain additional financing on favorable terms, or at all, due to the Company s financial condition. The Company may try to obtain additional financing by issuing Ordinary Shares or convertible debt securities, which would dilute its existing shareholders. If the Company cannot raise needed funds on acceptable terms, or at all, it may not be able to develop or enhance its products, respond to competitive pressures or grow its business, or the Company may be required to further reduce its expenditures, any of which could materially harm the Company s business.

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 on 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, 2006 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, 2006. 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, 2007 or any future interim period.

Revenue Recognition The Company derives revenue primarily from software license fees, maintenance service fees, and consulting services paid to the Company directly by corporate customers and resellers and, to a lesser extent, from royalty fees from OEMs. Revenue derived from resellers is not recognized until the software is sold through to the end user. Royalty revenue is recognized when reported to the Company by the OEM after delivery of the applicable products. In addition, royalty revenue can arise from the right of OEMs and other distributors to use the Company s products. Royalties are classified by product in the applicable revenue category; license royalties are classified in license revenue and royalties from maintenance arrangements are classified as maintenance revenue. As described below, management estimates must be made and used in connection with the revenue the Company recognizes in any accounting period.

The Company recognizes software license revenue in accordance with Statement of Position 97-2 Software Revenue Recognition (SOP 97-2), as amended, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP 98-9). SOP 98-9 requires that revenue be recognized under the Residual Method when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and no VSOE of fair value exists for the delivered elements. Under the Residual Method, any discounts in the arrangement are allocated to the delivered elements.

When contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, the Company accounts for the delivered elements in accordance with the Residual Method prescribed by SOP 98-9. Maintenance revenue included in these arrangements is deferred and recognized on a straight-line basis over the term of the maintenance agreement. The VSOE of fair value of the undelivered elements (maintenance, training, and consulting services) is determined based on the price charged for the undelivered element when sold separately.

Revenue from software license agreements is recognized when all of the following criteria are met as set forth in SOP 97-2: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is probable. The Company does not generally grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer provided that all other revenue recognition criteria have been met.

The Company licenses its products on a perpetual and on a term basis. The Company recognizes license revenue arising from perpetual licenses and multi-year term licenses in the accounting period that all revenue recognition criteria have been met, which is generally upon delivery of the software to the end user. For term licenses with a contract period of less than two years, revenue is recognized on a monthly basis.

At the time of each transaction, the Company assesses whether the fee associated with our license sale is fixed or determinable. If the fee is not fixed or determinable, the Company recognizes revenue as payments become due from the customer provided that all other revenue recognition criteria have been met. In determining whether the fee is fixed or determinable, the Company compares the payment terms of the transaction to its normal payment terms. The Company assesses the likelihood of collection based on a number of factors, including past transaction history, the credit worthiness of the customer and, in some instances, a review of the customer s financial statements. The Company does not request collateral from its customers. If credit worthiness cannot be established, the Company defers the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon the receipt of cash.

Service revenue is primarily comprised of revenue from standard maintenance agreements and consulting services. Customers licensing products generally purchase the standard annual maintenance agreement for the products. The Company recognizes revenue from maintenance over the contractual period of the maintenance agreement, which is generally one year. Maintenance is priced as a percentage of the license revenue. For those agreements where the maintenance and license is quoted as one fee, the Company values the maintenance as an undelivered element at standard rates and recognize this revenue over the contractual maintenance period. Consulting services are billed at an agreed-upon rate, plus out-of-pocket expenses. The Company generally charges for its consulting services on a time and materials basis and recognizes revenue from such services as they are provided to the customer. The Company accounts for fixed fee service arrangements in a similar manner to an agreement containing an acceptance clause. The Company s arrangements do not generally include acceptance clauses. However if an acceptance provision exists, then the Company defers revenue recognition until it receives written acceptance of the product from the customer.

Deferred revenue includes amounts billed to customers and cash received from customers for which revenue has not been recognized.

Net Loss Per Share Basic net loss per share is calculated using 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 5,637,592 and 6,100,142 at March 31, 2007 and 2006, respectively.

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

	Three Months Ended	
	March 31, 2007	March 31, 2006

	Unaudited	
Net loss	$ (479)	$ (842)
Basic and diluted:		
Weighted-average shares	41,144	41,143
Less weighted-average shares subject to forfeiture		
Weighted average number of shares used in computing basic and diluted net loss per share	41,144	41,143
Basic and diluted net loss per share	$ (0.01)	$ (0.02)

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

	Three Months Ended March 31, 2007	March 31, 2006
	Unaudited	
Net loss	$ (479)	$ (842)
Change in net unrealized gain (loss) on investments		1
Total comprehensive loss	$ (479)	$ (841)

Stock-Based Compensation In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 123R, Share Based Payment (SFAS No. 123R), which revised SFAS No. 123, Accounting for Stock Based Compensation (SFAS No. 123). SFAS No. 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 Ordinary Shares 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 No. 123R. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB No. 107), which provides guidance on the implementation of SFAS 123R. The Company applied the principles of SAB No. 107 in conjunction with its adoption of SFAS No. 123R.

The Company adopted SFAS No. 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 No. 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-based award grants for those periods.

Stock-based compensation expense and the related income tax benefit recognized under SFAS No. 123R in the Condensed Consolidated Income Statements in connection with stock options and the Company s 1999 Employee Stock Purchase Plan (the ESPP) for the three months ended March 31, 2007 and March 31, 2006 were as follows:

	Three Months Ended March 31, 2007	March 31, 2006
	(In thousands)	
Stock options	$ 26	$ 108
ESPP		
Total stock-based compensation expense	$ 26	$ 108

Stock Options

The exercise price of each stock option granted under the Company s employee equity incentive plans is equal to or greater than the market price of its Ordinary Shares on the date of grant. Generally, option grants vest over four years, expire no later than ten years from the grant date and are subject to the employee s continuing service to the Company. The fair value of each option grant is

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estimated on the date of grant using the Black-Scholes option pricing model. There were no grants made during the three months ended March 31, 2007. The weighted average grant date fair value of options granted during the three months ended March 31, 2006 was $0.42. The weighted average assumptions used in the model for the three months ended March 31, 2007 and March 31, 2006 were as follows:

	Three Months Ended	
	March 31, 2007	March 31, 2006
Dividend yield	None	None
Expected volatility	122%	83%
Risk-free interest rate	4.53%	4.72%
Expected life (in years)	6.5	6.5

The computation of the expected volatility assumption used in the Black-Scholes pricing model for new grants is based on implied volatility. When establishing the expected life assumption, the Company reviews annual historical employee exercise behavior with respect to option grants having similar vesting periods. The risk-free interest rate for the period within the expected term of the option is based on the yield of United States Treasury notes in effect at the time of grant. The Company has not historically paid dividends, thus the expected dividends used in the calculation are zero.

Employee Stock Purchase Plan

Under the ESPP, substantially all employees may purchase the Company s Ordinary Shares at a price equal to 85 percent of the lower of the fair market value at the beginning of the applicable offering period or at the end of each applicable purchase period, in an amount up to 15% of their annual base earnings, subject to a limit in any calendar year of $20,000 worth of Ordinary Shares. Offering periods under the ESPP are six months with a corresponding six-month purchase period. New offerings begin on each March 1st and September 1st, and those offerings run consecutively rather than concurrently. The purchase dates under the ESPP are February 28th and August 31st of each year.

Ordinary Shares issued under the ESPP for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended	
	March 31, 2007	March 31, 2006
	(In thousands, except per share amounts)	
Shares issued under the ESPP	10	85
Cash received from the exercise of purchase rights under the ESPP	$ 2	$ 40
Weighted average purchase price per share	$ 0.16	$ 0.47

Compensation expense is calculated using the fair value of the employees purchase rights under the Black-Scholes option pricing model. Based on the Black-Scholes model, the weighted average estimated grant date fair value of purchase rights granted under the ESPP was $0.19 for the three months ended March 31, 2007 and March 31, 2006, respectively. The weighted average assumptions used in the model for the three months ended March 31, 2007 and March 31, 2006 were as follows:

	Three Months Ended	
	March 31, 2007	March 31, 2006
Dividend yield	None	None
Expected volatility	116%	113%
Risk-free interest rate	5.12%	4.74%

Expected life (in years)	0.5	0.5

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The computation of the expected volatility assumption used in the Black-Scholes pricing model for purchase rights is based on implied volatility. The expected life assumption is based on the average exercise date for the purchase periods in each offering period. The risk-free interest rate for the period within the expected life of the purchase right is based on the yield of United States Treasury notes in effect at the time of grant.

Recent Accounting Pronouncements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies only to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 157 on its consolidated financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company s fiscal year ended December 31, 2006. The adoption of SAB 108 did not have an effect on the Company s consolidated financial position, results of operations and cash flows.

The Company adopted the provisions of Financial Accounting Standards Interpretation, or FIN, No. 48 Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 effective January 1, 2007. FIN No. 48 prescribes a new recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon its adoption of FIN No. 48, the Company applied the provisions of FIN No. 48 to all of its income tax positions. The cumulative effect of applying the provisions of FIN No. 48 and the adoption of FIN48 did not have a material impact on the Company s financial position, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation which supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires the Company to expense grants made under its stock option program. That cost will be recognized over the vesting period of the grants. SFAS No. 123R is effective for interim periods beginning after June 15, 2005, and the Company adopted SFAS No. 123R effective January 1, 2006. The adoption of SFAS No. 123R had a material effect on the Company s financial position and results of operations of approximately $400,000 of recognized expense in 2006 and approximately $25,000 of recognized expense in the quarter ended March 31, 2007.

Note 2. Contingencies

Litigation

On November 13, 2001, BackWeb, six of its officers and directors, and various underwriters for its 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 the Company 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 the Company s Ordinary Shares. 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.

In 2003, the Company decided to participate in a proposed settlement negotiated by representatives of a coalition of issuers named as defendants in similar actions and their insurers. Although the Company believes that it has meritorious defenses, it decided to participate in the proposed settlement to avoid the cost and distraction of continued litigation. The proposed settlement agreement would dispose of all claims against the Company without any admission of wrongdoing. In February 2005, the proposed settlement was preliminarily approved by the district court overseeing these litigations. In December 2006, the United States Court of Appeals for the Second Circuit issued a decision reversing the district court s finding that six focus cases could be certified as class actions. In April 2007, the Second Circuit denied plaintiffs petition for rehearing, but allowed that plaintiffs might ask the district court to certify a more limited class. It is not clear yet what impact, if any, the Second Circuit s decision will have on the proposed settlement agreement. There is no guarantee that the parties or the court will finalize the proposed settlement.

If the settlement does not occur, and litigation against the Company continues, the Company 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 the Company could be forced to incur substantial expenditures, even if it ultimately prevails. In the event there were an adverse outcome, the Company s business could be harmed. Thus, the Company cannot assure you that this lawsuit will not materially and adversely affect its business, results of operations, or the price of its Ordinary Shares. The Company has not accrued any fees related to this litigation as it cannot reasonably estimate the probability or the amount of fees that could result from this action.

Additionally, the Company was 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 one of the Company s former French distributors and one of the distributor s end user customers. While the Company believes it has additional defenses against the claim and will ultimately not be responsible for payments under the judgment, it accrued approximately $300,000, or approximately one-half of the total judgment against the Company and the former distributor, in the third quarter of 2005.

From time to time, the Company is involved in litigation incidental to the conduct of its business. Apart from the litigation described above, the Company 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 conjunction with its lease renegotiation in San Jose, CA, the Company extended a letter of credit to a total of $500,000 in favor of Equity Office LLC in October 2003. As part of a renegotiation of the San Jose lease space, the Company is allowed to, and is currently in the process of, reducing this letter of credit in conjunction with renewing its Line of Credit as discussed below.

Line of Credit

Through January 31, 2007 the Company maintained a $500,000 bank line of credit and is currently negotiating with its lender on renewal of the credit facility. The amount of borrowings available under the line of credit was based on a formula using accounts receivable. The line provided that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit was secured by substantially all of the Company s assets. The line required 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 limited the amount of spending on fixed assets. During the third quarter of 2004, the Company utilized the line to secure a $500,000 deposit related to its lease space in San Jose, California under the line of credit. This lease deposit did not qualify as a draw down of the line of credit and therefore was not interest bearing. Any draw down of the line of credit would include interest at the Prime rate. , Prior to the expiration of the line, the Company was in default with regard to certain of the covenants of the line of credit, and is in the process of renegotiating these covenants as part of the renewal of the line.

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Note 3. Short-Term Investments

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

	December 31, 2006			December 31, 2005		
	Cost	Unrealized Gains/(Losses)	Estimated Fair Value	Cost	Unrealized Gains/(Losses)	Estimated Fair Value
Money market	$ 1,488	$	$ 1,488	$ 2,068	$	$ 2,068
Totals	$ 1,488	$	$ 1,488	$ 2,068	$	$ 2,068

At March 31, 2007, the Company s investments consisted solely of money market securities with no long term maturities associated with them.

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 March 31, 2007	Three Months Ended March 31, 2006
	Unaudited	
Revenue:		
North America	$ 989	$ 1,627
Europe	184	29
	$ 1,173	$ 1,656

	March 31, 2007	December 31, 2006
	Unaudited	
Long-lived assets:		
North America	$ 114	$ 102
Israel	59	57
Other	11	10
	$ 184	$ 169

Revenue generated in the U.S. and Canada (collectively, North America) and Europe is all to customers located in those geographic regions.. OEM sales are made to all geographic regions. One customer accounted for approximately $270,000, or 23% of our total revenue, and another accounted for approximately $150,000, or 13% of our total revenue, in the three months ended March 31, 2007. One customer accounted for approximately $340,000, or 21% of our total revenue, and another accounted for approximately $285,000, or 17% of our total revenue, in the three months ended March 31, 2006.

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 has not had any claims and does not believe any are likely.

Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis should be read in conjunction with, and is qualified by, our Condensed Consolidated Financial Statements and Notes thereto included elsewhere in this report, as well as the Risk Factors section that is set forth in Item 1A of Part II below. In addition, this discussion contains forward-looking statements and is, therefore, subject to the overall qualification on forward-looking statements that appears at the beginning of this report.

Overview

We compete in the mobility and mobile applications market and offer a solution allowing users of enterprise Web applications to synchronize those Web applications to their personal computers for use while disconnected from the network. Our enabling software is designed to integrate with Web applications in a loosely-coupled way that requires no changes in a company s enterprise Web architecture and applications. This approach has the potential to bring mobile functionality to enterprise Web applications quickly and with low total cost of ownership. Our products address the need of mobile users who spend important parts of their work time in situations in which fixed or wireless network connectivity is not practical. This includes mobile workers engaged in field sales, services, consulting and operational roles. Many of these people must frequently disconnect from and reconnect to the network but require consistent access to their important Web-based business applications. Examples of such critical business applications include customer relationship management, or CRM, systems, service management systems, service document repositories, training and e-learning applications, human resources, or HR, applications, service repair guides, expense report updates, pricing data, time sheets, work orders, and other essential documents and information. Our products are designed to capitalize on the potential business and return on investment benefits of mobile applications, including improved productivity of mobile workforces, faster completion of company workflows and increased levels of sales and customer satisfaction. They are also designed to reduce the cost of distributing information to field personnel and to minimize the impact and costs on enterprise networks to support mobile users.

The BackWeb Offline Access Server (OAS) is designed to integrate with Web applications in any Web-based architecture, including portal frameworks, intranets, and Websites, so the applications may be used by users who are frequently disconnected from the network. Its two-way synchronization capability enables people to access content from, publish to and conduct transactions on Web applications while disconnected, enabling the productive combination of fully-featured enterprise applications and mobile use cases. This can be less expensive and easier to implement than the alternative of writing special client-server applications for use by mobile personnel.

Using HTML-type tags (called Offline Tagging Markup Language, or OTML), our customers can offline-enable their Websites and portals without rewriting code, creating an offline end-user experience that is essentially the same as the online user experience. The BackWeb Polite Sync Server, formerly known as BackWeb Foundation, uses network-sensitive background content delivery that can deliver large amounts of data without impacting the performance of other network applications. This allows organizations to efficiently target and deliver sizeable digital data to users desktops throughout the extended enterprise. The Polite Sync Server utilizes our patented polite synchronization technology that is designed to distribute large amounts of data over very good or very low quality network connections.

We derive revenue from licensing our products and from maintenance, consulting and training services. Our products are marketed worldwide primarily through our direct sales force. We also have generated revenue through business partners via our reseller, OEM and co-sales/marketing partners. Since 2002, our direct sales force has accounted for a significant majority of our revenue. However, the revenue from partner activities increased in 2006 and we believe it could continue to increase in absolute dollars and in percentage of overall revenue in future periods.

Business Overview

In the first quarter of 2007, we made progress in terms of reducing our overall operating expenses and achieving several important business milestones. Our total revenue decreased in the first quarter of 2007 as compared to the first quarter of 2006, but we reduced our net loss primarily as a result of the expense reductions that we implemented in the second half of 2006, the effects of which were fully realized in the first quarter of 2007. License revenue in the first quarter of 2007 decreased 41% compared to the first quarter of 2006. However license revenue in the first quarter of 2006 included approximately $250,000 of revenue recognition from a license agreement with F-Secure Corporation that we entered into during the fourth quarter of 2004, and excluding that license recognition, license revenue decreased 14% in the first quarter of 2007 compared with the first quarter of 2006. Our total net expenses in the first quarter of 2007 were consistent with our previously disclosed net expense of approximately $1.5 million and significantly below total net expenses in the first quarter of 2006 of approximately $2.3 million.

Services revenue decreased during the first quarter of 2007 as compared to the first quarter of 2006. The decrease in professional services fees was primarily related to a decrease in the number of personnel delivering these services, as well as due to our planned migration of our service work to strategic resellers. This decrease was partially offset by a slight increase in maintenance services fees. We achieved greater stability in our overall revenue while significantly reducing our operating expenses, resulting in a reduction in our net loss for the first quarter of 2007 to $(0.01) per share, an improvement of $0.01 per share as compared to the first quarter of 2006.

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During the first quarter of 2007, we made progress toward improving our business and operating performance, which we believe better positions us to increase our revenues and achieve profitability. For example, we entered into a multi-year license agreement during the quarter that may, in the event we are able to meet acceptance criteria later in the year, result in BackWeb recognizing up to $3 million in revenue over a two- to three-year period. In addition, we continue to improve our sales and marketing execution and have made progress in identifying qualified customer prospects, which we believe reflects the maturation of enterprise Web applications and increasing awareness of the business benefits of mobility. We remain focused on the market to mobilize enterprise Web applications. Enterprise applications have migrated almost entirely to Web-based architectures, and with the advancement of Service Oriented Architectures, Web services and composite applications, we believe that the Web-based enterprise architecture is becoming the foundation upon which the majority of business processes will be enabled or automated. Concurrently, professional workers are becoming increasingly mobile, accomplishing their work on laptops while they work with customers, partners and in remote work environments. In their mobile work, they are occasionally connected via wireless networking but require their key applications to be always available, even between wireless connections.

Our ability to increase our revenue and achieve profitability in this market will depend on our ability to identify and penetrate the application and industry market segments for which the need for mobile Web application usage is most acute. Key applications include e-learning, human resources talent management/performance management, CRM, knowledge management, clinical trials and content portals. Key industry segments include pharmaceuticals, manufacturing and consulting.

Another important factor in our success will be our ability to establish strategic relationships with application vendors in these market segments. To this end we closed our first sale with a Salesforce.com related customer during the first quarter of 2007. We believe that the business continuity issue that we address is a natural fit for companies such as Salesforce.com and we plan to continue to expand upon that initial sale. We also intend to manage our expenses carefully while engaging and executing in productive market segments to pursue revenue growth in our core market segment, as well as looking opportunistically for additional market segments where we can leverage our existing technologies to solve key corporate issues.

Critical Accounting Policies

Our critical accounting policies are as follows:

Revenue recognition; and

Estimating valuation allowances and accrued liabilities, including the allowance for doubtful accounts.

Revenue Recognition

We derive revenue primarily from software license fees, maintenance service fees, and consulting services paid to us directly by corporate customers and resellers and, to a lesser extent, from royalty fees from OEMs. Revenue derived from resellers is not recognized until the software is sold through to the end user. Royalty revenue is recognized when reported to us by the OEM after delivery of the applicable products. In addition, royalty revenue can arise from the right of OEMs and other distributors to use our products. Royalties are classified by product in the applicable revenue category; license royalties are classified in license revenue and royalties from maintenance arrangements are classified as maintenance revenue. As described below, management estimates must be made and used in connection with the revenue we recognize in any accounting period.

We recognize software license revenue in accordance with Statement of Position 97-2 Software Revenue Recognition (SOP 97-2), as amended, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP 98-9). SOP 98-9 requires that revenue be recognized under the Residual Method when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and no VSOE of fair value exists for the delivered elements. Under the Residual Method, any discounts in the arrangement are allocated to the delivered elements.

When contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the Residual Method prescribed by SOP 98-9. Maintenance revenue included in these arrangements is deferred and recognized on a straight-line basis over the term of the maintenance agreement. The VSOE of fair value of the undelivered elements (maintenance, training, and consulting services) is determined based on the price charged for the undelivered element when sold separately.

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Revenue from software license agreements is recognized when all of the following criteria are met as set forth in SOP 97-2: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is probable. We do not generally grant a right of return to our customers. When a right of return exists, we defer revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer provided that all other revenue recognition criteria have been met.

We license our products on a perpetual and on a term basis. We recognize license revenue arising from perpetual licenses and multi-year term licenses in the accounting period that all revenue recognition criteria have been met, which is generally upon delivery of the software to the end user. For term licenses with a contract period of less than two years, revenue is recognized on a monthly basis.

At the time of each transaction, we assess whether the fee associated with our license sale is fixed or determinable. If the fee is not fixed or determinable, we recognize revenue as payments become due from the customer provided that all other revenue recognition criteria have been met. In determining whether the fee is fixed or determinable, we compare the payment terms of the transaction to our normal payment terms. We assess the likelihood of collection based on a number of factors, including past transaction history, the credit worthiness of the customer and, in some instances, a review of the customer s financial statements. We do not request collateral from our customers. If credit worthiness cannot be established, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon the receipt of cash.

Service revenue is primarily comprised of revenue from standard maintenance agreements and consulting services. Customers licensing products generally purchase the standard annual maintenance agreement for the products. We recognize revenue from maintenance over the contractual period of the maintenance agreement, which is generally one year. Maintenance is priced as a percentage of the license revenue. For those agreements where the maintenance and license is quoted as one fee, we value the maintenance as an undelivered element at standard rates and recognize this revenue over the contractual maintenance period. Consulting services are billed at an agreed-upon rate, plus out-of-pocket expenses. We generally charge for our consulting services on a time and materials basis and recognize revenue from such services as they are provided to the customer. We account for fixed fee service arrangements in a similar manner to an agreement containing an acceptance clause. Our arrangements do not generally include acceptance clauses. However if an acceptance provision exists, then we defer revenue recognition until we receive written acceptance of the product from the customer.

Deferred revenue includes amounts billed to customers and cash received from customers for which revenue has not been recognized.

Estimating Valuation Allowances and Accrued Liabilities, Including the Allowance for Doubtful Accounts

Management continually reviews the collectibility of trade accounts receivable and the adequacy of the allowance for doubtful accounts against trade accounts receivable. Management specifically analyzes customer accounts, accounts receivable aging reports, history of bad debts, the business or industry sector to which the customer belongs, customer concentration, customer credit-worthiness, current economic trends, and any other pertinent factors. Generally, we make a provision for doubtful accounts when a trade receivable becomes 90 days past due. In exceptional cases, we will waive a provision after a trade receivable is 90 days or more past due when, in the judgment of management, after conducting due diligence with the management of the customer, the receivable is still collectible and the customer has demonstrated that payment is imminent.

Management believes it is able to make reasonably objective judgments on the adequacy of other provisions relating to trade accruals. We have not made any provision for contingent liabilities which has involved significant management judgment that either we will prevail in the case of material litigation or that we have sufficient insurance to cover any adverse outcome. A discussion of our outstanding material litigation is contained in Part II, Item 1 Legal Proceedings of this Form 10-Q.

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Results of Operations

The following table sets forth our results of operations for the three months ended March 31, 2007 and 2006 expressed as a percentage of total revenue.

	Three Months Ended March 31, 2007	March 31, 2006
	Unaudited	
Revenue:		
License	40%	48%
Service	60	52
Total revenue	100	100
Cost of revenue:		
License	3	1
Service	15	15
Total cost of revenue	18	16
Gross profit	82	84
Operating expenses:		
Research and development	40	35
Sales and marketing	53	65
General and administrative	32	37
Total operating expenses	125	137
Loss from operations	(43)	(53)
Interest and other income, net	2	2
Net loss	(41%)	(51%)

Revenue

Total revenue

	Three months ended, March 31, 2007	Change $	Change %	March 31, 2006
	(in thousands, except percentages)			
Total revenue	$1,173	(483)	(29)%	$1,656
As a percentage of total revenue	100%			100%

We derive revenue from licensing and providing maintenance and consulting services for our BackWeb Offline Access Server (OAS), BackWeb Polite Sync Server, and BackWeb e-Accelerator suite of products. Total revenue in the three months ended March 31, 2007 decreased as compared to the same period in 2006 primarily due to a decrease in license revenue, primarily related to the fact that we recognized $250,000 in revenue during the first quarter of 2006 from the F-Secure license agreement we entered into in the fourth quarter of 2004, but did not recognize any revenue from this agreement during the first quarter of 2007. We have limited visibility to forecast revenue and therefore we are unable to quantify future overall trends in our total revenue. However, in the sections below we discuss the changes in the individual components of total revenue and expected trends in these individual components.

In the three months ended March 31, 2007, one customer accounted for approximately $270,000, or 23% of our total revenue, and another customer accounted for approximately $150,000, or 13% of our total revenue. One customer accounted for approximately $340,000, or 21% of our total revenue, and another customer accounted for approximately $285,000, or 17% of our total revenue, in the three months ended March 31, 2006. We expect that a small number of customers will continue to account for a substantial portion of our total revenue for the foreseeable future and revenue from one or more of these customers may represent more than 10% of our total revenue in future periods.

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License revenue

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
License revenue	$468	$(323)	(41)%	$791
As a percentage of total revenue	40%		_(8)%	48%

The decrease in license revenue in the three months ended March 31, 2007 as compared to the same period in 2006 was primarily due to the expiration of revenue recognition related to the F-Secure license agreement and our inability to increase our deal volume and/or deal size to offset the loss of the F-Secure revenue.

Service revenue

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Service revenue	$705	($160)	(18%)	$865
As a percentage of total revenue	60%		_8%	52%

Service revenue, which includes maintenance and consulting services, decreased for the three months ended March 31, 2007 when compared to the same period in 2006 due to a decrease in professional services fees. The decrease in professional services fees was primarily related to a decrease in the number of personnel delivering these services, as well as due to our planned migration of our service work to strategic resellers. This decrease was partially offset by a slight increase in maintenance services fees.

During the remainder of 2007, we expect service revenue to grow commensurately with our anticipated increased license sales. We expect that maintenance revenue associated with our older products will continue to decrease, offset by an increase in maintenance revenue associated with BackWeb OAS. Any increase in maintenance revenue from BackWeb OAS, however, is dependent upon an absolute dollar level increase in license revenue from that product, which may not occur. Further, while we expect consulting revenue to remain relatively flat over the remainder of 2007, this too is dependent on increased license sales of our BackWeb OAS.

Cost of Revenue

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Cost of revenue	$210	$(51)	(20)%	$261
As a percentage of total revenue	18%		_____2%	16%

Cost of revenue decreased both in absolute dollars during the three months ended March 31, 2007 as compared to the same period in 2006. This decrease was due to a decrease in the size of the service team performing maintenance and consulting work.

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Cost of License Revenue

Cost of license revenue consists primarily of expenses related to media duplication, packaging of products and royalty payables to OEM vendors.

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Cost of license revenue	$31	$10	48%	$ 21
As a percentage of license revenue	7%		4%	3%
As a percentage of total revenue	3%		2%	1%

Cost of license revenue increased as a percentage of revenue during the three months ended March 31, 2007 as compared to the same period in 2006 primarily due to costs related to a strategic reseller relationship for which we have not yet begun to recognize revenue but we are incurring costs.

Cost of Service Revenue

Cost of service revenue consists primarily of personnel and overhead-related expenses of our customer support and professional service organizations, including related expenses of BackWeb consultants, third party consultants, and contractors.

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Cost of service revenue	$179	$(61)	(25)%	$240
As a percentage of service revenue	25%		(3)%	28%
As a percentage of total revenue	15%		1%	14%

Cost of service revenue decreased in absolute dollars during the three months ended March 31, 2007 as compared to the same period in 2006 primarily due to a reduction in the number of our professional services employees as a result of the expense reduction measures we have implemented.

Operating Expenses

Research and Development

Research and development expenses consist of personnel, equipment and supply costs for our development efforts. We charge these expenses to operations as they are incurred. We operate our research and development facilities in Israel.

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Research and development	$473	($109)	(19%)	$582
As a percentage of total revenue	40%		5%	35%

Research and development expenses during the three months ended March 31, 2007 decreased as compared to the same period in 2006 primarily due to expense reductions in previous periods as well as a reduction in stock-based compensation related expenses incurred during the three months ended March 31, 2007 in connection with the adoption of SFAS No. 123R related expenses. SFAS No. 123R related expenses decreased $90,000 during the period ended March 31, 2007 as compared to the same period in the prior year due to the full amortization of the related stock option expense.

We believe that continued investment in research and development is important in order to attain our strategic objectives. However, we intend to continually monitor expenses across the organization and continually strive for cost reductions, particularly in areas such as facilities, travel and entertainment, and telecommunications expenses.

Sales and Marketing

Sales and marketing expenses consist of personnel and related costs for our direct sales force, product management, marketing, business development and operations management employees, together with the costs of marketing programs, including trade shows and other related direct expenses and general overhead.

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Sales and marketing	$617	$(458)	(43)%	$1,075
As a percentage of total revenue	53%		(12)%	65%

The decrease in sales and marketing expenses during the three months ended March 31, 2007 as compared to the same period in 2006 resulted primarily from a decrease in personnel related costs as a result of having one less vice president and five fewer field level staff as compared to the same period in 2006. Additionally in the first quarter of 2006, we recognized approximately $100,000 of one-time separation costs related to the termination of certain employees; we did not have similar costs for the same period in 2007.

We consider maintaining a marketing presence and an effective sales organization to be vital to the achievement of our strategic objectives. Though we intend to continually monitor expenses across the organization and continually strive for cost reductions, we expect to selectively increase our direct sales organization when and where appropriate, particularly in connection with our realigned sales strategy and personnel towards our focus on selling to line of business executives as opposed to our previous focus on information technology, or IT, organizations.

General and Administrative

General and administrative expenses consist primarily of personnel and related costs and outside services for general corporate functions, including finance, accounting, general management, human resources, information services and legal, as well as the provision for doubtful accounts receivable.

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
General and administrative	$377	$(228)	(38)%	$605
As a percentage of total revenue	32%		(5)%	37%

The decrease in general and administrative expenses during the three months ended March 31, 2007 as compared to the same period in 2006 was primarily due to the reclassification of our Chief Executive Officer into the sales and marketing department following the termination of our Vice President of Sales and Business Development, as well as reductions in personnel and related expenses.

Interest and Other Income (Expense), Net

Interest and other income, net includes interest income earned on our cash, cash equivalents and short-term investments, offset by interest expense and the effects of exchange gains and losses arising from the re-measurement of transactions in foreign currencies.

	Three months ended,			
	March 31, 2007	Change $	%	March 31, 2006
	(in thousands, except percentages)			
Interest and other income (expense), net	$ 25		%	$ 25

As a percentage of total revenue	2%	%	2%

Interest and other income (expense), net remained relatively consistent during the three months ended March 31, 2007 as compared to the same period in 2006 due to the rise in interest rates related to our interest bearing bank accounts being offset by a decrease in our investment balances.

Income Taxes

We adopted the provisions of FIN No. 48 effective January 1, 2007. We apply FIN No. 48 to each income tax position accounted for under SFAS No. 109, Accounting for Income Taxes at each financial statement reporting date. This process involves the assessment of whether each income tax position is more likely than not of being sustained based on its technical merits. In making this assessment, we must assume that the taxing authority will examine the income tax position and have full knowledge of all relevant information. For each income tax position that meets the more likely than not recognition threshold, we then assess the largest

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amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. Any difference between the tax benefit recorded for financial statement purposes and the amount reflected in the tax return within income tax receivable, income tax payable, deferred tax assets or deferred tax liabilities would then be reported. All tax years are currently open for the US operating entity until net operating losses are utilized or expire unused. The open tax year for the Israeli operating unit is 2005. The open tax year for the German operating unit is 2005. The cumulative effect of applying the provisions of FIN No. 48 and the adoption of FIN No. 48 did not have a material impact on our financial position, results of operations and cash flows.

Our policy is to record any interest and/or penalties related to income tax matters in income tax expense. At March 31, 2007, we did not accrue any interest or penalties.

There was no provision for income taxes because we have incurred operating losses. As of March 31, 2007, we had approximately $100 million of Israeli net operating loss carry forwards and $5 million of U.S. federal net operating loss carry forwards available to offset future taxable income. The U.S. net operating loss carry forwards expire in varying amounts between the years 2011 and 2024. The Israeli net operating loss carry forwards have no expiration date.

Off-Balance Sheet Financings and Liabilities

Other than operating lease commitments, we do not have any off-balance sheet financing arrangements or liabilities, retained or contingent interests in transferred assets or any obligation arising out of a material variable interest in an unconsolidated entity. We do provide standard indemnification agreements to our customers related to our product. We do not have any majority-owned subsidiaries that are not included in the consolidated financial statements. We will not incur any income tax obligations as a result of adopting FIN No. 48.

Liquidity and Capital Resources

As of March 31, 2007, we had approximately $4.5 million of cash, cash equivalents and short-term investments, which was consistent with our balances as of December 31, 2006.

Net cash provided by operating activities was approximately $34,000 for the three months ended March 31, 2007 and included the receipt on an initial $500,000 payment from a multi-year license agreement entered into during the quarter. Net cash used in operating activities was approximately $1.4 million for the three months ended March 31, 2006, and was primarily used to fund our ongoing operational needs. Cash provided by investing activities was approximately $560,000 and $2.2 million for the three months ended March 31, 2007 and 2006, respectively, and primarily represents the net proceeds from the purchases and sales of short-term investments to fund our operational needs. Cash provided by financing activities in the three months ended March 31, 2007 and 2006 was approximately $2,000 and $25,000, respectively. These amounts consisted primarily of proceeds from the issuance of Ordinary Shares under our 1999 Employee Stock Purchase Plan and as a result of the exercise of stock options issued under our 1998 Employee Stock Option Plan.

Through January 31, 2007 the Company maintained a $500,000 bank line of credit and is currently negotiating with its lender on renewal of the credit facility. The amount of borrowings available under the line of credit was based on a formula using accounts receivable. The line provided that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit was secured by substantially all of the Company s assets. The line required 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 limited the amount of spending on fixed assets. During the third quarter of 2004, the Company utilized the line to secure a $500,000 deposit related to its lease space in San Jose, California under the line of credit. This lease deposit did not qualify as a draw down of the line of credit and therefore was not interest bearing. Any draw down of the line of credit would include interest at the Prime rate. Prior to the expiration of the line, the Company was in default with regard to certain of the covenants of the line of credit, and is in the process of renegotiating these covenants as part of the renewal of the line.

As of March 31, 2007, we had no material commitments for capital expenditures. Our capital requirements depend on numerous factors, including market acceptance of our products, the resources we devote to developing, marketing, selling and supporting our products and the timing and extent of establishing additional operations.

We believe that our current cash, cash equivalents, and short-term investment balances will be sufficient to fund our operations for at least the next 12 months. However, since our inception we have not achieved profitability and we expect to continue to incur net losses for the foreseeable future. In addition, our business may not go as planned and we might need to raise additional funds prior to the expiration of this period. If we decide to raise additional funds, it could be difficult to obtain additional financing on favorable terms, or at all, due to our financial condition. We may try to obtain additional financing by issuing Ordinary Shares or convertible debt securities, which would dilute our existing shareholders. If we cannot raise needed funds on acceptable terms, or at all, we may not be able to develop or enhance our products, respond to competitive pressures or grow our business, or we may be required to further reduce our expenditures, any of which could materially harm our business.

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Contractual Obligations

The following summarizes our contractual obligations, which consisted solely of operating leases, at March 31, 2007 (in thousands):

Payments Due by Period

2007	403,000
2008	528,000
2009	473,000
2010	33,000
	$ 1,437,000

Effective Corporate Tax Rates

Our tax rate reflects a mix of the U.S. statutory tax rate on our U.S. income, European country tax rates on our individual European country income and the Israeli tax rate discussed below. We expect that most of our future taxable income will be generated in Israel. Israeli companies were generally subject to corporate tax at the rate of 31% of their taxable income in 2006. Pursuant to tax reform legislation that came into effect in 2003, the corporate tax rate is to undergo further staged reductions to 25% by the year 2010. In order to implement these reductions, the corporate tax rate is scheduled to decline to 29% in 2007, 27% in 2008, 26% in 2009 and 25% in 2010. However, the rate is effectively reduced for income derived from an Approved Enterprise. The majority of our income is derived from our capital investment program with Approved Enterprise status under the Law for the Encouragement of Capital Investments, and is eligible therefore for tax benefits. As a result of these benefits, we expect to have a tax exemption on income derived during the first two years in which this investment program produces taxable income, provided that we do not distribute such income as a dividend, and a reduced tax rate of 10% to 25% for the following five to eight years, depending upon the proportion of foreign ownership of BackWeb.

On April 1, 2005, an amendment to the Law for the Encouragement of Capital Investments in Israel came into effect, which revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a Privileged Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the amendment provides tax benefits to both local and foreign investors and simplifies the approval process. The amendment does not apply to investment programs approved prior to December 31, 2004. The new tax regime will apply to new investment programs only.

As a result of the amendment, tax-exempt income generated under the provisions of the new law will subject us to taxes upon distribution or liquidation and we may be required to record deferred tax liability with respect to such tax-exempt income. We are currently evaluating the impact the amendment will have on us. Based on our preliminary analysis, it will not adversely affect our 2007 financial statements.

All of these tax benefits are subject to various conditions and restrictions. See Note 10 Income Taxes Israeli Income Taxes Tax Benefits under the Law for the Encouragement of Capital Investments, 1959, of Notes to the Consolidated Financial Statements reporting our Annual Report on Form 10-K for the year ended December 31, 2006. We cannot assure you that we will obtain approval for additional Approved Enterprise Programs, or that the provisions of the law will not change.

Impact of Inflation and Currency Fluctuations

Most of our sales are denominated in U.S. dollars. However, we incur a large portion of our costs from our operations in Israel. A substantial portion of our operating expenses, primarily our research and development costs, are denominated in NIS. Costs not denominated in U.S. dollars are translated to U.S. dollars when recorded, at prevailing rates of exchange. This is done for the purposes of our financial statements and reporting. Costs not denominated in U.S. dollars will increase if the rate of inflation exceeds the devaluation of the foreign currency as compared to the U.S. dollar or if the timing of such devaluations lags considerably behind inflation. Consequently, we are, and will be, affected by changes in the prevailing exchange rate. We might also be affected by the U.S. dollar exchange rate to the major European currencies due to the fact that we do business in Europe. To date these fluctuations have not been material.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

We develop products in Israel and sell them in the U.S., Canada, Europe, and Israel. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. As most of our sales are currently made in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, we do not anticipate material losses in these areas. Due to the nature of our short-term investments, we have concluded that there is no material market risk exposure. Therefore, no quantitative tabular disclosures are required.

Foreign Currency Exchange Rate Risk

We conduct our business and sell our products directly to customers primarily in North America and Europe. In the normal course of business, our financial position is routinely subject to market risks associated with foreign currency rate fluctuations due to balance sheet positions in other local foreign currencies. Our policy is to ensure that business exposures to foreign exchange risks are identified, measured and minimized using foreign currency forward contracts to reduce such risks, should the risks of such exposure outweigh the cost of forward contracts. The foreign currency forward contracts, when placed, generally expire within 90 days. The change in fair value of these forward contracts is recorded as income/loss in our Consolidated Statements of Operations as a component of interest and other income, net. There were no forward contracts placed in the first quarter of 2006 or 2007.

Item 4. *Controls and Procedures*

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were not effective to ensure that material information relating to us, including our consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared, due to the existence of two material weaknesses in our internal control over financial reporting identified by our independent registered public accounting firm in connection with its audit of our consolidated financial statements for the year ended and as of December 31, 2006 and review of our September 30, 2006 interim financial statements. These material weaknesses in our internal control over financial reporting related to adjustments proposed by our independent registered public accounting firm related to (1) the accounting for deferred rent on a new facilities operating lease agreement entered into during 2006 and (2) recognition of revenue on two term license agreements entered into during the quarter ended September 30, 2006 for which we did not have vendor-specific objective evidence of fair value for the bundled post-contract support.

Changes in internal control over financial reporting. In connection with the material weaknesses described above, we have taken the following remedial measures:

1. We have implemented a more detailed review of material agreements with our Board of Directors.

2. We have instituted a review of material agreements with external industry professionals familiar with our business and market.

In addition, in connection with the material weaknesses described above, we intend to fill the open employment requisitions within our finance and accounting department to increase the number of qualified staff within our accounting and finance team and thereby add additional review to material agreements.

We believe that these corrective actions, taken as a whole, when fully implemented, will mitigate the control deficiencies identified above. However, we will continue to monitor the effectiveness of these actions and will make any changes that management determines appropriate.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

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 our 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 our Ordinary Shares. 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.

In 2003, we decided to participate in a proposed settlement negotiated by representatives of a coalition of issuers named as defendants in similar actions and their insurers. Although we believe that we have meritorious defenses, we decided to participate in the proposed settlement to avoid the cost and distraction of continued litigation. The proposed settlement agreement would dispose of all claims against us without any admission of wrongdoing. In February 2005, the proposed settlement was preliminarily approved by the district court overseeing these litigations. In December 2006, the United States Court of Appeals for the Second Circuit issued a decision reversing the district court s finding that six focus cases could be certified as class actions. In April 2007, the Second Circuit denied plaintiffs petition for rehearing, but allowed that plaintiffs might ask the district court to certify a more limited class. It is not clear yet what impact, if any, the Second Circuit s decision will have on the proposed settlement agreement. There is no guarantee that the parties or the court will finalize the proposed settlement.

If the settlement does not occur, and litigation against us continues, we believe we have meritorious defenses and intend to defend the case vigorously. However, the results of any litigation are inherently uncertain and can require significant management attention, and we could be forced to incur substantial expenditures, even if we ultimately prevail. In the event there were an adverse outcome, our business could be harmed. Thus, we cannot assure you that this lawsuit will not materially and adversely affect our business, results of operations, or the price of our Ordinary Shares. We have not accrued any fees related to this litigation as we cannot reasonably estimate the probability or the amount of fees that could result from this action.

Additionally, we were named in a judgment during September 2005 for approximately $500,000 related to a claim against our dormant French subsidiary. The judgment is related to a dispute between a former French distributor of ours and one of the distributor s end user customers. While we believe we have additional defenses against the claim and will ultimately not be responsible for payments under the judgment, we accrued approximately $300,000, or approximately one-half of the total judgment against us and the former distributor, 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, we are not party to any lawsuit or proceeding that, in our opinion, is likely to seriously harm our business.

Item 1A. *Risk Factors*

We operate in a rapidly changing environment that involves numerous risks and uncertainties, some of which are beyond our control. The following discussion highlights some of these risks and uncertainties. You should consider the following factors, as well as other information set forth in this Quarterly Report on Form 10-Q, in connection with any investment in our Ordinary Shares. If any of the risks described below occurs, our business, results of operations and financial condition could be adversely affected. In such cases, the price of our Ordinary Shares could decline, and you could lose part or all of your investment.

Risks Relating to Our Business

We have a history of losses and we expect future losses.

Since our inception, we have not achieved profitability and we expect to continue to incur net losses. We incurred net losses of approximately $479,000 for the three months ended March 31, 2007, $842,000 for the year ended December 31, 2006, $1 million in the year ended December 31, 2005 and $5.1 million in the year ended December 31, 2004. As of March 31, 2007, we had an accumulated deficit of approximately $149 million. We expect to continue to incur significant sales and marketing, research and development, and general and administrative expenses through the remainder of 2007 and into 2008. As a result, we will need to significantly increase our revenue to achieve and maintain profitability, and we may not be able to do so. Failure to achieve profitability or achieve and sustain the level of profitability expected by investors may adversely affect the market price of our Ordinary Shares.

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Wireless networking technology and geographic coverage could limit our market.

Emerging wireless technologies, such as wireless fidelity, or WiFi, and cellular data networks, may pose a competitive challenge as an alternative to BackWeb s capabilities. the reality and promise of wireless connectivity will make it necessary for BackWeb to target and educate its prospects intelligently. If we fail to successfully target those market segments which are not served by wireless networking, then our operating results could suffer.

Our business strategy requires that we derive a significant amount of license revenue from our OAS product. If demand for OAS does not increase, our total revenue will not increase and our business will suffer.

Our business strategy requires that we derive a significant amount of license revenue from licensing our OAS product and derive additional related revenue through providing related consulting and maintenance services. Accordingly, our future operating results will depend on the demand for OAS by future customers. While our OAS revenue accounted for the majority of our license revenue for the first time in 2006, which continued in the first quarter of 2007, we need to realize additional growth during the remainder of 2007 and beyond or our operating results will be negatively impacted. If our competitors release products that are superior to OAS in performance or price, OAS does not become widely accepted by the market, or we fail to enhance OAS and introduce new versions in a timely manner, we may never generate significant license revenue from this product. If demand for our OAS product does not significantly increase, as a result of competition, technological change or other factors, it would significantly and adversely affect our business, financial condition, and operating results.

A lack of effective internal control over financial reporting could result in an inability to accurately report our financial results that could lead to a loss of investor confidence in our financial reports and have an adverse effect on our share price.

Effective internal control over financial reporting is essential for us to produce reliable financial reports. If we cannot provide reliable financial information or prevent fraud, our business and operating results could be harmed. We have in the past discovered, and may in the future discover, deficiencies in our internal control over financial reporting. In connection with our audit of our consolidated financial statements for the year ended and as of December 31, 2006 and review of our September 30, 2006 interim financial statements, our independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting. As more fully described in Item 4 of this Quarterly Report on Form 10-Q, these material weaknesses in our internal control over financial reporting related to adjustments proposed by our independent registered public accounting firm related to (1) the accounting for deferred rent on a new facilities operating lease agreement entered into during 2006 and (2) our incorrect recognition of revenue on two term license agreements entered into during the quarter ended September 30, 2006 for which we did not have vendor-specific objective evidence of fair value for the bundled post-contract support.

As a result of these material weaknesses, we concluded that our disclosure controls and procedures were not effective as of each of September 30, 2006, December 31, 2006 and March 31, 2007.

We cannot assure you that the measures we have taken and intend to take to remediate these material weaknesses, as more fully described in Item 4 of this Quarterly Report on Form 10-Q, will be effective or that we will be successful in implementing them. Moreover, we cannot assure you that we have identified all, or that we will not in the future have additional, material weaknesses. Our independent registered public accounting firm has not evaluated any of the measures we have taken, or that we propose to take, to address the material weaknesses. In addition, our Chief Financial Officer, Ken Holmes is leaving BackWeb upon the filing of this Quarterly Report on Form 10-Q and we are conducting a search for his long-term replacement. The departure of Mr. Holmes and the uncertainty regarding his replacement will likely make it even more difficult for us to remediate the material weaknesses and implement and maintain effective internal control over financial reporting. Our failure to remediate the material weaknesses and successfully implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of our financial statements or otherwise cause us to fail to meet our financial reporting obligations. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our share

Our financial performance and workforce reductions may adversely affect the morale and performance of our personnel and our ability to hire new personnel.

In connection with the evolution of our business model and in order to reduce our cash expenses, we have adopted a number of changes in personnel, including significant workforce reductions. The changes in personnel may adversely affect morale and our ability to attract and retain key personnel. In addition, the current trading levels of our Ordinary Shares have decreased the value of

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many of the stock options granted to employees pursuant to our stock option plan. Furthermore, the economic environment in Israel and the U.S. has improved, making it more challenging to retain our employees. As a result of these and other factors, we have experienced an increased level of employee departures and our remaining personnel may seek employment with larger, more established companies or companies they perceive to have better prospects. For example, our Chief Financial Officer, Ken Holmes, resigned during the first quarter of 2007 to join another software company. If we continue to experience employee departures, our revenue could decline and our operations in general could be impacted. None of our officers or other key employees is bound by an employment agreement for any specific term. Our relationships with these officers and key employees are at will. Moreover, we do not have key person life insurance policies covering any of our employees.

We have restructured our company in October 2004 and further reduced headcount in 2006, which could make it more difficult for us to achieve our business objectives or could result in further restructurings if we don t meet the goals of the restructuring.

In October 2004, we restructured in order to reduce management and administrative costs and bring our sales and marketing operations in line with our current sales level. In July and October 2006 ***[more recently too?]***, we again reduced headcount in an effort to reduce our cash burn. While the restructurings have reduced cash operating expenses, our ability to adequately reduce cash used in operations, and ultimately generate profitable results from operations, will depend upon successful execution of our business plan and obtaining new customers. As a result of the reduction in personnel, however, we may not have sufficient resources to execute our refocused sales strategy, particularly with respect to our OAS product, which could adversely affect our revenues and operating results. If we do not meet our restructuring objectives, we may have to implement additional restructuring plans, which could impact the long-term viability of our company. Further, these plans may not achieve our desired goals due to such factors as significant costs or restrictions that may be imposed in some international locales on workforce reductions and a potential adverse affect on employee morale that could harm our efficiency and our ability to act quickly and effectively in the rapidly changing technology markets in which we sell our products.

If we require additional financing for our future capital needs but are not able to obtain it, we may be unable to develop or enhance our products, expand operations or respond to competitive pressures.

We may desire to increase our product line or seek additional markets to sell our technology. As a result, we might need to raise additional capital to fund expansion, product development, acquisitions or working capital. This need may arise sooner than we anticipate if our revenue does not grow in line with our expectations, particularly revenue from licensing our OAS product, if our costs are higher than we expect or if we change our strategic plans. If we were required to raise additional funds, it could be difficult to obtain additional financing on favorable terms, or at all, due to our financial condition. In the event that we obtain additional financing by issuing Ordinary Shares or securities that are convertible into Ordinary Shares, the interests of existing shareholders would be diluted. If we cannot raise needed funds on acceptable terms, or at all, we may not be able to develop or enhance our products, respond to competitive pressures or grow our business or we may be required to further reduce our expenditures, any of which could harm our business.

Our long and unpredictable sales cycle depends on factors outside our control and may cause our license revenue to vary significantly.

To date, our average engagement with our customers have typically taken between 3 and 12 months for them to evaluate our products before making their purchasing decisions. The long, and often unpredictable, sales and implementation cycles for our products have caused, and may continue to cause, our license revenue and operating results to vary significantly from period to period. For example, our license revenue for the third quarter of 2006 was significantly lower than the third quarter of 2005 in part due to the fact that certain larger opportunities with customers were initiated via pilot projects in which the customers made smaller initial investments in order to evaluate whether or not to purchase additional licenses for full deployment. Sales of licenses and implementation schedules are subject to a number of risks over which we have little or no control, including customer budgetary constraints, customer internal acceptance reviews, the success and continued internal support of customers own development efforts, the sales and implementation efforts of businesses with which we have relationships, the nature, size and specific needs of a customer and the possibility of cancellation of projects by customers. Along with our distributors, we spend significant time educating and providing information to our prospective customers regarding the use and benefits of our products with no guarantee that such investment will result in a sale. Even after purchase, our customers tend to deploy our OAS solution slowly, depending upon the skill set of the customer, the size of the deployment, the stage of the customer s deployment of a portal, the complexity of the customer s network environment and the quantity of hardware and the degree of hardware configuration necessary to deploy the products.

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Our quarterly operating results are subject to fluctuations.

Our operating results are difficult to predict. Our revenue and operating results have fluctuated in the past and may, in the future, vary significantly from quarter to quarter due to a number of factors, including:

- demand for our products and services;
- internal budget constraints and the approval processes of our current and prospective customers;
- the timing and mix of revenue generated by product licenses and professional services;
- the length and unpredictability of our sales cycle;
- loss of customers;
- new product introductions or internal development efforts by competitors or partners; and
- economic conditions generally, as well as those specific to the Internet and related industries.

Due to the foregoing factors, we believe that quarter-to-quarter comparisons of our operating results are not necessarily a good indication of our future performance. We incur expenses based predominantly on operating plans and estimates of future revenue. Our expenses are to a large extent fixed and we may not be able to adjust them quickly to meet a shortfall in revenue during any particular quarter. Any significant shortfall in revenue in relation to our expenses would decrease our net income or increase our operating losses and would also harm our financial condition. In some recent quarters our operating results have been below the expectations of investors. It is likely that in some future quarters, our operating results may also be below such expectations, which would likely cause our share price to decline.

Our quarterly license revenue typically depends on a small number of large orders, and any failure to complete one or more substantial license sales in a quarter could materially and adversely affect our operating results.

We typically derive a significant portion of our license revenue in each quarter from a small number of relatively large orders. For example, in the three months ended March 31, 2007, we derived approximately 88% of our license revenue from sales to two existing customers. Our operating results for a particular fiscal quarter could be materially and adversely affected if we are unable to complete one or more substantial license sales forecasted for that quarter. Additionally, we also offer volume-based pricing, which may adversely affect our operating margins. We typically have very little backlog and, accordingly, generate substantially all of our revenue for a given quarter in that quarter.

If we lose a major customer, our revenue could suffer because of our customer concentration.

We have historically generated a substantial portion of our revenue from a limited number of customers, and we expect this to continue for the foreseeable future. For example, one customer accounted for approximately $270,000, or 23% of our total revenue, and another accounted for approximately $150,000, or 13% of our total revenue, in the three months ended March 31, 2007. In addition, in 2006, our two largest customers accounted for 21% of our total revenue, in2005, our two largest customers accounted for 43% of our total revenue and in 2004, our three largest customers represented approximately 34% of our total revenue. As a result, if we lose a major customer, or if there is a decline in the use of our products within our existing customers organizations, our revenue would be adversely affected.

We depend on increased business from new customers, as well as additional business from existing customers, and if we fail to grow our customer base or generate repeat business, our operating results could be harmed.

Our business model generally depends on the sale of our products to new customers as well as expanded use of our products within our existing customers organizations. If we fail to grow our customer base or to generate repeat and expanded business from our current and future customers, our business and operating results will be seriously harmed. For example, we experienced a reduction in license sales to new customers during 2006 compared with 2005 which contributed to the overall decline in our license revenue during that period. In some cases, our customers initially make a limited purchase of our products and services for trials, pilot or proof of concept programs. These customers might not choose to acquire additional licenses to expand their use of our products.

In addition, as we have introduced new versions of our products or new products, such as our OAS, we have experienced a decline in licensing revenue generated from our older products, such as Polite Sync Server and e-Accelerator, and we anticipate future declines in licensing revenue from these products. However, it is also possible that our current customers might not require the functionality of our new products and might not ultimately license these products. Because the total amount of maintenance and support fees we receive in any period depends, in large part, on the size and number of licenses that we have previously sold, any downturn in our software license revenue would negatively affect our future maintenance and support revenue. In addition, if customers elect not to renew their maintenance agreements, our services revenue will decline significantly. If customers are unable to pay for their current products or are unwilling to purchase additional products, our revenue will decline, which would likely materially and adversely affect our revenue, operating results and share price.

Rapid technological changes could cause our products to become obsolete.

The Internet communications market is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. If we are unable to develop and introduce products or enhancements in a timely manner to meet these technological changes, we may not be able to successfully compete. In addition, our products may become obsolete, in which event we may not remain a viable business.

Our market is susceptible to rapid changes due to technology innovation, evolving industry standards, and frequent new service and product introductions. New services and products based on new technologies or new industry standards expose us to risks of technical or product obsolescence. For example, emerging technologies, such as wireless, that take a different approach to the challenge of offline Web access by, for example, re-engineering platforms and applications, pose a competitive challenge. In addition, other companies, including some of our strategic resellers, also approach the issue of offline Web architecture differently than we do in some cases, and such approaches may achieve a greater degree of market acceptance. If we do not use leading technologies effectively, meet the challenges posed by emerging technologies or other architectures, continue to develop our technical expertise and enhance our existing products on a timely basis, we may be unable to compete successfully in this industry, which would adversely affect our business and results of operations.

Our inability to integrate our products with other third-party software could adversely affect market acceptance of our products.

Our ability to compete successfully depends on the continued compatibility and interoperability of our products with products and systems sold by various third parties, such as portal framework vendors. Currently, these vendors have open applications program interfaces, which facilitate our ability to integrate with their systems. These vendors have also been willing to license to us rights to build integrations to their products and use their development tools. If any one of them were to close their programs interfaces or fail to grant us necessary licenses, our ability to provide a close integration of our products could become more difficult and could delay or prevent our products integration with future systems.

Failure to successfully develop versions and updates of our products that run on the operating systems used by our current and prospective customers could reduce our sales.

Many of our products run on the Microsoft Windows NT, Microsoft Windows 2000 or certain versions of the Sun Solaris Unix operating systems, and some require the use of third party software. Any change to our customers operating systems could require us to modify our products and could cause us to delay product releases. In addition, any decline in the market acceptance of these operating systems we support may require us to ensure that all of our products and services are compatible with other operating systems to meet the demands of our customers. If potential customers do not want to use the Microsoft or Sun Solaris operating systems we support, we will need to develop more products that run on other operating systems adopted by our customers. If we cannot successfully develop these products in response to customer demands, our business could be adversely impacted. The development of new products in response to these risks would require us to commit a substantial investment of resources, and we might not be able to develop or introduce new products on a timely or cost-effective basis, or at all, which could lead potential customers to choose alternative products.

In addition, our products may face competition from operating system software providers, which may elect to incorporate similar technology into their own products.

Competition in the Internet communications market may reduce the demand for, or price of, our products.

The Internet communications market is intensely competitive and rapidly changing. We expect that competition will intensify in the near-term because there are very limited barriers to entry. Our primary long-term competitors may not have entered the market yet because the Internet communications market is relatively new. Competition could impact us through price reductions, fewer customer orders, reduced gross margin and loss of market share, any of which could cause our business to suffer. Many of our current and potential competitors have greater name recognition, longer operating histories, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than we do. Some of our potential competitors are among the largest and most well capitalized software companies in the world. For example, both Microsoft and IBM have announced product plans addressing the offline Web application market segment served by our OAS product. If such companies enter this market segment, we may not be able to compete successfully, and competitive pressures may harm our business.

The loss of our right to use software licensed to us by third parties could harm our business.

We license technology that is incorporated into our products from third parties, including security and encryption software. Any interruption in the supply or support of any licensed software could disrupt our operations and delay our sales, unless and until we can replace the functionality provided by this licensed software. Because our products incorporate software developed and maintained by third parties, we depend on these third parties to deliver and support reliable products, enhance their current products, develop new products on a timely and cost-effective basis and respond effectively to emerging industry standards and other technological changes.

Our growth may suffer because of the complexities involved in implementing our products.

The use of our products by our customers often requires implementation services, and our growth will be limited in the event we are unable to expand our implementation services personnel or subcontract these services to qualified third parties. In addition, customers could delay product implementations. In the second half of 2004, 2005, 2006 and the first quarter of 2007, there were a greater number of deployments of our OAS solution by customers, and that solution is being subjected to actual commercial use and implementation. Initial implementation typically involves working with sophisticated software, computers and communications systems. If we experience difficulties with implementation or do not meet project milestones in a timely manner, we could be obligated to devote more customer support, engineering and other resources to a particular project at the expense of other projects.

Factors outside our control may cause the timing of our license revenue to vary from quarter-to-quarter, possibly adversely affecting our operating results.

We recognize license revenue when persuasive evidence of an arrangement exists, the product has been delivered, the license fee is fixed or determinable, and collection of the fee is probable. If an arrangement requires acceptance testing or specialized professional services, recognition of the associated license and service revenue would be delayed. The timing of the commencement and completion of these services is subject to factors that may be beyond our control, such as access to the customer s facilities and coordination with the customer s personnel after delivery of the software. If new or existing customers have difficulty deploying our products or require significant amounts of our professional services support for specialized features, our revenue recognition could be further delayed and our costs could increase, causing increased variability in our operating results.

We may experience difficulties managing our operations and geographic dispersion.

Our ability to successfully offer products and services and to implement our business plan in the rapidly evolving Internet communications market requires an effective planning and management process. These factors, together with our anticipated future operations and geographic dispersion, will continue to place a significant strain on our management systems and resources. We expect that we will need to continue to improve our financial and managerial controls and reporting systems and procedures, and expand, train and manage our work force worldwide.

Our international operations are subject to additional risks.

Revenue from customers outside the United States represented approximately $184,000 or 16% of our total revenue, for the three months ended March 31, 2007, and $1.1 million, or 23% of our total revenue, for the year ended December 31, 2006. Even though we have decreased our international presence, our international operations will continue to be subject to a number of risks, including, but not limited to:

- laws and business practices favoring local competition;

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- compliance with multiple, conflicting and changing laws and regulations;
- longer sales cycles;
- greater difficulty or delay in accounts receivable collection;
- import and export restrictions and tariffs;
- difficulties in staffing and managing foreign operations;
- difficulties in investing in foreign operations at appropriate levels to compete effectively; and
- political and economic instability.

Our efforts to protect our proprietary rights may be inadequate.

To protect our proprietary rights, we rely primarily on a combination of patent, copyright, trade secret and trademark laws, confidentiality agreements with employees and third parties, and protective contractual provisions such as those contained in license agreements with customers, consultants and vendors. However, these parties could breach such confidentiality agreements and other protective contracts. In addition, we have not signed confidentiality agreements in every case. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products and obtain and use information that we regard as proprietary. We may not become aware of, or have adequate remedies in the event of, such breaches.

We pursue the registration of some of our trademarks and service marks in the United States and in certain other countries, but we have not secured registration of all our marks. We license certain trademark rights to third parties. Such licensees may not abide by compliance and quality control guidelines with respect to such trademark rights and may take actions that would adversely affect our trademarks.

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We do not conduct comprehensive patent searches to determine whether the technology used in our products infringes patents held by third parties. Product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, which are confidential when filed, with regard to potentially similar technologies. We expect that software products may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Although we believe that our products do not infringe the proprietary rights of any third parties, third parties could assert infringement claims against us in the future. The defense of any such claims would require us to incur substantial costs and would divert management s attention and resources, which could materially and adversely affect our financial condition and operations. If a party succeeded in making such a claim we could be liable for substantial damages, as well as injunctive or equitable relief that could effectively block our ability to sell our products and services. Royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. Any such outcome could have a material adverse effect on our business, financial condition, operating results and share price.

We may experience tax liabilities in connection with the liquidation of wholly owned subsidiaries that have ceased operations.

As a result of the restructuring plans we announced on July 1, 2001 and September 30, 2002, we ceased commercial operations of the following subsidiaries: BackWeb Technologies B.V., BackWeb Technologies (U.K.) Ltd., BackWeb Technologies S.a.r.l., BackWeb Technologies A.B., BackWeb Canada Inc., and BackWeb K.K. Ltd. We decided to liquidate these companies in order to further streamline our operations and to simplify our legal entity structure. We cannot assure you that we will not have any termination liability issues with the appropriate tax authorities in each jurisdiction. If such termination liability issues were to arise and we did not prevail, we might be required to pay significant taxes and penalties, which could adversely affect our cash balances and results of operations.

Our products may be used in an unintended and negative manner.

Our products are used to transmit information through the Internet. Our products could be used to transmit harmful applications, negative messages, unauthorized reproduction of copyrighted material, inaccurate data, or computer viruses to end users in the course of delivery. Any such transmission could damage our reputation or could give rise to legal claims against us. We have received emails from certain of our customers end users, claiming that our technology is a form of spyware, and we are actively engaged in challenging such accusations. In the event such allegations result in litigation, we could spend a significant amount of time and money pursuing or defending legal claims, which could have a material adverse effect on our business.

We may not have sufficient insurance to cover all potential product liability and warranty claims.

Our products are integrated into our customers networks. The sale and support of our products may entail the risk of product liability or warranty claims based on damage to these networks. In addition, the failure of our products to perform to customer expectations could give rise to warranty claims. Although we carry general commercial liability insurance, our insurance may not cover potential claims of this type or may not be adequate to protect us from all liability that may be imposed.

Legislation and regulatory changes may cause us to incur increased costs, limit our ability to obtain director and officer liability insurance, and make it more difficult for us to attract and retain qualified officers and directors.

Changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted by the SEC and Nasdaq, have required changes in some of our corporate governance and accounting practices and caused our Ordinary Shares to be delisted from the NASDAQ Capital Market. We expect these laws, rules, and regulations to continue to increase our legal and financial compliance costs and to make some activities more difficult, time consuming and costly. These rules could also make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, particularly on our audit committee, or as executive officers.

Risks Relating to Our Location in Israel

Any major developments in the political or economic conditions in Israel could cause our business to suffer because we are incorporated in Israel and have important facilities and resources located in Israel.

We are incorporated under the laws of the State of Israel. Our research and development facilities, as well as one of our executive offices, are located in Israel. Although substantial portions of our sales are currently made to customers outside of Israel, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could significantly harm our business. Since September 2000, a continuous armed conflict with the Palestinian Authority has been taking place, with increased hostilities since the beginning of 2006. We cannot predict the effect on BackWeb of an increase in the degree of violence in

Israel or of any possible military action elsewhere in the Middle East.

Because our revenues are generated in U.S. dollars but a large portion of our expenses is incurred in New Israeli Shekels (NIS), our results of operations may be seriously harmed by currency fluctuations.

We incur a large portion of our costs from operations in Israel in NIS. If Israel s economy is impaired by a high inflation rate or if the timing of the devaluation of the NIS against the U.S. dollar were to lag considerably behind inflation, our operations and financial condition may be negatively impacted to the extent that the inflation rate exceeds the rate of devaluation of the NIS against the U.S. dollar.

Any future profitability may be diminished if tax benefits from the State of Israel are reduced or withheld.

Pursuant to the Law for the Encouragement of Capital Investments, 1959, the Israeli Government has granted Approved Enterprise status to our existing capital investment programs. Consequently, we are eligible for tax benefits for the first several years in which we generate taxable income. Our future profitability may be diminished if all or portions of these tax benefits are reduced or eliminated. These tax benefits may be cancelled if we fail to comply with requisite conditions and criteria. Currently the most significant conditions that we must continue to meet include making specified investments in fixed assets, financing at least 30% of these investments through the issuance of capital stock, and maintaining the development and production nature of our facilities. We cannot assure you that the benefits will be continued in the future at their current levels or at any level.

Israeli regulations may limit our ability to engage in research and development and export our products.

Under Israeli law, we are required to obtain an Israeli government license to engage in research and development and the export of the encryption technology incorporated in our products. Our current government license to engage in these activities expires in May 2007.Our research and development activities in Israel, together with our ability to export our products out of Israel, would be limited if the Israeli government revokes our current license, our current license is not renewed, our license fails to cover the scope of the technology in our products, or Israeli law regarding research and development or export of encryption technologies were to change.

Israeli courts might not enforce judgments rendered outside of Israel that may make it difficult to collect on judgments rendered against us.

Some of our directors and executive officers are not residents of the United States and some of their assets and our assets are located outside the United States. Service of process upon these directors and executive officers, and enforcement of judgments obtained in the United States against us, and these directors and executive officers, may be difficult to obtain within the United States. BackWeb Technologies, Inc., our U.S. subsidiary, is the U.S. agent authorized to receive service of process in any action against us in any federal or state court arising out of our initial public offering or any related purchase or sale of securities. We have not given consent for this agent to accept service of process in connection with any other claim.

We have been informed by our legal counsel in Israel, Naschitz, Brandes & Co., that it may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the substance of the applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. Furthermore, there is little binding case law in Israel addressing these matters.

Israeli courts might not enforce judgments rendered outside Israel, which may make it difficult to collect on judgments rendered against us. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that:

- the judgment was rendered by a court that was, according to the laws of the state of the court, competent to render the judgment;
- the judgment may no longer be appealed;
- the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and

the judgment is executory in the state in which it was given.

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to

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prejudice the sovereignty or security of the State of Israel. An Israeli court also will not declare a foreign judgment enforceable if:

- the judgment was obtained by fraud;
- there was no due process;
- the judgment was rendered by a court not competent to render it according to the laws of private international law in Israel;
- the judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or
- at the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in NIS, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action to recover an amount in non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in NIS at the rate of exchange on the date of payment, but the judgment debtor also may make payment in non-Israeli currency. Pending collection, the amount of the judgment of an Israeli court stated in NIS ordinarily will be linked to the Israel consumer price index plus interest at the annual rate (set by Israeli law) prevailing at that time. Judgment creditors bear the risk of unfavorable exchange rates.

We have adopted anti-takeover provisions that could delay or prevent an acquisition of BackWeb, even if an acquisition would be beneficial to our shareholders.

Provisions of Israel corporate and tax law and of our articles of association, such as our staggered Board, may have the effect of delaying, preventing or making more difficult a merger or other acquisition of BackWeb, even if an acquisition would be beneficial to our shareholders.

Israeli corporate law regulates acquisitions of shares through tender offers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. In addition, our articles of association provide for a staggered board of directors.

Tax reform in Israel may reduce our tax benefit, which might adversely affect our profitability.

On January 1, 2003, a comprehensive tax reform took effect in Israel. We performed an analysis of the likely implications of the tax reform legislation on our results of operations. Our evaluation concluded that the impact of the tax reform on both our corporate and income tax framework would not have a material effect on our results and operations. This evaluation was based, in part, on the assumptions that we would not expand beyond the countries in which we already operate and that we would remain in a net operating loss for tax purposes for at least the next three years. We cannot assure you that these assumptions will be met, and the tax reform will not materially and adversely affect our results of operations.

Our results of operations may be negatively affected by the obligation of key personnel to perform military service.

Certain of our officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. Although we have operated effectively under these requirements since our inception, we cannot predict the effect these obligations will have on us in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our officers or key employees due to military service. Such military requirement could be increased in the event of war or military action involving Israel.

Risks Relating to Our Ordinary Shares

Our share price has been volatile and could fluctuate in the future.

The market price of our Ordinary Shares has been volatile. We expect our share price to continue to fluctuate:

- in response to quarterly variations in operating results;

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in response to announcements of technological innovations or new products by us or our competitors or partners;

because of market conditions in the enterprise software or portal industry;

our failure to meet or exceed the expectations of investors;

in response to our announcements of strategic relationships or joint ventures; and

in response to sales of our Ordinary Shares.

In the past, following periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. We are currently subject to a securities class action described in Part II, Item 1 Legal Proceedings of this Quarterly Report, and the volatility of our share price could make us a target for additional suits. Securities class action litigation could result in substantial costs and a diversion of our management s attention and resources, which could seriously harm our business and results of operations.

In January 2007, our Ordinary Shares were delisted from trading on The Nasdaq Capital Market, and the ability of our shareholders to trade our shares and obtain liquidity for their shares, may have been significantly impaired and the market price of our Ordinary Shares may continue to decline significantly.

In May 2006, Nasdaq implemented a change in its continued listing requirements to stipulate that non-U.S. companies must now comply with Nasdaq Marketplace Rule 4320(e)(2)(E)(i), which states that the closing per share bid price of Nasdaq listed companies must be at or above at $1.00. Because we did not regain compliance with this minimum per share bid price requirement by the deadline imposed by Nasdaq, we were delisted from the Capital Market of Nasdaq in January 2007. Our Ordinary Shares are now listed and traded on the OTC Bulletin Board, and the trading market for our Ordinary Shares, and the ability of our shareholders to trade our shares and obtain liquidity for their shares, may have been significantly impaired. As a result, the market price of our Ordinary Shares may continue to decline significantly.

Holders of our Ordinary Shares who are United States residents face income tax risks.

We believe that we will be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our Ordinary Shares and may cause a reduction in the value of such shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset, which produces passive income. Passive income also includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets, which produce passive income. As a result of our cash position and the decline in the value of our stock, we might be considered a PFIC under a literal application of the asset test that looks solely to market value. If we are a PFIC for U.S. federal income tax purposes, holders of our Ordinary Shares who are residents of the United States (U.S. Holders) would be required, in certain circumstances, to pay an interest charge together with tax calculated at maximum rates on certain excess distributions, including any gain on the sale of Ordinary Shares.

The consequences described above can be mitigated if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. A shareholder making the QEF election is required for each taxable year to include in income a pro rata share of the net capital gain of the QEF as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the United States Internal Revenue Service, or IRS.

As an alternative to making the QEF election, the U.S. Holder of PFIC stock which is publicly traded could mitigate the consequences of the PFIC rules by electing to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder s adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years.

All U.S. Holders are advised to consult their own tax advisers about the PFIC rules generally and about the advisability, procedures and timing of their making any of the available tax elections, including the QEF or mark-to-market elections.

Our officers, directors and affiliated entities own a large percentage of BackWeb and could significantly influence the outcome of actions.

Our executive officers, directors and entities affiliated with them, in the aggregate, beneficially owned approximately 26% of our outstanding Ordinary Shares as of March 31, 2007. These shareholders, if acting together, would be able to significantly influence all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions.

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Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

Item 3. ***Defaults Upon Changes of Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

The exhibits filed as part of this quarterly report on Form 10-Q are listed in the Exhibit Index immediately preceding the exhibits and are incorporated herein.

Exhibit No	**Description**
31.1	Certification of BackWeb s Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of BackWeb s Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of BackWeb s Chief Executive Officer and Chief Financial Officer

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BACKWEB TECHNOLOGIES LTD.

By: /s/ KEN HOLMES

Ken Holmes

Chief Financial Officer

(Mr. Holmes is the Principal Financial Officer and has been duly authorized to sign on behalf of Registrant.)

Date: May 15, 2007

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