BACKWEB TECHNOLOGIES LTD
Form 10-Q
November 14, 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 September 30, 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 41,333,704 Ordinary Shares outstanding as of November 1, 2007.

BACKWEB TECHNOLOGIES LTD.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 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, including our expectation of recognizing an additional $2.0 million in revenue from a source code license sale during periods through 2009, in this Quarterly Report under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. The words believes, expects, anticipates, intends, forecasts, projects, plans, estimates, or similar expressions may identify forward-looking statements. Re 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)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,221	$ 2,426
Short-term investments		2,068
Accounts receivable, net of allowance for doubtful accounts of $55 and $329, respectively	1,052	1,369
Other current assets	434	495
Total current assets	4,707	6,358
Property and equipment, net	119	127
Other non-current assets	52	42
Total assets	$ 4,878	$ 6,527
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 109	$ 249
Accrued liabilities	1,393	1,499
Deferred revenue	427	948
Total current liabilities	1,929	2,696
Commitments and contingencies (Note 2)		
Shareholders equity:		
Ordinary Shares	152,364	152,258
Accumulated deficit	(149,415)	(148,427)
Total shareholders equity	2,949	3,831
Total liabilities and shareholders equity	$ 4,878	$ 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)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Licenses	$ 199	$ 61	$ 854	$ 1,314
Licenses subject to contract accounting	500		1,000	
Services	672	663	2,067	2,208
Total revenue	1,371	724	3,921	3,522
Cost of revenue:				
Licenses	29	26	91	66
Licenses subject to contract accounting	39		76	
Services	142	149	535	571
Total cost of revenue	210	175	702	637
Gross profit	1,161	549	3,219	2,885
Operating expenses:				
Research and development	397	541	1,327	1,742
Sales and marketing	593	928	1,828	2,982
General and administrative	370	699	1,072	1,783
Total operating expenses	1,360	2,168	4,227	6,507
Loss from operations	(199)	(1,619)	(1,008)	(3,622)
Interest and other income (loss), net	(9)	56	20	121
Net loss	$ (208)	$ (1,563)	$ (988)	$ (3,501)
Basic and diluted net loss per share	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.08)
Weighted-average number of shares used in computing basic and diluted net loss per share	41,320	41,279	41,314	41,232

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)
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Operating Activities		
Net loss	$ (988)	$ (3,501)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	69	117
Stock-based compensation	102	314
Changes in operating assets and liabilities:		
Accounts receivable	317	832
Other current and non-current assets	51	(108)
Accounts payable and accrued liabilities	(246)	(174)
Deferred revenue	(521)	(102)
Total adjustments	(228)	879
Net cash used in operating activities	(1,216)	(2,622)
Investing Activities		
Net proceeds from sales of short-term investments	2,068	3,658
Purchases of property and equipment	(62)	(61)
Net cash provided by investing activities	2,006	3,597
Financing Activities		
Proceeds from issuance of Ordinary Shares	5	75
Net cash provided by financing activities	5	75
Net increase in cash and cash equivalents	795	1,050
Cash and cash equivalents at beginning of period	2,426	1,583
Cash and cash equivalents at end of period	$ 3,221	$ 2,633

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 and sales and marketing partners. The Company believes that its current cash and cash equivalents 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 attempt to raise additional funds prior to the end of the next 12 months. 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 and because the Company s Ordinary Shares have been delisted from the NASDAQ Capital Market. 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 maintain a significant portion of its workforce or otherwise maintain its 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 in 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, consulting services paid to the Company directly by corporate customers, and to a lesser extent, from royalty fees from OEMs. 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.

If an arrangement to deliver software requires significant production, modification or customization of software, the Company accounts for the entire arrangement in conformity with Accounting Research Bulletin No. 45, Long-Term Construction-Type Contracts, using the relevant guidance in Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. In such an arrangement, BackWeb will recognize revenue and related costs of revenue using the percentage-of-completion method upon the completion of milestones.

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 a 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 creditworthiness 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 creditworthiness cannot be established, the Company defers the fee and recognizes 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. 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 recognizes 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 has received written acceptance of the product from the customer.

Deferred revenue includes amounts billed to 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) 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 4,731,125 and 5,974,974 at September 30, 2007 and 2006, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	Unaudited			
Net loss	$ (208)	$ (1,563)	$ (988)	$ (3,501)
Basic and diluted:				
Weighted-average shares	41,320	41,279	41,314	41,232
Less weighted-average shares subject to forfeiture				
Weighted-average number of shares used in computing basic and diluted net loss per share	41,320	41,279	41,314	41,232
Basic and diluted net loss per share	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.08)

Comprehensive Loss

Comprehensive loss is equal to net loss.

Stock-based Compensation BackWeb has equity incentive plans that provide for the grant of stock options to employees. In addition, the 1998 U.S. Stock Option Plan and 1996 Israel Stock Option Plan provide for the automatic grant of stock options to non-employee members of BackWeb s board of directors. BackWeb also has an employee stock purchase plan, or ESPP, which enables employees to purchase BackWeb Ordinary Shares.

Stock-based compensation expense and the related income tax benefit recognized under Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R) and Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107) in the Condensed Consolidated Income Statements in connection with stock options and the ESPP for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	Unaudited			
Stock options	$22	$97	$ 89	$314
ESPP	1		13	
Total stock-based compensation expense	$23	$97	$102	$314
Income tax benefit	$	$	$	$

Stock Options

The exercise price of each stock option granted under BackWeb s employee equity incentive plans is equal to or greater than the market price of BackWeb s 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 BackWeb. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average grant date fair value of options granted and the weighted-average assumptions used in

the model for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	119%	122%	119%	114%
Risk-free interest rate	4.47%	4.59%	4.47%	4.81%
Expected life (in years)	6.25	6.25	6.25	6.25
Weighted-average fair value of options granted	$0.15	$0.41	$0.15	$0.55

Historical volatility was used in estimating the fair value of our stock-based awards, and the expected life was estimated to be 6.25 years using the simplified method permitted under SAB 107. The risk-free interest rate for the period within the

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expected term of the option is based on the yield of United States Treasury notes in effect at the time of grant. BackWeb has not historically paid dividends, and thus the expected dividends used in the calculation are zero.

Employee Stock Purchase Plan

Under the ESPP, substantially all employees may purchase BackWeb 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 compensation, subject to a limit in any six-month purchase period of 10,000 Ordinary Shares. The offering and purchase periods are six months in length, beginning March 1 and September 1, and run consecutively.

Ordinary Shares issued under the ESPP for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
BackWeb shares issued under the ESPP	20,000	41,623	29,710	126,656
Cash received from the exercise of purchase rights under the ESPP	$ 2,800	$14,152	$ 4,354	$ 54,117
Weighted-average purchase price per share	$ 0.14	$ 0.34	$ 0.15	$ 0.43

Compensation expense is calculated using the fair value of the employees purchase rights using the Black-Scholes option pricing model. The weighted-average grant date fair value of purchase rights granted under the ESPP and the weighted-average assumptions used in the model for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	89%	215%	94%	111%
Risk-free interest rate	5.12%	5.11%	5.12%	4.84%
Expected life (in years)	0.50	0.50	0.50	0.50
Weighted-average fair value of purchase rights granted	$0.07	$0.43	$0.09	$0.26

Historical volatility was used in estimating the fair value of our ESPP purchase rights. The expected life assumption is based on the six-month offering period. The risk-free interest rate for the purchase right is based on the yield of United States Treasury notes in effect at the time of grant, for the same duration as the expected life of the purchase right.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 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 that the adoption of SFAS 157 will have on its consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years that begin after November 15, 2007. The Company does not plan to elect the

fair value option that is permitted by SFAS 159, and as a result, the adoption of SFAS 159 on January 1, 2008 will have no effect on the Company s consolidated financial position, results of operations and cash flows.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires non-refundable advance payments for goods and services to be used in future research and development activities to be recorded as an asset and the payments to be expensed when the research and development activities are

performed. EITF 07-3 applies prospectively for new contractual arrangements entered into beginning in the first quarter of fiscal year 2008. The Company currently recognizes these non-refundable advanced payments as an expense upon payment. The adoption of EITF 07-3 is not expected to have a significant impact on the Company s consolidated financial position, results of operations and cash flows.

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 be assured 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 loss related to this litigation as it cannot reasonably estimate the probability or the amount of loss that could result from this action.

Additionally, the Company was named in a judgment during September 2005 for approximately $586,000, based on an exchange rate of 1 Euro = 1.4272 U.S. dollars at September 30, 2007, in connection with 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.

Line of Credit

In April 2007, the Company renewed its bank line of credit. The amended line of credit provides for borrowings of up to $1.5 million, compared to $500,000 under the previous line of credit agreement. The amount of borrowings available under the line of credit is based on a formula using accounts receivable. The line provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all of the Company s assets. The line requires that the Company meet certain financial covenants, requires payment penalties for noncompliance and prepayment, limits the amount of other debt the Company can incur, and limits the amount of spending on fixed assets. The line of credit will expire on June 30, 2008. There was no amount outstanding at September 30, 2007.

Related to its leased office space in San Jose, California, the Company has an outstanding $225,000 letter of credit, which is included under the line of credit. This lease deposit is not a draw down of the line of credit and therefore does not bear interest. Any draw down of the line of credit would bear interest at the Prime rate. The Company renewed the letter of credit in June 2007. The original letter of credit, which was established in October 2003, was in the amount of $500,000. An April 2006 facilities lease amendment permitted the reduction from $500,000 to $225,000.

Note 3. Short-Term Investments

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

	September 30, 2007			December 31, 2006		
	Cost	Unrealized Gains (Losses)	Estimated Fair Value	Cost	Unrealized Gains (Losses)	Estimated Fair Value
	Unaudited					
Money market	$	$	$	$2,068	$	$2,068

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. By early 2008, BackWeb plans to move its financial reporting function to Israel.

The following is a summary of operations within geographic areas based on the location of the customer (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	Unaudited			
Revenue:				
North America	$1,165	$599	$3,397	$2,815
Europe	206	125	524	707
	$1,371	$724	$3,921	$3,522

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In the three and nine months ended September 30, 2007 and September 30, 2006, significant customers accounted for the following revenues:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
	$	% of Total	$	% of Total	$	% of Total	$	% of Total
Customer A	$ 521	38%	$ 21	3%	$ 1,160	30%	$ 93	3%
Customer B	211	15%		0%	226	6%		0%
Customer C	30	2%		0%	281	7%	6	0%
Customer D	19	1%	47	6%	163	4%	322	9%
Customer E	15	1%	15	2%	57	1%	356	10%
Customer F	8	1%	6	1%	284	7%	6	0%
All other customers	567	41%	635	88%	1,750	45%	2,739	78%
	$ 1,371	100%	$ 724	100%	$ 3,921	100%	$ 3,522	100%

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 or alternate web-based versions of the applications for use by mobile personnel. Our solution is an alternative to wireless connectivity to enterprise web systems or a complement to such connectivity when wireless coverage is not adequate to meeting the needs of mobile workers or is not economically feasible.

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 is designed to 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 co-sales/marketing partners. Since 2002, our direct sales force has accounted for a significant majority of our revenue.

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 often connected via

wireless networking but various workers require their key applications to be always available, even between wireless connections or where wireless connections are not available.

We seek 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.

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Our primary objective in the offline web market is to achieve positive operating cash flows by focusing on markets where the need for offline web applications is least impacted by increasing use of wireless connectivity. We have to date focused on finding revenue growth opportunities in our current mobile web application market, selling solutions for custom enterprise applications and for our industry application partners. We have experienced mixed results in our relationships with our application partnerships, as only some have been productive and produce revenue. Finding the right mix of these application partners is one objective for management. To date, we have not achieved revenue growth in our current market, and we may never succeed in doing so. Due to the limits of our current market, we are actively investigating using our existing assets to enter new markets with partners.

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 to a lesser extent, from royalty fees from OEMs. 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.

If an arrangement to deliver software requires significant production, modification, or customization of software, we account for the entire arrangement in conformity with Accounting Research Bulletin No. 45, Long-Term Construction-Type Contracts (ARB 45), using the relevant guidance in Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). In such an arrangement, we will recognize revenue and related costs of revenue using the percentage-of-completion method upon the completion of milestones.

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 creditworthiness of the customer and, in some instances, a review of the customer s financial statements. We do not request collateral from our customers. If creditworthiness 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. During the three months ended June 30, 2007, we began measuring our allowance our doubtful accounts by assessing the collectibility of each invoice receivable. Previously, we had measured the allowance as 100% of invoices which were aged 120 days or more, less known collectible invoices.

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 and nine months ended September 30, 2007 and 2006 expressed as a percentage of total revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Licenses	15%	8%	22%	37%
Licenses subject to contract accounting	36%	0%	26%	0%
Services	49%	92%	53%	63%
Total revenue	100%	100%	100%	100%
Cost of revenue:				
Licenses	2%	4%	2%	2%
Licenses subject to contract accounting	3%	0%	2%	0%
Services	10%	21%	14%	16%
Total cost of revenue	15%	24%	18%	18%
Gross profit	85%	76%	82%	82%
Operating expenses:				
Research and development	29%	75%	34%	49%
Sales and marketing	43%	128%	47%	85%
General and administrative	27%	97%	27%	51%
Total operating expenses	99%	299%	108%	185%
Loss from operations	-15%	-224%	-26%	-103%
Interest and other income (loss), net	-1%	8%	1%	3%
Net loss	-15%	-216%	-25%	-99%

Revenue

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 software products.

We recognized revenue as follows in the three and nine months ended September 30, 2007 and September 30, 2006:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007	2006	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Revenue								
Licenses	$ 199	$ 61	$138	226%	$ 854	$1,314	$ (460)	-35%
Licenses subject to contract accounting	500		500		1,000		1,000	

Services	672	663	9	1%	2,067	2,208	(141)	-6%
Total revenue	$1,371	$724	$647	89%	$3,921	$3,522	$ 399	11%

License Revenue, and License Revenue Subject to Contract Accounting

For the three months ended September 30, 2007, license revenue combined with license revenue subject to contract accounting increased by 1,046% in comparison to the prior year period. For the nine months ended September 30, 2007, license revenue combined with license revenue subject to contract accounting increased by 41% in comparison to the prior year period.

During the three months ended September 30, 2007, we recognized $500,000 of revenue in connection with a source code license sale, which in the statement of operations is captioned within revenue as licenses subject to contract accounting. During the three months ended September 30, 2007, we obtained final acceptance from this customer, which per the contract will trigger an additional $2.0 million of revenue from this sale during periods through 2009. Aside from that, we have limited visibility to forecast revenue, particularly our license revenue, and are therefore unable to quantify future overall trends in our total revenue.

Services Revenue

Services revenue, which includes maintenance and consulting services, increased slightly for the three months and decreased for the nine months ended September 30, 2007 when compared to the same periods in 2006. The services revenue decrease for the nine months ended September 30, 2007 was due to reduced professional services demand after March 31, 2006.

We expect that maintenance revenue associated with our older products will continue to decrease, offset in part 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.

For the three and nine months ended September 30, 2007, one customer accounted for 38% and 30%, respectively, of our total revenue, while another customer accounted for 15% and 6%, respectively. For the three and nine months ended September 30, 2006, one customer accounted for 2% and 10% of our total revenue, respectively. 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.

Cost of Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007	2006	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Cost of revenue								
Licenses	$ 29	$ 26	$ 3	12%	$ 91	$ 66	$ 25	38%
Licenses subject to contract accounting	39		39		76		76	
Services	142	149	(7)	-5%	535	571	(36)	-6%
Total cost of revenue	$210	$175	$35	20%	$702	$637	$ 65	10%
% of revenue	15%	24%			18%	18%		

Cost of License Revenue and Cost of License Revenue Subject to Contract Accounting

Cost of license revenue consists primarily of expenses related to media duplication, packaging of products and royalty payables to OEM vendors. Cost of license revenue increased for the three months ended September 30, 2007 in comparison to the corresponding period in 2006 due to increased license revenue during the 2007 period. Cost of license revenue increased for the nine months ended September 30, 2007 in comparison to the corresponding period in 2006 due to costs incurred in 2007 in connection with a strategic reseller relationship for which we have recognized minimal revenue.

Cost of license revenue subject to contract accounting consists of expenses related to significantly modifying our software products to a customer s specifications under contract with the customer. In such an arrangement, the expenses are charged to cost of revenue in the periods when the associated revenue is recognized. Cost of license revenue subject to contract accounting during the three and nine months ended September 30, 2007 was in connection with a source code license agreement that we entered into in March 2007.

Cost of Services Revenue

Cost of services 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.

For the three months ended September 30, 2007, cost of services revenue was 21% of services revenue, compared to 22% for the same period in 2006. For the nine months ended September 30, 2007, cost of services revenue was 28% of services revenue, compared to 26% for the same period in 2006.

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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 September 30,				Nine Months Ended September 30,			
	2007	2006	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Research and development expense	$397	$541	$(144)	-27%	$1,327	$1,742	$(415)	-24%
% of revenue	29%	75%			34%	49%		

Research and development expense for the three and nine months ended September 30, 2007 decreased in comparison to the prior year periods primarily due to reductions in facilities rent and employee compensation. Facilities rent declined as the result of a renegotiated facilities lease. Employee compensation declined as the result of a 7% reduction in research and development headcount for the three months ended September 30, 2007 in comparison to the prior year period, and a 15% reduction for the nine months ended September 30, 2007 in comparison to the prior year period.

We plan to carefully evaluate research and development costs in light of anticipated demand for our products.

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 September 30,				Nine Months Ended September 30,			
	2007	2006	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Sales and marketing expense	$593	$928	$(335)	-36%	$1,828	$2,982	$(1,154)	-39%
% of revenue	43%	128%			47%	85%		

Sales and marketing expense during the three and nine months ended September 30, 2007 decreased in comparison to the prior year periods primarily due to reductions in facilities rent, employee compensation and severance, consultant fees and recruiting. Facilities rent declined as the result of a renegotiated facilities lease. Employee compensation declined as the result of 29% and 30% reductions in sales and marketing headcount for the three and nine months ended September 30, 2007, respectively, in comparison to the prior year periods. Additionally in the first quarter of 2006, we recognized approximately $100,000 of one-time separation costs related to the termination of employees; we did not incur such costs in 2007.

We plan to carefully evaluate sales and marketing costs in light of anticipated demand for our products.

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 September 30,				Nine Months Ended September 30,			
	2007	2006	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
General and administrative expense	$370	$699	$(329)	-47%	$1,072	$1,783	$(711)	-40%
% of revenue	27%	97%			27%	51%		

General and administrative expense during the three and nine months ended September 30, 2007 decreased in comparison to the prior year periods primarily due to reductions in bad debt expense, facilities rent, employee compensation and stock-based compensation, partially offset by an increase in outside services expenses. Bad debt expense consisted of $0 and a credit of $123,000, respectively, for the three and nine months ended September 30, 2007, compared to expense of $167,000 and $233,000, respectively, for the three and nine months ended September 30, 2006. Bad debt expense was favorable in 2007 due to our improved collections experience, which reduced our aged accounts receivable balances substantially during the three months ended June 30, 2007. In addition, we revised our method of measuring the allowance for doubtful accounts to specifically identify uncollectible invoices, whereas previously we had reserved all

accounts receivable invoiced that were aged 120 days or more. Facilities rent declined as the result of a renegotiated facilities lease. Employee compensation declined as the result of 43% and 28% reductions in general and administrative headcount for the three and nine month periods ended September 30, 2007, respectively, in comparison to the prior year periods. Stock-based compensation decreased as the result of employee terminations and the expiration of options granted in prior years. Outside services expense increased due to an increase in financial printing and auditors fees and the incurrence of consultant fees for our Interim Chief Financial Officer. In light of our current size and composition, we plan to evaluate ways in which we can reduce general and administrative expenses, including ways in which we might be able to reduce our SEC reporting and other regulatory obligations.

Interest and Other Income (Expense), Net

Interest and other income, net includes interest income earned on our cash and cash equivalents, 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 September				Nine Months Ended September 30,			
	2007	2006	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Interest and other income (expense), net	$(9)	$56	$(65)	-116%	$20	$121	$(101)	-83%
% of revenue	-1%	8%			1%	3%		

Interest and other income (expense) during the three and nine months ended September 30, 2007 decreased in comparison to prior year periods, primarily due to 35% and 36% decreases, respectively, in our average balances of cash short-term investments.

Income Taxes

We adopted the provisions of FIN 48 and FSP FIN 48-1 effective January 1, 2007. We apply FIN 48 to each income tax position accounted for under SFAS 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 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 U.S. 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 48 and the adoption of FIN 48 and FSP FIN 48-1 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 September 30, 2007, we did not accrue any interest or penalties.

There was no provision for income taxes because we have incurred operating losses. As of September 30, 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 48.

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Liquidity and Capital Resources

As of September 30, 2007, we had approximately $3.2 million of cash and cash equivalents, compared to approximately $4.5 million of cash, cash equivalents and short-term investments as of December 31, 2006.

Net cash used in operating activities for the nine months ended September 30, 2007 was $1.2 million, compared to $2.6 million for the nine months ended September 30, 2006. The 2007 amount included the receipt of an initial $500,000 payment from a March 2007 multi-year license sale agreement. We expect to receive an additional $750,000 in cash from this license sale during the fourth quarter of 2007 and an additional $250,000 in cash in each succeeding quarter through the third quarter of 2009.

Cash provided by investing activities for the nine months ended September 30, 2007 and 2006 was $2.0 million and $3.6 million, respectively, and primarily represented the net proceeds from sales of short-term investments to fund our operational needs.

Cash provided by financing activities for the nine months ended September 30, 2007 and 2006 was $5,000 and $75,000, respectively. These amounts consisted of proceeds from the issuance of Ordinary Shares under our 1999 Employee Stock Purchase Plan and under our 1998 Employee Stock Option Plan. For the nine months ended September 30, 2007, all of the proceeds consisted of sales of shares under our employee stock purchase plan. For the nine months ended September 30, 2006, $19,000 of the proceeds were in connection with stock option exercises, and the remainder of the proceeds were in connection with sales of shares under our employee stock purchase plan.

In April 2007, we renewed our bank line of credit. The amended line of credit provides for up to $1.5 million, compared to $500,000 under the previous line of credit agreement. The amount of borrowings available under the line of credit is based on a formula using accounts receivable. The line provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all of our assets. The line requires that we meet certain financial covenants, requires payment penalties for noncompliance and prepayment, limits the amount of other debt we can incur, and limits the amount of spending on fixed assets. The line of credit will expire on June 30, 2008. There was no amount outstanding at September 30, 2007.

Related to our leased facilities space in San Jose, California, we have an outstanding $225,000 letter of credit, which is included under the line of credit. This lease deposit is not a draw down of the line of credit and therefore does not bear interest. Any draw down of the line of credit would include interest at the Prime rate.

Related to our leased facilities space in Rosh Ha ayin, Israel, we have an outstanding $88,000 bank guarantee in the form of restricted cash, issued in favor of the lessor. The amount is included in other current assets on the balance sheet at September 30, 2007. The guarantee will expire when the facilities lease expires on June 30, 2008.

As of September 30, 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 attempt 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 and because our Ordinary Shares have been delisted from the NASDAQ Capital Market. 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 maintain a significant portion of our workforce or otherwise maintain our business.

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Contractual Obligations

The following summarizes our contractual obligations, which consisted solely of operating leases, at September 30, 2007 (in thousands):

Payments due by period:	
2007	$ 156,000
2008	528,000
2009	473,000
2010	33,000
	$ 1,190,000

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 and have been subject to corporate tax at the rate of 29% in 2007. 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 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. 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 denominated in NIS will increase if the U.S. dollar weakens in relation to the NIS. Consequently, we are, and will be, affected by changes in the prevailing exchange rate between the U.S. dollar and the NIS. 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

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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 or 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 nine months of 2007 or 2006.

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 Interim 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 Interim 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 former 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. We did not maintain effective controls over the completeness and accuracy of our accounting for nonstandard transactions. These material weaknesses in our internal control over financial reporting related to adjustments proposed by our former 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:

- implemented a more detailed review of material agreements with our Board of Directors; and
- instituted a review of material agreements with external industry professionals familiar with our business and market.

We believe that these corrective actions, taken as a whole, 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.

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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 loss related to this litigation as we cannot reasonably estimate the probability or the amount of loss that could result from this action.

Additionally, we were named in a judgment during September 2005 for approximately $586,000, based on an exchange rate of 1 Euro = 1.4272 U.S. dollars at September 30, 2007, in connection with 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.

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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 $1.0 million for the nine months ended September 30, 2007, $3.7 million for the year ended December 31, 2006 and $1.0 million for the year ended December 31, 2005. As of September 30, 2007, we had an accumulated deficit of $149.4 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, which we have not historically been able to do. Failure to achieve profitability or achieve and sustain the level of profitability expected by investors would likely adversely affect the market price of our Ordinary Shares.

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 we may seek to enter new markets.

Our current 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 nine months 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. Customers might also be hesitant to purchase our OAS products due to concerns regarding the current size of our company or the long-term prospects for our company. If demand for our OAS product does not significantly increase, as a result of competition, technological change, customer concerns regarding the state of our company or other factors, management may decide to use our existing assets to enter new markets, either alone or with partners. We cannot assure you that we would succeed in any such efforts to enter new markets.

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 former independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting. As more fully described in Item 4 of Part I of this Quarterly Report on Form 10-Q, these material weaknesses in our internal control over financial reporting related to adjustments proposed by our former 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, March 31, 2007, June 30, 2007 and September 30, 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 Part I 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. Neither our former nor our current independent registered public accounting

firm has evaluated any of the measures we have taken, or that we propose to take, to address the material weaknesses. In addition, our former Chief Financial Officer, Ken Holmes left BackWeb in May 2007, and, although we have hired an interim Chief Financial Officer, we are conducting a search for his long-term replacement. The departure of Mr. Holmes and the uncertainty regarding his long-term 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 stock price, and our business and operating results could be harmed.

In addition, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2007, we will be required to furnish a report by our management on our internal control over financial reporting. Such report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. PCAOB Auditing Standard No. 5 provides the professional standards and related performance guidance for independent registered public accounting firms to attest to, and report on, management s assessment of the effectiveness of internal control over financial reporting under Section 404.

We are in the process of developing system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, and those weaknesses are not appropriately remediated prior to December 31, 2007, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective as of December 31, 2007, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price, and our business and operating results could be harmed.

While we currently anticipate being able to satisfy the requirements of Section 404 in a timely fashion, we cannot be certain as to the timing of completion of our evaluation, testing and any required remediation due in large part to the fact that there is no precedent available by which to measure compliance with the new PCAOB Auditing Standard No. 5. If we are not able to comply with the requirements of Section 404 in a timely manner, we would likely lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price, and our business and operating results could be harmed.

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 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 former Chief Financial Officer, Ken Holmes, left BackWeb in May 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 restructured our company in October 2004 and further reduced headcount in 2006, which could make it more difficult for us to operate our business effectively which, in turn, could result in further restructurings.

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, we again reduced headcount in an effort to reduce our cash burn. While the restructurings have reduced our cash operating expenses, our ability to adequately reduce cash used in operations, and ultimately generate profitable results from operations, will depend upon increasing our

revenues. As a result of the reduction in personnel, however, we may not have sufficient resources to increase sales of our OAS product, which could adversely affect our revenues and operating results. If we are not able to operate our business profitably despite the reduction in our operating expenses, 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 a potential adverse effect 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 respond to competitive pressures or enter new markets.

We may desire to enter new markets, and as a result, we might need to raise additional capital to fund investments in other companies. This need may arise sooner than we anticipate if our revenue does not grow, 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 and because our Ordinary Shares have been delisted from the NASDAQ Capital Market. 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 has typically required between 3 and 12 months for the customer to evaluate our products before making a purchasing decision. 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 2007 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.

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.

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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 September 30, 2007, we derived approximately 72% of our license revenue from sales to one customer relating to a contract entered into during the first quarter of 2007. 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 would suffer.

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, for the year ended December 31, 2006, our two largest customers accounted for 21% of our total revenue, and during the three months ended September 30, 2007, one customer accounted for $521,000, or 38% of our total revenue, $500,000 of which we recognized in connection with a source code license sale that we entered into during the first quarter of 2007. 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 suffer.

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.

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 continue to intensify 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

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resources than we do. Some of our potential competitors are among the largest and most well capitalized software companies in the world.

For example, Adobe and Google have recently introduced products that enable offline web application functionality, and these products will likely be competitive to our products in certain markets. Both Adobe and Google have significantly greater brand and name recognition, larger and broader customer bases and greater financial, research and development and distribution resources than we do. Consequently, we may not be able to compete successfully against their new product offerings. In addition, IBM previously announced product plans addressing segments of the offline Web application market segment served by our OAS product. If such companies enter our market segments, we may not be able to compete successfully, and competitive pressures may harm our business.

Failure to develop key strategic relationships could limit our growth

We have attempted to grow our business by establishing strategic relationships with application vendors in our target markets. However, we have not generated significant revenues to date from these efforts and we cannot assure you that we will ever derive significant revenue from our current strategic relationships or that we will succeed in establishing new strategic relationships. If we fail to develop successful strategic relationships with application vendors in our target markets, our growth could be limited. In addition, even if we are successful in establishing such strategic relationships, one or more of these companies may develop or market competing products.

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 sales and marketing partners, 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

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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.

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 nine months 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 $524,000, or 13% of our total revenue, for the nine months ended September 30, 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;
- 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.

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 The NASDAQ Stock Market, 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 the U.S. dollar devalues in relation to the NIS, our NIS-denominated expenses will increase and our NIS-denominated cash balances will decrease upon financial consolidation in U.S. dollars, and our results of operations and financial condition may be negatively impacted.

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 2008. 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 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.

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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.

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;
- 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, The NASDAQ Stock Market 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 NASDAQ Capital Market 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.

In addition, we are evaluating ways to reduce our expenses, including investigating ways to reduce the burdens of being a reporting company in the United States. Any action to reduce such burdens may further reduce the liquidity of our Ordinary Shares and cause the price of our Ordinary Shares to decline.

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 September 30, 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON 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 Interim 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 Interim 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/ MICHAEL HERRINTON

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

Date: November 14, 2007

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