

**KNOVA Software, Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands, except per share amounts)

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$8,280	\$6,731
Marketable securities	2,071	5,461
Accounts receivable, less allowance for doubtful accounts of \$118 at June 30, 2006 and \$126 at December 31, 2005	7,790	6,442
Prepaid expenses and other current assets	804	781
Total current assets	18,945	19,415
Non current assets		
Property and equipment		
Office furniture, equipment, and leasehold improvements	1,518	1,518
Computer equipment	5,611	5,166
Total property and equipment	7,129	6,684
Less accumulated depreciation	(6,495)	(6,319)
Property and equipment, net	634	365
Intangible assets, net of amortization of \$1,202 at June 30, 2006 and \$778 at December 31, 2005	4,179	4,604
Goodwill	14,485	14,485
Other noncurrent assets	92	123
Total noncurrent assets	19,390	19,577
Total assets	\$38,335	\$38,992
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	1,009	1,636
Accrued compensation and benefits	924	1,003
Deferred revenue - licenses	220	1,571
Deferred revenue - services	5,115	5,114
Accrued restructuring charges	-	261
Line of credit - short term	3,250	3,600
Current portion of capital lease obligations	24	40
Current portion of equipment loan	268	-
Other current liabilities	1,941	795
Total current liabilities	12,751	14,020
Noncurrent deferred revenue	316	182
Other non-current liabilities	69	89
Long term portion of equipment loan	343	-
Capital lease obligations	27	35
Total liabilities	13,506	14,326
Commitments and Contingencies		
Stockholders' equity		
Common stock, \$0.01 par; 50,000 shares authorized, 8,819 and 8,744 shares outstanding at June 30, 2006 and December 31, 2005, respectively	88	87
Additional paid in capital	102,558	101,472
Treasury stock, 26 shares at June 30, 2006 and December 31, 2005	(151)	(151)
Deferred compensation	-	(5)
Warrants	6,549	6,549
Accumulated other comprehensive loss	(3)	(12)
Accumulated deficit	(84,212)	(83,274)
Total stockholders' equity	24,829	24,666
Total liabilities and stockholders' equity	\$38,335	\$38,992

*See accompanying condensed notes to unaudited interim consolidated financial statements*