

KNOVA Software, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues				
Licenses	\$3,210	\$2,824	\$5,967	\$4,201
Services	4,262	4,518	8,520	6,840
Total revenues	<u>7,472</u>	<u>7,342</u>	<u>14,487</u>	<u>11,041</u>
Cost of revenues				
Cost of licenses	221	257	413	420
Cost of services	2,195	2,220	4,732	3,848
Total cost of revenues	<u>2,416</u>	<u>2,477</u>	<u>5,145</u>	<u>4,268</u>
Gross margin	5,056	4,865	9,342	6,773
Operating expenses				
Sales and marketing	2,600	2,042	4,938	3,705
Research and development	1,896	1,317	3,481	2,840
General and administrative	977	1,420	1,740	2,399
Intangible assets amortization	70	70	140	117
Restructuring charges	-	-	-	1,355
Total operating expenses	<u>5,543</u>	<u>4,849</u>	<u>10,299</u>	<u>10,416</u>
(Loss) income from operations	(487)	16	(957)	(3,643)
Other income (expense)				
Interest expense	(19)	(2)	(37)	(3)
Other, net	30	50	57	202
Other income (expense), net	<u>11</u>	<u>48</u>	<u>20</u>	<u>199</u>
Net (loss) income	<u>(\$476)</u>	<u>\$64</u>	<u>(\$937)</u>	<u>(\$3,444)</u>
Net (loss) income per common share, basic	(\$0.05)	\$0.01	(\$0.11)	(\$0.43)
Net (loss) income per common share, diluted	(\$0.05)	\$0.01	(\$0.11)	(\$0.43)
Shares used in computing per share amounts, basic	<u>8,745</u>	<u>8,723</u>	<u>8,740</u>	<u>7,953</u>
Shares used in computing per share amounts, diluted	<u>8,745</u>	<u>8,776</u>	<u>8,740</u>	<u>7,953</u>

See accompanying condensed notes to unaudited interim consolidated financial statements