

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

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$9,277	\$6,731
Marketable securities	1,075	5,461
Accounts receivable, less allowance for doubtful accounts of \$125 at September 30, 2006 and \$126 at December 31, 2005	6,379	6,442
Prepaid expenses and other current assets	460	781
Total current assets	17,191	19,415
Non current assets		
Property and equipment		
Office furniture, equipment, and leasehold improvements	1,518	1,518
Computer equipment	5,924	5,166
Total property and equipment	7,442	6,684
Less accumulated depreciation	(6,614)	(6,319)
Property and equipment, net	828	365
Intangible assets, net of amortization of \$1,415 at September 30, 2006 and \$778 at December 31, 2005	4,267	4,604
Goodwill	14,890	14,485
Other noncurrent assets	61	123
Total noncurrent assets	20,046	19,577
Total assets	\$37,237	\$38,992
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	2,433	1,636
Accrued compensation and benefits	793	1,003
Deferred revenue - licenses	118	1,571
Deferred revenue - services	5,521	5,114
Accrued restructuring charges	20	261
Line of credit - short term	2,175	3,600
Current portion of capital lease obligations	21	40
Current portion of equipment loan	372	-
Other current liabilities	969	795
Commitments and Contingencies	100	-
Total current liabilities	12,522	14,020
Noncurrent deferred revenue	598	182
Other non-current liabilities	63	89
Long term portion of equipment loan	431	-
Capital lease obligations	22	35
Total liabilities	13,636	14,326
Stockholders' equity		
Common stock, \$0.01 par; 50,000 shares authorized, 8,921 and 8,744 shares outstanding at September 30, 2006 and December 31, 2005, respectively	89	87
Additional paid in capital	103,463	101,472
Treasury stock, 26 shares at September 30, 2006 and December 31, 2005	(151)	(151)
Deferred compensation	-	(5)
Warrants	6,549	6,549
Accumulated other comprehensive loss	-	(12)
Accumulated deficit	(86,349)	(83,274)
Total stockholders' equity	23,601	24,666
Total liabilities and stockholders' equity	\$37,237	\$38,992

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