

Tescom Software Systems Testing Ltd. (“Tescom” or “the Company”)

Quarterly Results for the three months ended 31 March 2007

Tescom Software Systems Testing Ltd. (Symbol: TSCM), the international quality assurance and software testing service provider, announces its results for the three months ended 31 March 2007.

Highlights

- Revenues remained stable, amounting to NIS 59.3 (\$14.3m), versus NIS 59.6m in 2006
- Gross margins were 34.3%, compared to 32.3% in 2006
- Profit before tax was NIS 3.8m (\$0.9m), versus NIS 1.4m in 2006
- Diluted earnings per share were NIS 0.18 (\$0.04), versus NIS 0.05 in 2006
- Solid profitability improvement in all key territories
- Strengthening of senior sales and delivery management in the UK, US and Israel
- Continued emphasis on European activities, which comprise over 52% of consolidated revenues

Ofer Albeck, CEO of Tescom, said: “Tescom’s results for the three months ended 31 March 2007 reflect a noticeable improvement in gross margins, alongside stability in revenues. We look forward to a positive trend in our top line throughout the remainder of 2007, as we see the benefit of the reorganization and strengthening of our senior sales and management team. The market in Israel remains extremely competitive, which continues to have a negative impact on our overall sales growth and profitability.

Despite this, Tescom has won a number of major new contracts, including long-term fixed contracts in the public sector, from which we expect to benefit during the remainder of 2007. We also expect to leverage the infrastructure improvements which we put in place during 2006 in order to achieve consistent and sustainable growth in both revenues and profitability.”

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Chief Executive's Review

Tescom's revenues for the three months ended 31 March 2007 of NIS 59.3m (\$14.3m) remained stable in comparison to the corresponding period in 2006. Revenue increases in Europe and in the Asia-Pacific region, mainly as a result of new contracts in these locations, were offset by a decline in revenues in Israel. Tescom's strategy is to continue focusing its efforts on large projects with fixed-price contracts, mainly in Europe and the US. Gross margins have increased to 34.3% from 32.3% in the corresponding 2006 period, as we begin to see the effects of improved account and delivery management.

Europe continues to represent over 50% of our consolidated revenues and this percentage is expected to increase. The Company has been successful at gaining new contracts in both the private and public sector and this is expected to bear fruit in the latter half of 2007.

Revenues in the US increased in dollar terms by approximately 10% in comparison to the corresponding 2006 period; however, this increase was offset by a weakening of the dollar against the NIS of about 10%. Tescom continues to make progress in the US, and has won several new long-term contracts in the state and local government sector and the financial services sector. In addition, the strengthening of new senior sales and delivery management in the US is expected to have a positive effect on 2007 revenue and profitability.

In the Asia-Pacific region, Tescom has won several new contracts, which contributed to an increase in revenues of over 60% in comparison with the 2006 quarter.

Tescom Israel has showed a 17% decrease in revenues over the comparative period in 2006, primarily due a focus on accounts with higher margins. This strategy is reflected in a 2% increase in gross margins during the period, which has contributed to an overall increase in profitability. The Company has been successful at gaining new contracts in the finance sector, as well as a new framework contract in the defence sector. Nevertheless, the Israeli market continues to be very competitive, and it is not expected to be a significant source of growth in revenue or profitability in 2007.

Since the beginning of 2006, we have also placed significant emphasis on strengthening our Global Executive Management Team. In this regard, in May 2007, we appointed Ravit Halevy as Vice-President Corporate Development. Ms Halevy brings extensive experience in the strategic business development and investor relations fields, most recently with the U. Dori Group, a large publicly traded company on the Tel Aviv Stock Exchange.

We are pleased with our progress and we expect to leverage the infrastructure improvements which we have put in place in order to achieve consistent, sustainable growth in both revenues and profitability. I also wish to thank our employees for their efforts, which have contributed to a solid start to 2007.

Financial Review

Results

Revenues for the three months ended 31 March 2007 of NIS 59.3m (\$14.3m) remained stable in comparison to the corresponding period in 2006. Revenue increases in Europe and in the Asia-Pacific region, mainly as a result of several new contracts in these locations, were offset by a decline in revenues in Israel.

Pre-tax profit amounted to NIS 3.8m (\$0.9m), versus NIS 1.4m in 2006. Despite the stable revenues, gross profit increased by 5.5% from the 2006 period, mainly as a result of higher margin contracts in Israel, the US and Australia. G&A expenses decreased by NIS 0.6m in the 2007 period, to NIS 12.6m (\$3.0m) from NIS 13.2m in 2006. This decrease primarily relates to management's continuing emphasis on cost control. Sales and marketing expenditure was in line with the 2006 period, showing a slight decrease to NIS 3.9m (\$0.9m), from NIS 4.0m in the 2006 period.

The Company's results were also positively impacted by a decrease in net financial expenses of NIS 0.5m, as a result of fluctuations in the exchange rates between the NIS, dollar and the other operating currencies in the various Group locations.

The Company utilized NIS 2.7m (\$0.6m) in cash from operating activities in the three-month 2007 period, versus utilizing NIS 5.9m in 2006. The utilization of operating cash flows results primarily from an increase in trade receivables, which is mainly due to certain government contracts with longer trade terms. The Company's cash balance at 31 March 2007 was NIS 6.0m (\$1.5m). The Company maintains short-term bank credit lines in both Israel and the UK in the aggregate amount of approximately NIS 32.0m (\$8.0m). NIS 11.5m (\$2.8m) had been drawn against these lines as of 31 March 2007.

Dividends

The Company's dividend policy is subject to the future performance of the Company and its funding requirements. In March 2007, the Company declared a final dividend of NIS 3.8m (\$0.9m) on account of 2006, which was paid on 2 May 2007.

Outlook

Tescom has won a number of significant long-term contracts in 2006 and the first three months of 2007. These contracts are expected to positively affect the top line towards the latter half of 2007. The Company also expects to benefit from its continued emphasis on the European market, which has higher gross margins. Competitive pressures, particularly in the Israeli market, continue to affect revenue growth, but there are signs of improving performance in gross margins and operating profitability. Tescom intends to focus efforts on increasing gross margins, including assessing the feasibility of staffing certain projects from less costly locations where suitable. We anticipate continuing the year-on-year progress that has been achieved over the last five quarters.

The Board of Tescom continues to examine a number of strategic opportunities to expand its businesses in its current territories and enhance shareholder value.

TESCOM SOFTWARE SYSTEMS TESTING LTD.

CONSOLIDATED BALANCE SHEETS

	Convenience Translation			
	March 31, 2007	2007	March 31, 2006	December 31, 2006
	(US\$ 000's)	(NIS 000's)		(NIS 000's)
CURRENT ASSETS:				
Cash and cash equivalents	1,456	6,049	6,935	8,750
Trade receivables	15,797	65,638	60,961	58,431
Other current assets and prepaid expenses	1,488	6,184	3,686	5,185
Total current assets	18,742	77,871	71,582	72,366
NON-CURRENT ASSETS:				
Severance pay fund	2,338	9,715	10,066	9,579
Property and equipment, net	1,866	7,751	4,906	7,016
Goodwill and other intangible assets	424	1,761	2,090	1,826
Deferred income taxes	1,378	5,726	5,491	5,827
Total non-current assets	6,006	24,953	22,553	24,248
Total assets	24,747	102,824	94,135	96,614

The accompanying note is an integral part of the consolidated financial statements.

TESCOM SOFTWARE SYSTEMS TESTING LTD.

CONSOLIDATED BALANCE SHEETS

	Convenience Translation			
	March 31, 2007	2007	March 31, 2006	December 31, 2006
	(US\$ 000's)		(NIS 000's)	(NIS 000's)
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit and current portion of long-term loans	2,769	11,504	13,552	10,588
Trade payables	1,807	7,509	4,888	5,643
Income taxes payable	169	704	2,419	1,237
Other current liabilities and accrued expenses	7,300	30,330	29,859	29,020
Dividend payable	915	3,800	-	-
Total current liabilities	12,960	53,847	50,718	46,488
LONG-TERM LIABILITIES:				
Long-term loans	334	1,388	46	1,066
Accrued severance pay	2,775	11,530	11,757	11,370
Total long-term liabilities	3,109	12,918	11,803	12,436
EQUITY:				
Share capital	54	225	225	225
Share premium	9,157	38,046	40,094	37,987
Treasury shares, at cost	(366)	(1,522)	(1,460)	(1,522)
Foreign currency translation reserve	(507)	(2,108)	(10,578)	(1,031)
Accumulated deficit	341	1,418	3,333	2,031
Total equity	8,678	36,059	31,614	37,690
Total liabilities and equity	24,747	102,824	94,135	96,614

The accompanying note is an integral part of the consolidated financial statements.

TESCOM SOFTWARE SYSTEMS TESTING LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Convenience Translation	Three months ended		Year ended
	Three months ended	Three months ended		December 31,
	March 31,	March 31,		2006
	2007	2007	2006	2006
	(US\$ 000's)	(NIS 000's)		(NIS 000's)
Revenues	14,264	59,267	59,636	237,933
Cost of revenues	9,376	38,959	40,395	159,436
Gross profit	4,888	20,308	19,241	78,497
Selling and marketing expenses	930	3,861	3,992	13,897
General and administrative expenses	3,035	12,612	13,208	50,694
	3,965	16,473	17,200	64,591
Operating profit	923	3,835	2,041	13,906
Financial income	107	444	83	472
Financial expenses	(127)	(529)	(668)	(1,111)
Other expenses, net	-	-	(23)	(16)
Profit before taxes on income	903	3,750	1,433	13,251
Taxes on income	247	1,027	653	2,924
Net profit	656	2,723	780	10,327
Earnings per share	0.04	0.17	0.05	0.65

The accompanying note is an integral part of the consolidated financial statements.

TESCOM SOFTWARE SYSTEMS TESTING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Convenience Translation</u>	<u>Three months ended</u>		<u>Year ended</u>
	<u>Three months ended</u>	<u>Three months ended</u>		<u>December 31,</u>
	<u>March 31,</u>	<u>March 31,</u>		<u>2006</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>(US\$ 000's)</u>	<u>(NIS 000's)</u>		<u>(NIS 000's)</u>
<u>Cash flows from operating activities</u>				
Net profit	656	2,725	780	10,327
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:				
Share-based compensation	14	59	323	(1,784)
Depreciation	102	423	432	1,670
Amortisation	15	62	24	303
Increase in accrued severance pay, net	6	24	438	539
Deferred income taxes, net	14	60	(826)	(607)
Increase in trade receivables	(1,901)	(7,899)	(8,023)	(5,669)
Increase in other current assets and prepaid expenses	(251)	(1,044)	(713)	(2,204)
Increase in trade payables	473	1,965	923	1,675
Increase (decrease) in other current liabilities and accrued expenses	223	928	749	(2,797)
Net cash provided by (used in) operating activities	<u>(649)</u>	<u>(2,699)</u>	<u>(5,893)</u>	<u>1,453</u>
<u>Cash flows from investing activities</u>				
Additions to property and equipment	(108)	(448)	(174)	(2,092)
Proceeds from sale of property and equipment	-	-	12	-
Net cash used in investing activities	<u>(108)</u>	<u>(448)</u>	<u>(62)</u>	<u>(2,092)</u>
<u>Cash flows from financing activities</u>				
Short-term credit, net	126	523	5,957	2,434
Shares repurchased by the Company	-	-	(662)	(724)
Proceeds of long-term loans	-	-	-	110
Repayments of long-term loans	(7)	(29)	(31)	-
Dividends paid	-	-	(4,700)	(4,700)
Net cash provided by (used in) financing activities	<u>119</u>	<u>494</u>	<u>564</u>	<u>(2,880)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(12)</u>	<u>(48)</u>	<u>213</u>	<u>56</u>
Decrease in cash and cash equivalents	<u>(650)</u>	<u>(2,701)</u>	<u>(5,278)</u>	<u>(3,463)</u>
Cash and cash equivalents at beginning of period	<u>2,106</u>	<u>8,750</u>	<u>12,213</u>	<u>12,213</u>
Cash and cash equivalents at end of period	<u><u>1,456</u></u>	<u><u>6,049</u></u>	<u><u>6,935</u></u>	<u><u>8,750</u></u>

The accompanying note is an integral part of the consolidated financial statements.

TESCOM SOFTWARE SYSTEMS TESTING LTD.

	Convenience Translation	Three months ended		Year ended
	Three months ended	Three months ended		December 31,
	March 31, 2007	2007	March 31, 2006	2006
	(US\$ 000's)	(NIS 000's)		(NIS 000's)
<u>Supplemental disclosure of cash flow information:</u>				
Cash paid during period for interest	49	205	179	760
Cash paid during period for income taxes	-	-	421	7,093
Cash received during period for interest	10	40	97	156
<u>Non-cash transactions</u>				
Property and equipment purchased with loan received	226	938	-	1,438
Dividends declared but not paid	915	3,800	-	-

The accompanying note is an integral part of the consolidated financial statements.

NOTE 1:- GENERAL AND PRESENTATION

The accompanying financial statements have been prepared in adjusted New Israeli Shekels ("NIS") and in accordance with International Financial Reporting Standards ("IFRS"). The US dollar amounts as of March 31, 2007 and for the three months then ended have been translated for the convenience of the reader, using the closing NIS/US dollar exchange rate of 4.155 as of March 31, 2007.

These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2006.