

Tescom Software Systems Testing Ltd. ("Tescom", "The Group", or "the Company")

Quarterly Results for the Nine Months ended 30 September 2007

Tescom Software Systems Testing Ltd. (Symbol: TSCM), the international quality assurance and software testing service provider, announces its results for the nine months ended 30 September 2007.

Highlights

- Revenues amounting to NIS 170.8m (\$42.6m), versus NIS 182.6m in 2006
- Gross margins were 33.0%, similar to 2006
- Profit before tax was NIS 4.7m (\$1.2m), versus NIS 9.2m in 2006
- Diluted earnings per share were NIS 0.16 (\$0.04), versus NIS 0.41 in 2006
- Continued emphasis on European activities, which comprise 55% of consolidated revenues, versus 52% in 2006

Ofer Albeck, CEO of Tescom, said: "Tescom's results for the nine months ended 30 September 2007 reflect a 6% decrease in revenues which is disappointing. However, this needs to be considered alongside what has been achieved in terms of stability in gross margins as a result of re-focusing our efforts on large-scale, long-term projects. We have also continued to invest in our sales and marketing resources on a global basis. These actions will continue to have a short term cost effect for the remainder of 2007 and we do not expect significant financial benefit until 2008.

The Company expects to benefit from its continued emphasis on the European market, now representing more than 55% of its total revenues, which has significantly higher gross margins. Tescom continues to focus its efforts on growth from new large-scale, long-term contracts, as well as on cultivating its well established account management with existing customers."

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Chief Executive's Review

Tescom's revenues for the nine months ended 30 September 2007 of NIS 170.8m (\$42.6m) reflect a 6% decrease in comparison to revenues of NIS 182.6m in 2006. In US dollar terms, revenues remained stable, which reflects the weakening of the US dollar against the major currencies of the Group of approximately 10% on a weighted average basis for the 2007 period in comparison to 2006.

Gross margins have remained stable, at 33.0% for the comparable nine-month periods. As part of our continuing efforts to improve our margins, we have also invested in establishing a "near-shore" operation in Israel. This operation is expected to improve the Group's gross margins in 2008, and we anticipate that our near-shore experience from this operation will enhance our global off-shore capabilities in the future.

Throughout the 2007 period, we made a strategic decision to significantly enhance our sales and marketing efforts on a global basis, as we believe our previous investments in delivery management have provided us solid delivery capabilities and the necessary infrastructure for expansion. As part of this decision, we have focused our investments in enlarging and upgrading our sales force in most of our territories.

European activities have grown to represent 55% of consolidated revenues, in comparison to 52% for the same period in 2006, and this percentage is expected to increase.

Within the framework of the Company's enhanced sales and marketing efforts, we recognized an opportunity to compete on a tender for additional work at a principal customer in the European market. This tender, while consuming significant resources and management attention, resulted in our entering into new alliances and refining our marketing tools. This experience will serve the Company in realizing similar opportunities in the future. We are proud of the efforts invested by our local and global resources to produce a high-quality submission. Revenues from this customer, which approximated 13% of consolidated revenues in 2006 and for the nine months ended 30 September 2007, decreased to approximately 10% in Q307. This trend is expected to continue.

Tescom completed two profitable contracts in the US at the end of Q207, which have affected revenues and profitability in the US in the second half of 2007. We have invested in new senior sales management in the US market and these investments are expected to have a positive effect on long-term revenue and profitability growth. In the Asia-Pacific region, Tescom has increased its off-shore contract activities.

Tescom Israel has re-focused its efforts on large-scale projects for the long term. These actions are expected to result in improved gross margins in the long term, alongside a decrease in revenues in the short term. As stated above, the Company has recently established a low-cost, near-shore operation in Modi'in Elite, which has successfully completed training of the first group of new employees. This operation is part of an Israeli-government subsidised programme to provide employment and training to certain segments of the population. The Company has also been successful at gaining new contracts in the insurance sector and has won the principal tender for testing issued by the IDF (Israel Defence Forces).

In response to the needs of the Company's global client base, the Company is currently carrying out an organisational restructuring, in order to leverage the accumulated knowledge and experience in the various Company sectors, with the objective of forming global cross-organisational practices. We expect that our investments in sales and marketing, along with the aforementioned restructuring, will enable us to achieve consistent, sustainable long-term growth in both revenues and profitability.

I also wish to thank our employees for their continued efforts on the Company's behalf.

Financial Review

Results

Revenues for the nine months ended 30 September 2007 of NIS 170.8m (\$42.6m) reflect a 6% decrease in comparison to 2006. Revenues remained stable in Europe and increased in Asia-Pacific, mainly as a result of new contracts, which were offset by a decline in revenues in Israel and the US.

Pre-tax profit amounted to NIS 4.7m (\$1.2m), versus NIS 9.2m in 2006. Gross margins have remained stable, at approximately 33.0% in the comparable nine-month periods. G&A expenses decreased by 6%, to NIS 37.0m (\$9.2m) from NIS 39.3m in 2006. Sales and marketing expenditure increased by 28%, to NIS 13.8m (\$3.4m) from NIS 10.8m in the 2006 period, reflecting significant investments in sales and marketing personnel.

The Company's revenues and operating profit were positively affected by the weakening of the US dollar against the major currencies of the Group (Pounds Sterling, Euro and Israeli Shekel) of approximately 10% on a weighted average basis for the 2007 period in comparison to 2006.

Net financial expenses increased by NIS 0.1m (\$0.02m), as a result of fluctuations in the exchange rates between the NIS, the dollar and the other operating currencies in the various Group locations.

The Company generated NIS 3.6m (\$0.9m) in cash from operating activities for the nine months ended 30 September 2007, versus NIS 0.3m in 2006. The increase in operating cash flows resulted primarily from a smaller increase in trade receivables, compared to the corresponding period last year. The Company's cash balance at 30 September 2007 was NIS 9.4m (\$2.4m), which reflects the payment of a \$0.9m dividend during the second quarter of 2007. The Company maintains short-term bank credit lines in both Israel and the UK in the aggregate amount of approximately NIS 34.0m (\$8.5m). NIS 14.0m (\$3.5m) had been drawn against these credit lines as of 30 September 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 in May 2007. In October 2007, the Company declared an interim dividend of NIS 3.6m (\$0.9m), which was paid on 8 November 2007.

Outlook

Tescom expects revenues to remain flat and a decrease in operating profitability for the remainder of 2007. Our focus on long-term, large-scale projects has resulted in a stabilisation of gross margins, alongside a decrease in revenues in the short term. Our increased investments in sales and marketing, while reducing operating profit in 2007, are expected to improve the Group's gross margins in 2008.

The Company expects to benefit from its continued emphasis on the European market, now representing approximately 55% of its total revenues, which has significantly higher gross margins. Tescom continues to focus its efforts on growth from new large-scale, long-term contracts, as well as on cultivating its well established account management with existing customers.

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	September 30,		December 31,
	September 30, 2007	2007	2006	2006
	(US\$ 000's)	(NIS 000's)		(NIS 000's)
CURRENT ASSETS:				
Cash and cash equivalents	2,354	9,449	10,930	8,750
Trade receivables	14,485	58,128	58,498	58,431
Other current assets and prepaid expenses	1,643	6,591	9,640	5,185
Total current assets	18,482	74,168	79,068	72,366
NON-CURRENT ASSETS:				
Severance pay fund	2,369	9,508	10,053	9,579
Property and equipment, net	1,958	7,860	6,524	7,016
Goodwill and other intangible assets	410	1,644	1,882	1,826
Deferred income taxes	1,439	5,774	894	5,827
Total non-current assets	6,176	24,786	19,353	24,248
Total assets	24,658	98,954	98,421	96,614

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

TESCOM SOFTWARE SYSTEMS TESTING LTD.

CONSOLIDATED BALANCE SHEETS

	<u>Convenience Translation</u>	<u>September 30,</u>		<u>December 31,</u>
	<u>September 30,</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>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Short-term credit and current portion of long-term loans	3,464	13,900	13,128	10,588
Trade payables	1,126	4,518	6,307	5,643
Income taxes payable	417	1,674	1,880	1,237
Other current liabilities and accrued expenses	7,511	30,144	29,095	29,020
Total current liabilities	12,518	50,236	50,410	46,488
LONG-TERM LIABILITIES:				
Long-term loans	234	942	1,097	1,066
Accrued severance pay	2,869	11,513	11,585	11,370
Total long-term liabilities	3,103	12,455	12,682	12,436
EQUITY:				
Share capital	56	225	225	225
Share premium	9,514	38,180	39,863	37,987
Treasury shares, at cost	(379)	(1,522)	(1,522)	(1,522)
Foreign currency translation reserve	421	1,688	1,630	2,031
Accumulated deficit	(575)	(2,308)	(4,867)	(1,031)
Total equity	9,037	36,263	35,329	37,690
Total liabilities and equity	24,658	98,954	98,421	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	Nine months ended		Year ended
	Nine months ended September 30, 2007	September 30, 2007 2006		December 31, 2006
	(US\$ 000's)	(NIS 000's)		(NIS 000's)
Revenues	42,560	170,795	182,629	237,933
Cost of revenues	28,526	114,476	122,505	159,436
Gross profit	14,034	56,319	60,124	78,497
Selling and marketing expenses	3,440	13,804	10,770	13,897
General and administrative expenses	9,200	36,922	39,257	50,694
	12,640	50,726	50,027	64,591
Operating profit	1,394	5,593	10,097	13,906
Financial income	300	1,202	179	472
Financial expenses	(536)	(2,150)	(1,056)	(1,111)
Other expenses (income), net	(5)	(21)	16	16
Profit before taxes on income	1,163	4,666	9,204	13,251
Taxes on income	534	2,143	2,713	2,924
Net profit	629	2,523	6,491	10,327
Earnings per share	0.04	0.16	0.41	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>Nine months ended</u>		<u>Year ended</u>
	<u>Nine months ended</u>	<u>Nine months ended</u>		<u>December 31,</u>
	<u>September 30, 2007</u>	<u>September 30, 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	629	2,523	6,491	10,327
Adjustments to reconcile net profit to net cash provided by operating activities:				
Share-based compensation	33	132	92	(1,784)
Depreciation	345	1,383	1,131	1,670
Amortisation	44	177	231	303
Increase in accrued severance pay, net	53	214	280	539
Deferred income taxes, net	(8)	(33)	(849)	(607)
Increase in trade receivables	(99)	(396)	(6,526)	(5,669)
Increase in other current assets and prepaid expenses	(364)	(1,459)	(2,225)	(2,204)
Increase in trade payables	(258)	(1,035)	2,448	1,675
Increase (decrease) in other current liabilities and accrued expenses	520	2,087	(765)	(2,797)
Net cash provided by operating activities	<u>895</u>	<u>3,593</u>	<u>308</u>	<u>1,453</u>
<u>Cash flows from investing activities</u>				
Additions to property and equipment	(330)	(1,324)	(2,605)	(2,092)
Proceeds from sale of property and equipment	-	-	46	-
Net cash used in investing activities	<u>(330)</u>	<u>(1,324)</u>	<u>(2,559)</u>	<u>(2,092)</u>
<u>Cash flows from financing activities</u>				
Short-term credit, net	725	2,908	5,533	2,434
Exercise of share options	15	61	-	-
Shares repurchased by the Company	-	-	(724)	(724)
Proceeds from long-term loans	-	-	1,157	110
Repayments of long-term loans	(147)	(588)	(141)	-
Dividends paid	(947)	(3,800)	(4,700)	(4,700)
Net cash provided by (used in) financing activities	<u>(354)</u>	<u>(1,419)</u>	<u>1,125</u>	<u>(2,880)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(37)</u>	<u>(151)</u>	<u>(157)</u>	<u>56</u>
Increase (decrease) in cash and cash equivalents	174	699	(1,283)	(3,463)
Cash and cash equivalents at beginning of period	<u>2,180</u>	<u>8,750</u>	<u>12,213</u>	<u>12,213</u>
Cash and cash equivalents at end of period	<u><u>2,354</u></u>	<u><u>9,449</u></u>	<u><u>10,930</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	Nine months ended		Year ended
	Nine months ended	Nine months ended		December 31,
	September 30,	September 30,		2006
	2007	2007	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	184	740	607	760
Cash paid during period for income taxes	901	3,617	4,684	7,093
Cash received during period for interest	51	204	179	156
<u>Non-cash transactions</u>				
Property and equipment purchased with loan received	-	-	-	1,438

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 September 30, 2007 and for the nine months then ended have been translated for the convenience of the reader, using the closing NIS/US dollar exchange rate of 4.013 as of September 30, 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.

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