ATTUNITY LTD
Form 20-F/A
November 26, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F/A

(Amendment no. 1)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _________

Commission file number: 0-20892

ATTUNITY LTD

(Exact name of registrant as specified in its charter and translation of registrant s name into English)

Israel
(Jurisdiction of incorporation or organization)

Kfar Netter Industrial Park, Kfar Netter, 40593, Israel
(Address of principal executive offices)

Dror Elkayam, +972-9-899-3000, Dror.Elkayam@attunity.com,
Kfar Netter Industrial Park, Kfar Netter, 40593, Israel
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Ordinary Shares, NIS 0.1 Par Value
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **23,196,236**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities act.

o Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

x U.S. GAAP

o International Financial Reporting Standards as issued by the International Accounting Standards Board

o Other

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (this Amendment) to the annual report on Form 20-F of Attunity Ltd (the Company or we) for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission (the Commission) on April 2, 2008 (the Form 20-F), is being filed solely for the purpose of:

filing revised consolidated financial statements for the year ended December 31, 2007 (the 2007 Financial Statements), the only changes being (1) a revised Note 1b to the 2007 Financial Statements and (2) a new Note 16b to cover events subsequent to the date of the 2007 Financial Statements;

filing a revised Report of Independent Registered Public Accounting Firm, updating the version that appeared on page F-2 of the Form 20-F (the Report), the only change being the inclusion in the Report of a statement that since the date of completion of the audit of the 2007 Financial Statements and initial issuance of the Report thereon, the Company, as discussed in Note 1b of the 2007 Financial Statements, has continued experiencing operational and net losses that adversely affect the Company s current liquidity. Note 1b to our consolidated financial statements filed with this Amendment describes management s plans to address the matter; and

in order to address the said revisions in the 2007 Financial Statements and Report, (1) adding a risk factor titled *We face liquidity challenges and will need to raise additional capital in the very near future, which may not be available to us* in Item 3D of the Form 20-F, and (2) revising Item 5 (Operating and Financial Review and Prospects) solely in order to add a section titled *Subsequent Events* in Item 5B (Liquidity and Capital Resources) of the Form 20-F.

Therefore, this Amendment consists of a cover page (as revised to comply with the new form 20-F requirements that came into effect on , this explanatory note, a revised opinion in the Report of the Independent Registered Public Accounting Firm, revised 2007 Financial Statements, revised Item 3D, revised Item 5, a signature page and new certifications and consent.

Other than as described above, this Amendment speaks as of the date of the initial filing of the Form 20-F. Other than as described above, this Amendment does not, and does not purport to, amend, update or restate any other information or disclosure included in the Form 20-F and does not, and does not purport to, reflect any events that have occurred after the date of the initial filing of the Form 20-F. As a result, our annual report on Form 20-F for the fiscal year ended December 31, 2007, as amended by this Amendment, continues to speak as of the initial filing date of the Form 20-F.

ITEM 3D. RISK FACTORS

We face liquidity challenges and will need to raise additional capital in the very near future, which may not be available to us.

We face liquidity challenges. We will need to raise additional funds in the very near future in order to satisfy our working capital and capital expenditure requirements. Current economic conditions are likely to limit our ability to access sources of funds.

Although we intend to raise new capital fromvarious resources, we may not be able to obtain additional funds on a timely basis, on acceptable terms or at all. If we cannot raise needed funds on acceptable terms, we may be required to delay, scale back or eliminate some aspects of our operations and we may not be able to:

develop new products;

enhance our existing products;

remain current with evolving industry standards;

expand our sales and marketing programs;

take advantage of future opportunities; or

respond to competitive pressures or unanticipated requirements.

Further, if we cannot raise funds on acceptable terms and on a timely basis, we may also be unable to continue as a going concern. In that event, we may be forced to cease operations and our shareholders could lose their entire investment in our company.

ITEM 5B. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis includes certain forward-looking statements with respect to the business, financial condition and results of operations of our company. The words estimate, project, intend, , anticipate , expect and similar expressions are intended to identify forward-looking statements within the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements, including those Risk Factors contained in Item 3D of this Annual Report. This discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Annual Report.

A. OPERATING RESULTS

Overview

Building on nearly 20 years of history delivering data and application integration solutions, we are one of the leading innovators in the Composite Applications space, providing workplace-solutions with our flagship product Attunity InFocus. Designed to significantly improve the way organizations detect and resolve those complex issues that can most affect their business, Attunity InFocus provides real-time dashboard-like information visibility with integrated activity and resolution management.

Using Attunity s software, companies are able to optimally connect, transfer, join and stream to and from a variety of data sources in real-time, and subsequently use that data to rapidly configure and deploy sophisticated workplace-focused composite applications. We also provide maintenance, consulting, and other related services for our products including maintenance services for our legacy products: CorVision an application generator; APTuser a database retrieval and production report generator; and Mancal 2000 a logistics and financial application software package.

We were founded in 1988 and became a public company in 1992. Through distribution and OEM agreements with global-class partners such as Oracle, Microsoft and HP, Attunity-based solutions are deployed on thousands of systems worldwide. Our products are sold through direct sales and support offices in the United States, the United Kingdom, Israel, Hong Kong and the People s Republic of China , as well as through distributors in Japan, South East Asia, Europe and Latin America.

Highlights of 2007

In March 2007, we closed our offices in France and Australia and terminated our employees in these locations. Termination costs were approximately $0.7 million.

In December 2007, one of our OEM partners that accounted for approximately 16.9% of our revenues in 2007, terminated one of its OEM agreements with us that accounted for approximately 12.7% of our revenues in 2007.

In December 2007, we entered into a worldwide OEM agreement with Microsoft Corporation. Under the agreement, which has an initial term of five years, we commenced providing Microsoft with our Attunity Connect adapters for Microsoft SQL Server 2008 in January 2008.

In 2007, total revenues were $12.1 million, compared to $13.3 million in 2006. Our operating loss increased by 5.6% to $5.7 million in 2007 and we incurred a net loss of $6.9 million, compared to a net loss of $6.5 million in 2006.

In the past three years, we incurred accumulated losses of approximately $17.2 million and accumulated negative cash flows from operating activities from continuing operations of approximately $8.0 million. We had cash and cash equivalents of approximately 1.3 million as of December 31, 2007.

During 2007, we performed several restructuring activities (see Note 15b to the Consolidated Financial Statements included in this Annual Report), in an attempt to improve our financial condition. We will attempt to raise additional capital to fund our current operations and we also approved a tentative cost reduction plan designed to allow it to support our operations until December 31, 2008. This tentative plan includes, among others, workforce reduction, curtailment of sales and marketing activities, reduction of research and development activities and/or sale or discontinue of certain activities. In order for such plan to be effective it will have to be implemented in a timely manner.

Discontinued Operations

In the first quarter of 2005, we decided to discontinue our non-core consulting operations in France and Israel by selling the operations (1) in France for approximately EURO 50,000 ($65,000), payable in two installments in December 2005 and in December 2006, plus an earn-out payment of approximately 30,000 (equates to approximately $39,000 based on the exchange rate between the Euro and the Dollar) for the year 2007 and (2) in Israel for $57,000 payable in eight installments over two years. Revenues of the discontinued operations were $0.2 and $4.0 million in the years 2005 and 2004, respectively. The operating loss of these operations was $424,000 and $148,000 in 2005 and 2004, respectively. There were no revenues or expenses of the discontinued operations in 2007 and 2006. The results of the non-core consulting operation in France and Israel are reported in our financial results since the first quarter of 2005 separately as discontinued operations in the statement of operations.

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including, but not limited to those related to revenue recognition, bad debts and intangible assets. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We believe that the following significant accounting policies are the basis for the most significant judgments and estimates used in the preparation of our consolidated financial statements**.**

Revenue Recognition. We generate revenues mainly from license fees and sub-license fees for the right to use our software products, maintenance, support, consulting and training services. We sell our products primarily through our direct sales force to customers and indirectly through distributors and value added resellers, or VARs. Both the customers and the distributors or resellers are considered end users. We are also entitled to royalties from some distributors and VARs upon the sublicensing of the software to end users.

Revenues from license and services fees are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred or the services have been rendered, the fee is fixed or determinable and collectibility is probable. We do not grant a right of return to our customers.

We determine that persuasive evidence of an arrangement exists with respect to a customer when we have a purchase order from the customer or a written contract, which is signed by both us and customer (documentation is dependent on the business practice for each type of customer).

Our software may be either physically or electronically delivered to the customer. We determine that delivery has occurred upon shipment of the software or when the software is made available to the customer through electronic delivery, when the customer has been provided with access codes that allow the customer to take immediate possession of the software on its hardware. We consider all arrangements with payment terms extending beyond five months not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer, provided that all other revenue recognition criteria have been met.

We determine whether collectibility is probable on a case-by-case basis. When assessing probability of collection, we consider the number of years in business and history of collection. If we determine from the outset that collectibility is not probable based upon our review process, revenue is recognized as payments are received.

With regard to software arrangements involving multiple elements, we allocate revenues to the different elements in the arrangement under the residual method when Vendor Specific Objective Evidence, or VSOE, of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, at the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (maintenance and support, consulting and training) and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software product) when the basic criteria have been met. Any discount in the arrangement is allocated to the delivered element.

Our determination of fair value of each element in multiple-element arrangements is based on VSOE. We align our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have sufficient VSOE to allocate revenue to the maintenance and support, consulting and training (professional) services components of our license arrangements. We sell our professional services separately, and accordingly we have established VSOE for professional services based on our hourly or daily rates. VSOE for maintenance and support is determined based upon the price charged when the same element is sold separately. Accordingly, assuming all other revenue recognition criteria are met, we recognize revenue from licenses upon delivery using the residual method.

Arrangements for the sale of software products that include consulting and training services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. We determined that these services are not considered essential to the functionality of other elements of the arrangement, and therefore, these revenues are recognized as a separate element of the arrangement.

Revenues from license fees that involve customization of our software to customer specific specifications are recognized using contract accounting. During 2006, we have completed our obligations under an agreement that involved such customization, and as a result, recognized all related revenues.

In all cases, we expect to perform our contractual obligations and we expect our licensees to satisfy their obligations under the contract.

Revenues from royalties are recognized according to quarterly royalties reports, as such reports are received from customers. Royalties are received from customers who embedded our products in their own products and we are entitled to a percentage of the customer revenue from the combined product.

Maintenance and support revenue included in multiple element arrangement is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

Services revenues are recognized as the services are performed.

Deferred revenues include unearned amounts received under maintenance and support contracts and amounts received from customers but not recognized as revenues.

Bad Debt Allowance. An allowance for doubtful accounts is determined with respect to those specific amounts that our management has determined to be doubtful accounts. We perform ongoing credit evaluations of our customers. An allowance for a doubtful account is determined with respect to those amounts that we have determined to be doubtful of collection. Any changes in our assumptions relating to the collectability of our accounts receivable, may affect our financial position and results of operations.

Goodwill. Goodwill represents the excess of the costs over the net assets of businesses acquired. Under existing accounting standards, we test goodwill for impairment on adoption and at least annually thereafter or between annual tests in certain circumstances, and write down our goodwill when impaired, rather than amortizing goodwill as previous accounting standards required. We operate in one operating segment, and this segment comprises our only reporting unit. Goodwill is tested for impairment by comparing the fair value of our company s reporting unit with its carrying value. Fair value was determined using discounted cash flows, market multiples and comparative analyze. Significant estimates used in the methodologies included estimates of future cash flows and estimates of market multiples for the reportable unit. Through December 31, 2007, no impairment losses have been identified. The change in the carrying amount of goodwill for the year ended December 31, 2007 is due to translation adjustments.

Research and Development Expenses, Net. Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs of the production of a detailed program design incurred subsequent to the establishment of technological feasibility are capitalized. Based on our product development process, technological feasibility is established upon completion of a detailed program design.

Capitalized software costs are amortized by the greater of the amount computed using (1) the ratio that current gross revenues from sales of the software to the total of current and anticipated future gross revenues from sales of the software, or (2) the straight-line method over the estimated useful life of the product (five years), commencing with general product release and included in cost of revenues. In the years 2007, 2006 and 2005, capitalized software costs were amortized using the straight-line method.

At each balance sheet date, we assess the recoverability of this intangible asset by comparing the unamortized capitalized software costs to the net realizable value on a product by product basis. Should the amount of the unamortized capitalized costs of a computer software product exceed the net realizable value, these products will be written down by the excess amount. In the years ended December 31, 2007, 2006 and 2005 we recorded no impairment.

Under different assumptions with respect to the recoverability of our intangible assets, our determination may be different, which may negatively affect our financial position and results of operations.

Stock-based Compensation. Prior to January 1, 2006, we accounted for stock-based employee compensation plans under the intrinsic value recognition and measurement provisions of Accounting Principles Board, or APB Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees, and related interpretations as permitted by Statement of Financial Accounting Standard, or SFAS No. 123, Accounting for Stock-Based Compensation , or SFAS 123. No intrinsic value of stock-based compensation expense was recorded by us for the years ended December 31, 2005 and 2004.

Effective January 1, 2006, we adopted the fair value recognition and measurement provisions of SFAS No. 123(R), Share-Based Payment , or SFAS 123(R). SFAS 123(R) is applicable for stock-based awards exchanged for employee services and in certain circumstances for non-employee directors. Pursuant to SFAS 123(R), stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period.

Under that transition method, compensation cost recognized in the years ended December 31, 2006, and 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted following January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. We selected the Black-Scholes option pricing model as the most appropriate fair value method for our stock-options awards.

The option-pricing model requires a number of assumptions, the most significant of which are the expected stock price volatility and the expected option term. These assumptions are as follows:

Expected volatility was calculated based upon actual historical stock price movements equal in their length to the expected term of each respective grant being measured.

Expected term of options granted was calculated using the simplified method, as defined in Staff Accounting Bulletin No. 107, Share Based Payments, as the average between the vesting period and the contractual life of the options.

Risk-free interest rate - was based on the yield from U.S. treasury bonds with an equivalent term.

Dividends We have historically not paid dividends and do not intend to do so in the foreseeable future.

We recognize compensation expenses for the value of the awards granted subsequent to January 1, 2006 based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

As a result of adopting SFAS 123(R) on January 1, 2006, our loss before taxes on income for the year ended December 31, 2006 was $907,000, respectively, higher than if we had continued to account for equity-based compensation under APB No. 25. Basic and diluted net loss per share for the year ended December 31, 2006 was $0.05, respectively, higher, than if we had continued to account for equity-based compensation under APB No. 25.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issues a FASB Staff Position (FSP) to defer the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We believe this Standard will not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, although earlier adoption is permitted. We believe this Standard will not have a material effect on our consolidated financial statements.

On December 21, 2007 the SEC staff issued Staff Accounting Bulletin No. 110, or SAB 110, which, effective January 1, 2008, amends and replaces Question 6 of Section D.2 of SAB Topic 14, Share-Based Payment. SAB 110 expresses the views of the SEC staff regarding the use of a simplified method in developing an estimate of expected term of plain vanilla share options in accordance with FASB Statement No. 123(R), Share-Based Payment. Under the simplified method, the expected term is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The use of the simplified method, which was first described in Staff Accounting Bulletin No. 107, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the simplified method for plain vanilla awards in certain situations. The SEC staff does not expect the simplified method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. We believe that it complies with the exception as listed in SAB 110, and as a result, expected to continue using the simplified method in 2008.

Results of Operations

The following discussion of our results of operations for the years ended December 31, 2007, 2006 and 2005, including the following table, which presents selected financial information as a percentage of total revenues, is based upon our statements of operations contained in our financial statements for the periods, and the related notes, included in this Annual Report.

	Year Ended December 31,		
	2007	**2006**	**2005**
Revenues:	100%	100%	100%
Software licenses	46	50	55
Maintenance and services	54	50	45
Cost of software licenses	11	8	10
Cost of maintenance and services	7	10	11
Research and development, net	32	29	18
Selling and marketing	66	72	62
General and administrative	22	22	14

	Year Ended December 31,		
Employment termination and offices shut-down costs	9	-	1
Total operating expenses	147	141	116
Operating loss	(47)	(41)	(16)
Financial and other expenses, net	(9)	(7)	(5)
Other income	*	*	*
Income taxes	(1)	(1)	(1)
Loss from continuing operations	(57)	(49)	(23)
Loss from discontinued operations	-	-	(2)
Net Loss	(57)%	(49)%	(25)%

* Less than 1%

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Revenues. Our revenues are derived primarily from software licenses, maintenance and services. For additional details regarding the manner in which we recognize revenues, see the discussion under the caption *Critical Accounting Policies* *Revenue Recognition* above.

Total revenues decreased by 9.0% to $12.1 million in 2007 from $13.3 million in 2006. This decrease is mainly attributable to a 16.8% decrease in license revenues, which decreased to $5.5 million in 2007 from $6.7 million in 2006. This decrease is primarily due to re-alignment of our sales force to focus on early customer wins for our strategic new product line, Attunity InFocus. Maintenance and services revenues decreased 1.5% to $6.6 million in 2007 from $6.7 million in 2006.

Cost of Revenues. Cost of license revenues consists primarily of amortization of capitalized software development costs. Cost of maintenance and services consists primarily of salaries of employees performing the services and related overhead.

Our cost of revenues decreased 8.3% to $2.2 million in 2007 from $2.4 million in 2006 primarily due to a decrease of $0.4 million in costs related to the closing of our France and Australia offices in the first quarter of 2007 and the workforce reduction in the fourth quarter of 2007. The aforementioned decrease was offset by a $0.2 million increase in amortization of capitalized software development costs in 2007. We anticipate that our cost of revenues as a percentage of revenues, excluding any write-offs, will decrease in 2008.

Research and Development, Net. Research and development expenses consist primarily of salaries of employees engaged in on-going research and development activities and other related costs. For additional details regarding the manner in which we recognize research and development expenses, see the discussion under the caption *Critical Accounting Policies* *Research and Development Expenses, Net* above.

Total research and development costs, before capitalized software costs, was $5.2 million in both 2007 and 2006. An increase in development costs of our new product, Attunity InFocus, and salary increases were offset by a workforce reduction in the fourth quarter of 2007. The capitalization of software developments costs has not changed between 2007 and 2006. As a result of the foregoing, net research and development costs has not changed between 2007 and 2006. We plan to decrease our expenditures for research and development costs in 2008 as part of our cost reduction plan implemented in the fourth quarter of 2007.

Selling and Marketing. Selling and marketing expenses consist primarily of costs relating to compensation and overhead to sales, marketing and business development personnel, travel and related expenses, and sales offices maintenance and administrative costs. Selling and marketing expenses decreased by 16.7% to $8.0 million in 2007 from $9.6 million in 2006. This decrease is due to our cost reduction plan implemented in the fourth quarter of 2007 and a decrease in the commissions paid on license revenues. We expect that our selling and marketing expenses will decrease in 2008 as a result of the aforementioned cost reduction plan.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel, legal, audit, other administrative costs and bad debts. General and administrative expenses decreased by 13.3% to $2.6 million in 2007 from $3.0 million in 2006. The decrease is primarily attributable to lower equity based costs, termination of senior officers which was partially offset by higher legal costs. We believe that our general and administrative expenses will decrease in 2008 due to senior officers termination.

Employment Termination and Offices Shut-down Costs. In the first quarter of 2007, we decided to close our offices in France and Australia and terminate the employees in these locations. In the fourth quarter of 2007, we underwent a restructuring process to reduce our operating costs, which involved the termination of nearly 25% of our worldwide workforce. Total termination costs were approximately $1.1 million.

Operating Loss. Based on the foregoing, the operating loss increased by 5.6% to $5.7 million in 2007 from $5.4 million in 2006.

Financial Expenses, Net. In 2007, we had net financial expenses of $1,088,000 as compared to net financial expenses of $883,000 in 2006. This increase in financial expenses is attributable to amortization of debt discount ($682,000 in 2007 compared to $471,000 in 2006) and a decrease in financial income earned in 2007 following the reduction of our cash balances. This increase was partially offset by the decrease in amortization of deferred expenses ($207,000 in 2007 compared to $400,000 in 2006).

Taxes on Income. Income taxes for 2007 were $97,000 compared with $174,000 in 2006, mainly derived from reduction in taxes withheld on export sales and tax advances to authorities.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

Revenues. Total revenues decreased 11.9% to $13.3 million in 2006 from $15.1 million in 2005. This decrease is mainly attributable to a 20.4% decrease in license revenues, which decreased to $6.7 million in 2006 from $8.4 million in 2005. This decrease was primarily due to re-alignment of our sales force to focus on early customer wins for our strategic new product line, Attunity InFocus. Maintenance and services revenues decreased 1.4% to $6.7 million in 2006 from $6.8 million in 2005.

Cost of Revenues. Our cost of revenues decreased 25.1% to $2.4 million in 2006 from $3.2 million in 2005 primarily due to decrease of $0.3 million of royalties to the Chief Scientist that were not accrued after 2005 since we accrued our full obligation in respect of one product line and had no further obligation in respect of other product line in the absence of sales. In addition, there was a $0.1 million decrease in amortization of capitalized software development costs in 2006.

Research and Development, Net. Total research and development costs, before capitalized software costs, increased by 27.3% to $5.2 million in 2006 from $4.1 million in 2005, primarily related to the development of Attunity InFocus, as well as salary increases. The capitalization of software developments costs decreased by 6.1% to $1.3 million in 2006 from $1.4 million in 2005. As a result of the foregoing, net research and development costs increased by 45.0% to $3.9 million in 2006 from $2.7 million in 2005.

Selling and Marketing. Selling and marketing expenses increased by 2.0% to $9.6 million in 2006 from $9.4 million in 2005. This increase was due to our hiring of additional people in direct sales operations in Europe and the United States and in marketing, as well as higher marketing costs.

General and Administrative. General and administrative expenses increased by 35.0% to $3.0 million in 2006 from $2.2 million in 2005. The increase was attributable, among other factors, to recruitment of an executive officer and to the increase in bad debts.

Operating Loss. Based on the foregoing, the operating loss increased by 118.3% to $5.4 million in 2006 from $2.5 million in 2005.

Financial Expenses, Net. In 2006, we had net financial expenses of $883,000 as compared to net financial expenses of $790,000 in 2005. This increase in financial expenses was attributable to amortization of debt discount ($471,000 in 2006 compared to $400,000 in 2005) and amortization of deferred expenses ($400,000 in 2006 compared to $226,000 in 2005). This increase was slightly offset by financial income earned in 2006.

Taxes on Income. Income taxes for 2006 were $174,000 compared with $165,000 in 2005, mainly derived from taxes withheld on export sales and amortization of advances to tax authorities.

Conditions in Israel

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. Accordingly, our operations in Israel are directly affected by political, economic and military conditions in Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Since October

2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, which has strained Israel s relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and harm our results of operations. Furthermore, several countries restrict business with Israel and Israeli companies and additional countries may restrict doing business with Israel and Israeli companies as a result of the recent increase in hostilities. These restrictive policies may harm the expansion of our business. No predictions can be made as to whether or when a final resolution of the area s problems will be achieved or the nature thereof and to what extent the situation will impact Israel s economic development or our operation.

Some of our executive officers and employees in Israel are obligated to perform military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

Impact of Currency Fluctuations and of Inflation

Our financial results may be negatively impacted by foreign currency fluctuations. Our foreign operations are generally transacted through our international sales subsidiaries in Europe, Israel and Asia Pacific. As a result, these sales and related expenses are denominated in currencies other than the dollar. Because our financial results are reported in dollars, our results of operations may be adversely impacted by fluctuations in the rates of exchange between the dollar and other currencies, including:

a decrease in the value of currencies in certain of the Europe, Middle East or Asia Pacific regions relative to the dollar, which would decrease our reported dollar revenue, as we generate revenue in these local currencies and report the related revenue in dollars; and

an increase in the value of currencies in certain of the Europe or Asia Pacific regions, or Israel relative to the dollar, which would increase our sales and marketing costs in these countries and would increase research and development costs in Israel.

The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is (or is not) offset, or is offset on a lagging basis, by the devaluation of the NIS in relation to the dollar. Unless offset by a devaluation of the NIS, inflation in Israel will have a negative effect on our profitability as we incur expenses, principally salaries and related personnel expenses, in NIS.

The following table sets forth, for the periods indicated, information with respect to the rate of inflation in Israel, the rate of devaluation (revaluation) of the NIS against the dollar, and the rate of inflation in Israel adjusted for such devaluation:

Year ended December 31,	Israeli inflation (deflation) rate %	NIS devaluation (revaluation) rate %	Israeli inflation adjusted for devaluation %
2003	(1.6)	(9.2)	7.6
2004	1.2	(1.6)	2.8
2005	2.4	6.8	(4.4)
2006	(0.1)	(8.2)	8.1
2007	3.4	(9.0)	12.4

A revaluation of the NIS in relation to the dollar, as was the case in 2006 and 2007, has the effect of increasing the dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the dollar). Such revaluation also has the effect of increasing the dollar value of any asset, which consists of NIS or receivables payable in NIS (unless such receivables are linked to the dollar). Conversely, any decrease in the value of the NIS in relation to the dollar, has the effect of decreasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses.

B. LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations through cash generated by operations, funds generated by our public offering in 1992, private equity investments, exercise of stock options and warrants as well as from research and development and marketing grants, primarily from the Government of Israel. On a limited basis we have also financed our operations through short-term loans and borrowings under available credit facilities.

Principal Financing Activities

In June 2004, we entered into a Loan Agreement with Plenus Technologies Ltd., or Plenus, whereby Plenus undertook to make available to us a revolving credit facility in the aggregate amount of $3.0 million. As part of such agreement, we also issued warrants to purchase our ordinary shares, which are exercisable into 250,909 of our shares. We did not utilize this credit line and, in May 2006, we entered into a new Loan Agreement with Plenus, whereby we borrowed $ 2.0 million, effective as of March 27, 2006, or the Effective Date. The loan amount became due and payable, in one installment, on January 1, 2007 and we paid Plenus interest on the principal amount outstanding at an annual rate of 6.5% for the period from the Effective date through June 3, 2006 and an interest at an annual rate of 9.44% for the period from June 4, 2006 through December 31, 2006. As part of such agreement, we also issued warrants to purchase our ordinary shares, which are exercisable into 192,000 of our shares.

On January 31, 2007, we entered into a new Loan Agreement with Plenus and its affiliates, whereby the lenders provided a $2 million loan, and, upon future achievement of a certain milestone (related to achievement of revenues targets), which was not met, were required to lend us an additional $1 million. The outstanding loan amount is due and payable in twelve equal monthly installments commencing on the first day of the 25th month following January 31, 2007. The loan accrues interest at a floating annual rate of the LIBOR rate plus 4.25%, and such interest is being paid on a quarterly basis. In addition, we issued warrants to purchase our ordinary shares. See Item 10C Additional Information Material Contracts 2007 Loan .

In September 2006, we completed a private placement transaction in which we issued (i) 4,800,000 ordinary shares at a purchase price of $1.25 per share, resulting in aggregate proceeds (before expenses) of $6.0 million and (ii) warrants to purchase up to 2,400,000 of our ordinary shares with an exercise price of $1.25 per share. See Item 10C Additional Information Material Contracts 2006 Private Placement .

During February and April 2006, the Investors Group exercised 1,000,000 warrants to purchase ordinary shares with an exercise price of $1.75 per share for an aggregate consideration of $1,750,000. During the first quarter of 2005, other investors of the Company exercised 673,845 warrants to purchase ordinary shares with an exercise price of $1.75 per share for an aggregate consideration of approximately $1,179,000.

In January 2005, we completed a private placement transaction in which we issued (i) 727,273 ordinary shares at a purchase price of $2.75 per share, resulting in aggregate proceeds (before expenses) of approximately $2.0 million and (ii) warrants to purchase up to 290,909 of our ordinary shares with an exercise price of $2.75 per share. These warrants expired in January 2008. Due to a delay in the registration of the shares issued to the investors and the shares issuable upon exercise of the warrants under the Securities Act of 1933, we had to pay liquidated damages at an amount of $200,000. We paid this amount by issuing 77,519 of our ordinary shares to the investors.

Working Capital and Cash Flows

As of December 31, 2007, we had $1.5 million in cash, cash equivalents and restricted cash as compared to $5.2 million in cash and cash equivalents at December 31, 2006. As of December 31, 2007, we had a loan in the amount of $2 million, and a bank line of credit of approximately $80,000, which is currently unused.

As of December 31, 2007 we had $27,000 of capital lease obligations. These capital lease obligations are in Israel and bear interest at the approximate rate of 5.0%. Principal and interest are linked to the Israeli Consumer Price Index.

Net cash used in operating activities was $2.4 million and $4.2 million in 2007 and 2006, respectively. The decrease was primarily due to decrease in trade receivables. Net cash used in investing activities was $1.4 million in 2007 and $1.9 million in 2006, which funds were used primarily for software development costs. Net cash used by financing activities was $8,000 in 2007, mainly derived from setoff of receipt and repayment of short term debt. Net cash provided by financing activities was $9.6 million in 2006, mainly derived from the private placement that we completed in September 2006, receipt of short term debt and exercise of warrants by certain investors during 2006.

Our principal commitments consist of long-term debt resulting from the loan we borrowed in January 2007 (see Item 10C Additional Information Material Contracts 2007 Loan) and obligations outstanding under operating leases. In addition, in May 2009, the $2 million convertible notes issued to the Investors Group in May 2004 will be due and payable (if not converted before). See also Item 5F below.

Our capital expenditures were approximately $112,000 in 2007 and $554,000 in 2006. The majority of our capital expenditures were for computers and software. We currently do not have significant capital spending or purchase commitments.

Outlook

In the past three years, we incurred accumulated losses of approximately $17.2 million and accumulated negative cash flows from operating activities from continuing operations of approximately $8.0 million. We had cash and cash equivalents of approximately 1.3 million as of December 31, 2007.

During 2007, we performed several restructuring activities (see Note 15b to the Consolidated Financial Statements included in this Annual Report), in an attempt to improve our financial condition. We will attempt to raise additional capital to fund our current operations and we also approved a tentative cost reduction plan designed to allow it to support our operations until December 31, 2008. This tentative plan includes, among others, workforce reduction, curtailment of sales and marketing activities, reduction of research and development activities and/or sale or discontinue of certain activities. In order for such plan to be effective it will have to be implemented in a timely manner.

We anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements until at least March 2009. However, as described above, we may need to raise additional funds or otherwise implement said cost reduction plan in the next twelve months in order to provide the capital necessary for our working capital and capital expenditure requirements.

Subsequent Events

Subsequent to the balance sheet date, at September 30, 2008, we had cash and cash equivalents of $813,000, restricted cash of $228,000 and short term debt of $3,453,000. During the nine months ended September 30, 2008, we incurred a net loss of $2,118,000. We are due to pay our entire debt amount of $4,250,000 during 2009. In addition, we need to raise additional funds or receive additional lines of credit in order to meet our working capital requirements.

In order to improve our financial strength, we plan to raise additional capital to sustain our current operations and receive an additional line of credit from certain of our shareholders. In addition, we have approved a tentative cost reduction plan to ensure that we have the financial resources needed to support our operations. This tentative plan includes, among others, workforce reduction, curtailment of sales and marketing activities and reduction of research and development activities. In addition, our management believes that it will reach an agreement with some of its debt holders to defer the repayment beyond 2009, prior to December 31, 2008.

The above mentioned conditions and failure to raise sufficient funds in the near future in the current market and economic conditions raise substantial doubt about our ability to continue as a going concern. However, we still believe that our cash resources are sufficient to fund our operations at least through December 31, 2008.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

The software industry is characterized by rapid product change resulting from new technological developments, performance improvements and lower hardware costs and is highly competitive with respect to timely product innovation. We, through our research and development and support personnel, work closely with our customers and prospective customers to determine their requirements, to design enhancements and new releases to meet their needs and to adapt our products to new platforms, operating systems and databases. Research and development activities for all products principally take place in our research and development facilities in Israel. As of December 31, 2007, we employed 28 persons in research and development. The Company participated in programs sponsored by the Office of the Chief Scientist. (*See Item 4B Information on the Company Business Overview Government Regulations*)

As of December 31, 2007, we had obtained grants from the Chief Scientist in the aggregate amount of $2,426,000 for certain of our research and development projects. No grants were received since June 2000. We are obligated to pay royalties to the Chief Scientist, amounting to 2% to 5% of the sales of the products and other related revenues generated from such projects, up to 100% of the grants received, linked to the dollar, plus interest. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required. Through December 31, 2007, we have paid royalties to the Chief Scientist in the amount of $2,172,000. As of December 31, 2007, we paid our full obligation in respect of one product line and we have no further obligation in respect of the other product line in the absence of sales. We had no royalty expenses during 2007 and we do not expect such expenses in the future. Our royalty expenses during the years 2007, 2006 and 2005 were $ 0, $ 0 and $122,000, respectively.

We have committed substantial financial resources to our research and development efforts. During 2007, 2006 and 2005, our research and development expenditures before capitalization were $5.2 million, $5.2 million and $4.1 million, respectively. We have not received any reimbursement from the Chief Scientist since June 2000. We capitalized computer software development costs of $1.3 million, $1.3 million and $1.4 million, in the years ended December 31, 2007, 2006 and 2005, respectively. We believe that our investment in product development activities in 2008 will be lower than our expenditures in 2007.

D. TREND INFORMATION

We expect that our results will continue to be impacted by the continued decline in revenues from our legacy products. As a result of an unpredictable business environment and long sales cycles, as well as the uncertainty surrounding the Attunity InFocus, we are unable to provide any guidance as to sales and profitability trends. However, as previously announced, we continue to expect that our Connect and legacy products will continue to generate annual revenues of between $9 million to $12 million until 2009 (inclusive).

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations and commercial commitments, as of December 31, 2007 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	**Payments due by Period (U.S. dollars in thousands)**				
	Total	**less than 1 year**	**1-3 Years**	**3-5 Years**	**more than 5 Years**
Long-term convertible debt obligations	$ 1,099	--	$ 1,099*	--	--
Long-term debt obligations	$ 2,009		$ 2,009		
Operating lease obligations	2,068	917	1,151	--	--
Other long-term liabilities reflected on the Balance Sheet	$ 315	--	--	--	$ 315
Total	$ 5,491	$ 917	$ 4,259	$ --	$ 315

* Consist of $1,099,000 which was recorded in respect of convertible debt: In April 2004, we issued to the Investor Group convertible notes in the amount of $2,000,000. According to the accounting treatment, as detailed in note 8 to our consolidated financial statements appearing elsewhere in this Annual Report, there is a debt discount equal to the full face amount of the convertible notes. The discount is amortized over a five-year period from the date of issuance until the stated redemption date of the debt. Therefore, the amortized debt discount amount of $1,099,000 appears as the convertible debt, net, in our consolidated balance sheets as of December 31, 2007 and is included in this table.

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements

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ITEM 19. EXHIBITS

Exhibit	Description
12.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
12.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
13.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
14.1*	Consent of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global

* Filed herewith.

** Furnished herewith.

ATTUNITY LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and board of directors of

ATTUNITY LTD.

We have audited the accompanying consolidated balance sheets of Attunity Ltd. (the Company) and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(n) to the consolidated financial statements, the Company adopted the provision of Statement of Financial Accounting Standard No. 123(R), Shared-Based Payment , effective January 1, 2006.

Since the date of completion of our audit of the accompanying financial statements and initial issuance of our report thereon dated April 2, 2008, the Company, as discussed in Note 1b, has continued experiencing operational and net losses that adversely affect the Company s current liquidity. Note 1b describes management s plans to address these issues**.**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in United States.

	/s/ KOST FORER GABBAY & KASIERER
Tel-Aviv, Israel	KOST FORER GABBAY & KASIERER
April 2, 2008	A Member of Ernst & Young Global

Except for Note 1b as to which the date is November 25, 2008

ATTUNITY LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2007	**2006**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,321	$ 5,080
Restricted cash	159	143
Trade receivables (net of allowance for doubtful accounts of $ 78 and $ 31 at December 31, 2007 and 2006, respectively)	912	2,829
Other accounts receivable and prepaid expenses	484	632
Assets of discontinued operations	-	33
Total current assets	2,876	8,717
LONG-TERM ASSETS:		
Long-term prepaid expenses	72	102
Severance pay fund	972	925
Property and equipment, net	579	939
Software development costs, net	4,374	4,434
Goodwill	6,361	6,118
Deferred charges, net	423	118
Total long-term assets	12,781	12,636
Total assets	$ 15,657	$ 21,353

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	December 31,	
	2007	**2006**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt	$ 18	$ 2,022
Trade payables	457	523
Deferred revenues	2,344	2,454
Employees and payroll accruals	876	1,260
Accrued expenses and other liabilities	901	1,077
Total current liabilities	4,596	7,336
LONG-TERM LIABILITIES:		
Convertible debt	1,099	418
Long-term debts	2,009	23
Accrued severance pay	1,287	1,264
Total long-term liabilities	4,395	1,705
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital - Ordinary shares of NIS 0.1 par value - Authorized: 70,000,000 and 40,000,000 shares at December 31, 2007 and 2006 respectively; Issued and outstanding: 23,196,236 and 23,166,931 shares at December 31, 2007 and 2006, respectively	720	720
Additional paid-in capital	103,924	102,772
Accumulated other comprehensive loss	(431)	(569)
Accumulated deficit	(97,547)	(90,611)
Total shareholders' equity	6,666	12,312
Total liabilities and shareholders' equity	$ 15,657	$ 21,353

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Year ended December 31,		
	2007	**2006**	**2005**
Revenues:			
Software licenses	$ 5,537	$ 6,652	$ 8,356
Maintenance and services	6,609	6,696	6,793
Total revenues	12,146	13,348	15,149
Operating expenses:			
Cost of Software licenses	1,364	1,123	1,577
Cost of Maintenance and services	859	1,281	1,632
Research and development, net	3,906	3,872	2,671
Selling and marketing	7,985	9,555	9,370
General and administrative	2,646	2,959	2,192
Liquidation damages related to January 2005 financing	-	-	200
One-time employment termination and offices shutdown costs	1,111	-	-
Total operating expenses	17,871	18,790	17,642
Operating loss	(5,725)	(5,442)	(2,493)
Financial expenses, net	1,088	883	790
Other income (expenses)	(26)	15	(52)
Loss before taxes on income	(6,839)	(6,310)	(3,335)
Taxes on income	97	174	165
Net loss from continuing operations	(6,936)	(6,484)	(3,500)
Discontinued operations:			
Loss on disposal of business	-	-	(290)
Net loss	$ (6,936)	$ (6,484)	$ (3,790)
Basic and diluted net loss per share from continuing operations	$ (0.30)	$ (0.34)	$ (0.21)
Basic and diluted net loss per share from discontinued operations, net of income taxes	$ -	$ -	$ (0.02)
Basic and diluted net loss per share	$ (0.30)	$ (0.34)	$ (0.22)

	Year ended December 31,		
Weighted average number of shares used in computing basic and diluted net loss per share	23,185	19,333	16,939

The accompanying notes are an integral part of the consolidated financial statements.

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ATTUNITY LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total comprehensive loss	Total shareholders' equity
	Shares	Amount					
Balance as of January 1, 2005	15,356,740	$ 539	$ 89,618	$ (148)	$ (80,337)		$ 9,672
Exercise of warrants	673,845	15	1,164	-	-		1,179
Exercise of employee stock options	423,878	10	525	-	-		535
Private placement share issuance, net	804,792	20	1,981	-	-		2,001
Warrants issued in consideration of credit line	-	-	67	-	-		67
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	(364)	-	$ (364)	(364)
Net loss	-	-	-	-	(3,790)	(3,790)	(3,790)
Total comprehensive loss						$ (4,154)	
Balance as of December 31, 2005	17,259,255	584	93,355	(512)	(84,127)		9,300
Private placement share issuance, net	4,800,000	112	5,565	-	-		5,677
Exercise of warrants	1,000,000	22	1,725	-	-		1,747
Exercise of employee stock options	107,676	2	170	-	-		172
Beneficial conversion feature related to price adjustment of the convertible debt following 2007 private placement share issuance	-	-	730	-	-		730
Warrants issued in consideration of credit line	-	-	264	-	-		264
Stock-based compensation	-	-	963	-	-		963
Other comprehensive loss:							
Foreign currency translation adjustments							
Net loss	-	-	-	(57)	-	$ (57)	(57)
Total comprehensive loss	-	-	-	-	(6,484)	(6,484)	(6,484)
						$ (6,541)	
Balance as of December 31, 2006	23,166,931	720	102,772	(569)	(90,611)		12,312
Exercise of employee stock options	29,305	*)	27	-	-		27

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total comprehensive loss	Total shareholders' equity
Warrants issued in consideration of credit line	-	-	495	-	-		495
Stock-based compensation	-	-	630	-	-		630
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	138	-	$ 138	138
Net loss	-	-	-	-	(6,936)	(6,936)	(6,936)
Total comprehensive loss						$ (6,798)	
Balance as of December 31, 2007	23,196,236	$ 720	$ 103,924	$ (431)	$ (97,547)		$ 6,666

*) Represent an amount lower than $ 1

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net loss from continuing operations	$ (6,936)	$ (6,484)	$ (3,500)
Loss from discontinued operations		-	(290)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation	365	378	328
Stock-based compensation	589	907	-
Amortization of deferred charges	207	400	226
Amortization of debt discount	682	471	400
Amortization of software development costs	1,364	1,123	1,455
Decrease in accrued severance pay, net	(29)	(5)	(3)
Decrease (increase) in trade receivables, net	1,904	(483)	(257)
Decrease (increase) in other accounts receivable and prepaid expenses	174	685	(342)
Decrease (increase) in long-term prepaid expenses	30	73	(111)
Increase (decrease) in trade payables	(82)	(335)	169
Increase (decrease) in deferred revenues	(137)	(55)	203
Increase (decrease) in employees and payroll accruals	(422)	(23)	349
Decrease in accrued expenses and other liabilities	(247)	(927)	(158)
Liquidation damages related to January 2005 financing	-	-	200
Capital loss from sale of property and equipment	99	20	52
Net cash used in operating activities from continuing operations (reconciled from continuing operations)	(2,439)	(4,255)	(1,279)
Net cash provided by (used in) operating activities from discontinued operations (reconciled from discontinued operations)	33	38	(442)

	Year ended December 31,		
Net cash used in operating activities	(2,406)	(4,217)	(1,721)
Cash flows from investing activities:			
Restricted cash, net	(17)	(70)	(2)
Short-term deposits, net	-	-	115
Purchase of property and equipment	(112)	(554)	(427)
Capitalization of software development costs	(1,263)	(1,328)	(1,415)
Proceeds from sale of property and equipment	8	8	103
Net cash used in investing activities	(1,384)	(1,944)	(1,626)
Cash flows from financing activities:			
Proceeds from exercise of employee stock options	27	172	535
Proceeds from exercise of warrants	-	1,747	1,179
Private placement share issuance, net	-	5,677	1,801
Receipt of short-term debt	-	2,006	-
Receipt of long-term debt	1,983	-	-
Repayment of short terms debt and current maturities of long-term debt	(2,018)	(50)	(81)
Net cash provided by (used in) financing activities	(8)	9,552	3,434
Foreign currency translation adjustments on cash and cash equivalents	39	54	(54)
Increase (decrease) in cash and cash equivalents	(3,759)	3,445	33
Cash and cash equivalents at the beginning of the year	5,080	1,635	1,602
Cash and cash equivalents at the end of the year	$ 1,321	$ 5,080	$ 1,635

The accompanying notes are an integral part of the consolidated financial statements.

ATTUNITY LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2007	2006	2005

	Year ended December 31,		
Supplemental disclosure of cash flow activities:			
Cash paid during the year for:			
Interest	$ 228	$ 240	$ 160
Income taxes	$ 84	$ 352	$ -
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of warrant in consideration of credit line	$ 495	$ 264	$ 67
Stock-based compensation that was capitalized as part of capitalization of software development costs	$ 41	$ 56	$ -
Beneficial conversion feature related to price adjustment of the convertible debt following 2006 private placement share issuance	$ -	$ 730	$ -
Capital lease obligation incurred upon the acquisition of property and equipment	$ -	$ 39	$ -

The accompanying notes are an integral part of the consolidated financial statements.

ATTUNITY LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share data

NOTE 1: GENERAL

a. Attunity Ltd. (the Company or Attunity) and its subsidiaries (collectively the Group) develop, market and provide support for standards-based enabling software for delivering real-time applications. This includes data and application integration software as well as platform software for event-driven composite applications. Using Attunity s software, companies are able to connect, transfer, join and stream to and from a variety of data sources in real-time, and subsequently use that data to rapidly configure and deploy sophisticated workplace-focused composite applications. The Company also provides maintenance, consulting, and other related services for its products including maintenance services for its legacy products: CorVision an application generator; APTuser a database retrieval and production report generator; and Mancal 2000 a logistics and financial application software package.

In 2007, 2006 and 2005, the Company had a distributor that accounted for 16.9%, 21.5% a14.1% of revenues, respectively.

b. Subsequent to the balance sheet date, at September 30, 2008, the Company had cash and cash equivalents of $813, restricted cash of $228 and short term debt of $3,453. During the nine months ended September 30, 2008, the Company incurred a net loss of $2,118. The Company is due to pay its entire debt amount of $4,250 during 2009. In addition, the Company needs to raise additional funds or receive additional lines of credit in order to meet its working capital requirements.

In order to improve its financial strength, the Company plans to raise additional capital to sustain its current operations and receive an additional line of credit from certain of its shareholders. In addition, the Company has approved a tentative cost reduction plan to ensure that it has the financial resources needed to support its operations. This tentative plan includes, among others, workforce reduction, curtailment of sales and marketing activities and reduction of research and development activities. In addition, the Company s management believes that it will reach an agreement with the debt holders to defer the repayment beyond 2009, prior to December 31, 2008.

The above mentioned conditions and failure to raise sufficient funds in the near future in the current market and economic conditions raise substantial doubt about the Company s ability to continue as a going concern. The Company still believes, however, that its cash resources are sufficient to fund its operations at least through December 31, 2008.

c Discontinued operations:

In January 2005, the Company discontinued its non-core consulting operations in France and Israel by selling the operations (1) in France for approximately 50 ($ 65), payable in two installments in December 2005 and in December 2006, plus earn-out payments of approximately 30 ($ 39) for the year 2007 and (2) in Israel for $ 57 payable in eight installments over two years. The facts and circumstances leading to this disposal included the characterization of consulting services as non-core and the focus on growing its core business.

The assets of the discontinued component are presented separately in the balance sheets as of December 31, 2006, within current assets. The results of the non-core consulting operations are presented as discontinued operations for all periods presented.

Those transactions were accounted for in accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) and Emerging Issues Task Force (EITF) No. 03-13, Applying the Conditions in Paragraph 42 of SFAS No. 144 in Determining Whether to Report Discontinued Operations .

In the year ended December 31, 2005, the Company recorded a loss from discontinued operations of $ 290 that is comprised of:

Capital gain	$	134
Results of discontinued operations (1)		(424)
Loss from discontinued operations	$	(290)

U.S. dollars in thousands, except per share data

NOTE 1: GENERAL (Cont.)

(1) The results of operations in Israel and France were reported separately as discontinued operations in the statement of operations for the year ended December 31, 2005, and are summarized as follows:

		Year ended December 31, 2005
Revenues	$	186

	Year ended December 31, 2005
Cost of revenues	211
Gross profit (loss)	(25)
Operating expenses	399
Net loss	$ (424)

As of December 31, 2007 and 2006, $ 0 and $ 33, respectively, remained in assets of discontinued operations. The assets in 2006 are comprised of the last payment in consideration of the sale of operations in France.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP), followed on a consistent basis.

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars (dollars):

A majority of the revenues of the Company and certain of its subsidiaries is generated in dollars. In addition, a substantial portion of the Company s and certain subsidiaries costs are denominated in dollars. Accordingly, the Company s management believes that the dollar is the currency in the primary economic environment in which those companies operate. Thus, the functional and reporting currency of those companies is the dollar.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Amounts in currencies other than the dollar have been translated as follows:

Monetary balances at the exchange rate in effect on the balance sheet date. Revenues and costs at the exchange rates in effect as of the date of recognition of the transactions.

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of operations under financial expenses, net.

The financial statements of the Israeli and other foreign subsidiaries, whose functional currency is determined to be their local currency, have been translated into dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year. The resulting translation adjustments are reported as a component of shareholders equity, accumulated other comprehensive loss.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash, with original maturities of three months or less.

e. Restricted cash:

Restricted cash is primarily invested in highly liquid deposits. These deposits were used mainly as a security for rented premises.

f. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	20 - 33
Office furniture and equipment	10 - 20
Motor vehicles	15
Leasehold improvements	Over the shorter of the related lease period or the life of the asset

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Impairment of long-lived assets:

The Company s long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (SFAS No. 144), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

In 2007, 2006 and 2005, no impairment losses were identified.

h. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized, but rather is subject to an annual impairment test. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if impairment indicators are present. The

Company operates in one operating segment, and this segment comprises its only reporting unit.

In 2007, 2006 and 2005, no impairment losses were identified.

The change in the carrying amount of goodwill for the years ended December 31, 2007 and 2006 is due to translation adjustments.

i. Research and development costs:

Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed (SFAS No. 86).

Based on the Company s product development process, technological feasibility is established upon completion of a detail program design or working model.

Capitalized software costs are amortized on a product by product basis. Amortization equals the greater of the amount computed using the: (1) ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues from sales of the product, or (2) the straight-line method over the estimated economic life of the product (five years). Amortization commences when the product is available for general product release to customers. The amortization expense is included as part of cost of revenues.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

At each balance sheet date, the unamortized capitalized costs of the software products are compared to the net realizable value of the product. If the unamortized capitalized costs of a computer software product exceed the net realizable value of that product, such excess is written off. The net realizable value is calculated as the estimated future gross revenues from the product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and customer support required to satisfy the Company s responsibility set forth at the time of sale.

j. Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109). SFAS No. 109 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and for carryforward losses deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48), see Note 13c.

k. Advertising expenses:

Advertising expenses are carried to the statement of operations, as incurred. Advertising expenses for the years ended December 31, 2007, 2006 and 2005 amounted to $ 34, $ 125 and $ 112, respectively.

l. Revenue recognition:

The Company generates revenues mainly from license fees and sub-license fees for the right to use its software products, maintenance, support, consulting and training services. The Company sells its products primarily through its direct sales force to customers and indirectly through distributors and Value Added Resellers (VARs). Both the customers and the distributors or resellers are considered to be end users. The Company is also entitled to royalties from some distributors and VARs upon the sublicensing of the software to end users.

The Company accounts for software sales in accordance with Statement of Position No. 97-2, Software Revenue Recognition , as amended (SOP No. 97-2).

Revenue from license fees and services are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred or the services have been rendered, the fee is fixed or determinable and collectibility is probable. The Company does not grant a right of return to its customers.

U.S. dollars in thousands, except per share data

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Persuasive evidence of an arrangement exists The Company determines that persuasive evidence of an arrangement exists with respect to a customer when it has a purchase order from the customer or a written contract (documentation is dependent on the business practice for each type of customer).

Delivery has occurred The Company s software may be either physically or electronically delivered to the customer. The Company determines that delivery has occurred upon shipment of the software or when the software is made available to the customer through electronic delivery, when the customer has been provided with access codes that allow the customer to take immediate possession of the software on its hardware.

The fee is fixed or determinable The Company considers all arrangements with payment terms extending beyond five months not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer, provided that all other revenue recognition criteria have been met.

Collectibility is probable The Company determines whether collectibility is probable on a case-by-case basis. When assessing probability of collection, the Company considers the number of years in business and history of collection. If the Company determines from the outset that collectibility is not probable based upon its review process, revenue is recognized as payments are received.

With regard to software arrangements involving multiple elements, the Company has adopted Statement of Position No. 98-9, Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP No. 98-9). According to SOP No. 98-9, revenues should be allocated to the different elements in the arrangement under the residual method when Vendor Specific Objective Evidence (VSOE) of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, at the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (maintenance and support, consulting and training) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software product) when the basic criteria in SOP No. 97-2 have been met. Any discount in the arrangement is allocated among the elements of the arrangement.

The Company s determination of fair value of each element in multiple-element arrangements is based on VSOE. The Company aligns its assessment of VSOE for the elements in the transaction to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and determined that it has sufficient VSOE to allocate revenue to the maintenance and support, consulting and training (professional) services components of its license arrangements. The Company sells its professional services separately, and accordingly it has established VSOE for professional services based on its hourly or daily rates. VSOE for maintenance and support is determined based upon the customer s actual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, the Company recognizes revenue from software licenses upon delivery using the residual method in accordance with SOP No. 98-9.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Arrangements for the sale of software products that include consulting and training services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. The Company had determined that these services are not considered essential to the functionality of other elements of the arrangement; therefore, these revenues are recognized as a separate element of the arrangement.

Revenues from royalties are recognized according to quarterly royalty reports; as such reports are received from customers. Royalties are received from customers who embedded the Company s products in their own products and the Company is entitled to a percentage of the customer revenue from the combined product.

Under certain circumstances, license revenue consists of license fees received whereby under the terms of these license agreements, the Company s software is modified to that customer s specific requirements. Fees are payable upon completion of agreed upon milestones, such as delivery of specifications and technical documentation. Each license is designed to meet the specific requirements of the particular customer which include the rights to incorporate Company software into a customer s own application specific product.

Pursuant to SOP No. 97-2, revenues from license fees that involve customization of the Company s software to customer specific specifications are recognized in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. During 2007, the Company has completed its obligation under such agreement, and as a result, recognized all related revenues.

Maintenance and support revenue included in multiple element arrangement is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

Service revenues are recognized as the services are performed.

Deferred revenues include unearned amounts received under maintenance and support contracts and amounts received from customers but not recognized as revenues.

m. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash and trade receivables.

Cash and cash equivalents and restricted cash are invested in major banks in Israel, Europe and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company s investments are financially sound and, accordingly, minimal credit risk exists.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company s trade receivables are mainly derived from sales to customers located primarily in the United States, the Far East, Europe, South America and Israel. The Company performs ongoing credit evaluations of its customers and, through December 31, 2007, has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection.

The Company has no significant off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

n. Accounting for stock-based compensation:

Prior to January 1, 2006, the Company accounted for stock-based employee compensation plans under the intrinsic value recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123). No intrinsic value of stock-based compensation expense was recorded by the Company for the year ended December 31, 2005.

Effective January 1, 2006, the Company adopted the fair value recognition and measurement provisions of SFAS No. 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) is applicable for stock-based awards exchanged for employee services and in certain circumstances for nonemployee directors. Pursuant to SFAS 123(R), stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from January 1, 2006, the first day of the Company s fiscal year 2006. Under that transition method, compensation cost recognized in the year ended December 31, 2007 and 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. The Company selected the Black-Scholes option pricing model as the most appropriate fair value method for its stock-options awards. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements. The expected term of options granted is calculated using the Simplified Method, as defined in Staff Accounting Bulletin No 107, Share-Based Payments , as the average between the vesting period and the contractual life of the options. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for options granted in 2007, 2006 and 2005 is estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006	2005

	2007	2006	2005
Dividend yield	0%	0%	0%
Expected volatility	59.6%	73.1%	67.3%
Risk-free interest	4.7%	4.6%	3.9%
Expected life	4 years	4 years	4 years

The Company recognizes compensation expenses for the value of its awards granted subsequent to January 1, 2006 based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company s loss before taxes on income and the net loss for years ended December 2006 was and $ 907 higher than if the Company had continued to account for equity-based compensation under APB No. 25. Basic and diluted net loss per share for the year ended December 31, 2006 $ 0.05 higher than if the Company had continued to account for equity-based compensation under APB No. 25.

Pro forma information regarding net loss and net loss per share has been determined as if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company s stock option plans in all periods presented prior to the Company s adopting SFAS 123(R) on January 1, 2006. The fair value of each stock option and stock purchase right was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Pro forma information under SFAS 123, is as follows:

	Year ended December 31,
	2005
Net loss as reported	$ (3,790)
Deduct: stock-based employee compensation expenses determined under fair value based method for all awards	(877)
Pro forma net loss	$ (4,667)
Basic and diluted net loss per share:	
As reported	$ (0.22)
Pro forma	$ (0.28)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Had compensation cost for the Company s stock option plans been determined based on the fair value based method set forth in SFAS 123, the Company s net loss and net loss per share would have been changed to the pro forma amounts indicated above.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expenses over the options vesting period, based on the straight-line method.

The Company applies SFAS 123(R) and Emerging Issues Task Force No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF 96-18), with respect to options and warrants issued to non-employees for services or goods provided. SFAS 123(R) requires the use of an option valuation model to measure the fair value of the warrants at the date of grant.

o. Basic and diluted net loss per share:

Basic and dilutive net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each year.

p. Severance pay:

The Company s liability for severance pay is calculated pursuant to Israel s Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date for all employees in Israel. Employees are entitled to one month s salary for each year of employment or a portion thereof. The Company s liability for all of its employees is fully provided by monthly deposits with severance pay fund, insurance policies and by an accrual.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel s Severance Pay Law or labor agreements. The value of these policies is recorded as an asset in the Company s balance sheet.

Severance pay expense for the years ended December 31, 2007, 2006 and 2005 amounted to $ 324, $ 308 and $ 224, respectively.

q. Deferred charges:

Deferred charges relating to debt issuance expenses and to receipt of a credit line are amortized over the term of the debt and credit line, respectively.

U.S. dollars in thousands, except per share data

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Fair value of financial instruments:

The estimated fair value of financial instruments has been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, trade payables, employees and payroll accruals, accrued expenses and other liabilities approximate their fair values due to the short-term maturity of these instruments.

The fair value of long-term loans is estimated by discounting the future cash flow using the current interest rate for loans of similar terms and maturities. The carrying amount of the long-term loans approximates their fair value.

s. Reclassification:

Certain reclassifications were made to prior years   financial statements to conform to the current year s presentation.

t. Impact of recently issued accounting standards:

1. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157,   Fair Value Measurements (SFAS No. 157). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issues a FASB Staff Position (FSP) to defer the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Management believes this Standard will not have a material effect on its consolidated financial statements.

2. In February 2007, the FASB issued SFAS No. 159,   The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, although earlier adoption is permitted. Management believes this Standard will not have a material effect on its consolidated financial statements

3 On December 21, 2007 the SEC staff issued Staff Accounting Bulletin No. 110 (SAB 110), which, effective January 1, 2008, amends and replaces Question 6 of Section D.2 of SAB Topic 14, Share-Based Payment. SAB 110 expresses the views of the SEC staff regarding the use of a   simplified   method in developing an estimate of expected term of   plain vanilla share options in accordance with FASB Statement No. 123(R), Share-Based Payment. Under the   simplified   method, the expected term is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The use of the   simplified   method, which was first described in Staff Accounting Bulletin No. 107, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the   simplified   method for   plain vanilla   awards in certain situations.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The SEC staff does not expect the   simplified   method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The Company believes that it complies with the exception as listed in SAB 110, and as a result, expected to continue using the simplified method in 2008.

NOTE 3: OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2007	2006
Prepaid expenses	$ 169	$ 331
Government authorities	184	198
Employees	10	23
Other	121	80

	December 31,	
	$ 484	$ 632

NOTE 4: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2007	2006
Cost:		
Computers and peripheral equipment	$ 2,455	$ 3,819
Office furniture and equipment	352	501
Motor vehicles	-	40
Leasehold improvements	533	1,179
	3,340	5,539
Accumulated depreciation	2,761	4,600
Depreciated cost	$ 579	$ 939

Depreciation expenses for the years ended December 31, 2007, 2006 and 2005 are $ 365, $ 378, and $ 328, respectively.

During 2007 the Company disposed of property and equipment with a zero net value and obsolete property and equipment that are not in use which resulted in a capital loss of $ 90.

As for charges on the Company s property and equipment, see Note 10.

U.S. dollars in thousands, except per share data

NOTE 5: SOFTWARE DEVELOPMENT COSTS, NET

	December 31,	
	2007	2006
Software development costs	$ 21,025	$ 19,721
Less - accumulated amortization	16,651	15,287
Amortized cost	$ 4,374	$ 4,434

December 31,

Amortization expenses for the years ended December 31, 2007, 2006 and 2005 are $ 1,364, $ 1,123, and $ 1,455, respectively.

Estimated amortization expenses for the years ending:

December 31,		
2008	$	1,404
2009		1,318
2010		767
2011		605
2012		280
	$	4,374

NOTE 6: CREDIT LINE

In June 2004, the Company entered into a credit line agreement (the Agreement) with Plenus Technologies Ltd. (Plenus or the lender). According to the Agreement, the lender undertook to make available to the Company a revolving credit facility in the aggregate amount of $ 3,000. The Agreement was scheduled to expire in June 2006.

As part of the Agreement, the lender received a non-forfeitable exercisable warrant to purchase 250,909 of the Company s Ordinary shares at an exercise price of $2.75 per share (subject to price adjustments). As a result of September 2006 private placement (see Note 12b) the exercise price was adjusted to $1.25 per share.

The Company had not utilized any of the credit facility until the termination of the Agreement on March 27, 2006.

The Company signed a new loan agreement (the Second Agreement), dated May 1, 2006, with the lender according to which the Company borrowed $ 2,000 effective as of March 27, 2006 (the Effective date).

As part of the Second Agreement, the lender received a non-forfeitable exercisable warrant to purchase 192,000 of the Company s Ordinary shares at an exercise price of $1.25 per share.

NOTE 6: CREDIT LINE (Cont.)

The Company paid the lender interest on the principal amount outstanding at an annual rate of 6.5% for the period from the Effective date through June 3, 2006 and an interest at an annual rate of 9.44% for the period from June 4, 2006 through December 31, 2006.

Since the warrants were non-forfeitable and immediately exercisable, the measurement date of the warrant was its issuance date. The fair value of the warrant in the amount of $ 264 was recorded as financial expenses in 2006. The aforementioned fair value was measured according to the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 4.7%, dividend yield of 0%, expected volatility of the Company s Ordinary shares of 82.7%, and contractual life of 5 years.

The Second Agreement amount was paid in one installment on January 2, 2007.

On January 31, 2007, the Company entered into a new Loan Agreement (the New Agreement), with the lender and its affiliates, whereby the lender provided a $ 2,000 loan, and, upon future achievement of a certain milestone (related to achievement of revenues targets), will lend an additional $ 1,000. The date on which the additional $ 1,000 will be provided was referred to as the Second Closing and it passed without utilization of aforementioned additional amount by the Company.

The outstanding loan amount will be due and payable in twelve (12) equal monthly installments each commencing on the first day of the 25th month following January 31, 2007. The loan accrues interest at a floating annual rate of the LIBOR rate published on the first day of each calendar quarter for three months plus 4.25%, and is being paid on a quarterly basis.

In addition, the Company issued to the lender warrants, exercisable until January 30, 2012, to purchase up to 439,883 Ordinary shares at an exercise price per share of $ 1.364, subject to price adjustments.

Since the warrant is non-forfeitable and immediately exercisable, the measurement date of the warrant was its issuance date. The fair value of the warrant in the amount of $ 375 was recorded in 2007 financial reports as deferred charges, and is amortized over the term of the loan. The aforementioned fair value was measured according to the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 4.9%, dividend yield of 0%, expected volatility of the Company s Ordinary shares of 73.8%, and an expected life of 5 years.

As part of the New Agreement, the exercise period of warrants previously issued to the lender was extended (see Note 12g (items 1 and 3)) such that the exercise period will lapse on January 30, 2012. The fair value of the warrant extension in the amount of $ 120 was recorded in 2007 financial reports as deferred charges, and is amortized over the term of the loan.

NOTE 7: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2007	2006
Government authorities	$ 68	$ 118
Accrued expenses	754	544
Accrued termination cost (see also Note 15b)	68	117
Royalties to government authorities	-	247
Others	11	51
	$ 901	$ 1,077

NOTE 8: CONVERTIBLE DEBT AND DETACHABLE WARRANTS

In April 2004, the Company issued to a group of existing shareholders convertible debt (herein Promissory Note)in the amount of $ 2,000 bearing interest at 5% per annum, and warrants to purchase 480,000 Ordinary shares at a price per share of $ 1.75 (subject to adjustments). The principal of the debt is repayable at the end of five years and the interest is payable semiannually. The debt is convertible into Ordinary shares at a conversion price of $ 1.75 per share (subject to adjustments). The amount that may be converted will be equal to at least 50% of the face amount of the debt. The warrants expired in May 4, 2007 without being exercised.

In accordance with APB No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants , the Company allocated the total proceeds between the convertible debt and the warrants (which are recorded as additional paid-in-capital) based on the relative fair values of the two securities at the time of issuance. The aforementioned allocation resulted in a discount on the convertible debt.

In addition, in accordance with EITF No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (EITF 98-5) and EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF 00-27), the Company recognized and measured the embedded beneficial conversion feature present in the convertible debt, by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price which had resulted subsequent to the allocation of the proceeds between the detachable warrants and the convertible debt. This intrinsic value is limited to the portion of the proceeds allocated to the convertible debt.

The aforementioned accounting treatment resulted in a total debt discount equal to the full face amount of the debt ($ 2,000). The discount is amortized over a five-year period from the date of issuance until the stated redemption date of the debt.

In September 2006, the Company raised $ 6,000 in a private placement by selling 4,800,000 of its Ordinary shares, at $ 1.25 per share, as described in Note 12b.

NOTE 8: CONVERTIBLE DEBT AND DETACHABLE WARRANTS (Cont.)

According to the terms of the Convertible Promissory Note, the conversion price was adjusted to $ 1.25 per share. As a result, the number of shares that would be received upon conversion increased by 457,143 shares to 1,600,000 shares.

According to EITF 00-27, the aforementioned accounting treatment resulted in an incremental debt discount of $ 730. The discount is amortized over a 2.25 year period from the date of the adjustment until the stated redemption date of the debt.

During the years ended December 31, 2007, 2006 and 2005, the Company recorded financial expenses in the amount of $ 682, $ 471 and $ 400, respectively, attributed to the amortization of the aforementioned debt discount.

Issuance expenses in respect of the convertible debt in the amount of $ 247 were deferred and recorded as deferred charges . These deferred charges are amortized over the period from the date of issuance to the stated redemption date of the debt.

As of December 31, 2007, no shares were issued pursuant to debt conversion or exercise of the warrants.

	December 31,	
	2007	2006
Principal of debt	$ 2,000	$ 2,000
Unamortized debt discount	(901)	(1,582)

	December 31,	
Convertible debt, net	$ 1,099	$ 418

NOTE 9: LONG-TERM DEBTS

	December 31,	
	2007	2006
Long term loan (see Note 6)	$ 2,000	$ -
Capital lease obligations, linked to the U.S. dollar and bearing interest of 12%	-	6
Capital lease obligations, linked to the Israeli Consumer Price Index and bearing interest of 5%	27	39
	2,027	45
Less - current maturities:		
Capital lease obligations	18	22
	$ 2,009	$ 23

As of December 31, 2007, the aggregate annual maturities of long-term debts are as follows:

First year (current maturities)	$ 18
Second year	1,842
Third year	167
	$ 2,027

See also Note 10.

NOTE 10: CHARGES (ASSETS PLEDGED)

a. In order to secure the Company s obligations and performance pursuant to the New Agreement described in Note 6, the Company recorded a first priority fixed charge in favor of the lender on all of its intellectual property, and a first priority floating charge in favor of the lender on all of its rights, title and interest in all its assets. The Security Agreements contain certain limitations on, among other things, the Company s ability to materially change its business, incur certain additional liabilities and pay dividends, without the consent of the lender.

b. As collateral for certain liabilities of the Company to banks and others, fixed charges have been recorded on certain property and equipment of the Company.

NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company leases its operating facilities under non-cancelable operating lease agreements, which expire on various dates, the latest of which is in June 2010. In addition, the Company leases motor vehicles and computers and peripheral equipment under operating leases. Future minimum commitments under these leases as of December 31, 2007, are as follows:

Year ended December 31,	Operating leases
2008	$ 917
2009	712
2010	439
	$ 2,068

Rent expenses under operating leases for the years ended December 31, 2007, 2006 and 2005 were $ 1,512, $ 1,326 and $ 1,094, respectively.

The Company has granted a bank guarantee in the amount of $ 159 to its Israeli offices lessor to cover last 3 month of rent.

b. Royalties:

The Company has participated in programs sponsored by the Israeli Government for the support of research and development activities. Grants in the aggregate amount of $ 2,426 were received before June 2000 in respect of two product lines.

The Company was obligated to pay certain royalties which were contingent on actual sales of the products. As of December 31, 2007, the Company paid its full obligation in respect of one product line and has no further obligation in respect of the other product line in the absence of sales.

NOTE 12: SHAREHOLDERS EQUITY

a. The Ordinary shares of the Company are quoted on the NASDAQ Capital Market since August 15, 2007 when the Company received a NASDAQ Staff Determination letter indicating that Attunity has failed to comply with the minimum $10,000,000 stockholders equity requirement for continued listing on the NASDAQ Global Market, as set forth in NASDAQ s Marketplace Rule 4450(a)(3), and that Attunity s securities are therefore subject to delisting from the NASDAQ Global Market. The Company s ordinary shares were delisted from The NASDAQ Capital Market at the opening of business on February 22, 2008 (see Note 16).

The Ordinary shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

NOTE 12: SHAREHOLDERS EQUITY (Cont.)

b. On September 28, 2006, the Company signed a private placement agreement with certain investors. Pursuant to the agreement, the Company issued 4,800,000 of its Ordinary shares at $ 1.25 per share for a total consideration of $ 6,000. The investors also received, at no additional consideration, warrants to purchase 2,400,000 Ordinary shares at an exercise price of $ 1.25 per share, exercisable within three years from the issuance date.

c. During February and April 2006, a group of investors exercised 1,000,000 warrants with an exercise price of $ 1.75 per share for an aggregate consideration of $ 1,750.

d. On January 23, 2005, the Company signed a private placement agreement with certain investors. Pursuant to the agreement, the Company issued 727,273 of its Ordinary shares at $ 2.75 per share for total consideration of $ 2,000. The investors also received, at no additional consideration, warrants to purchase 290,909 Ordinary shares at an exercise price of $ 2.75 per share, exercisable until January 23, 2008, with a call provision that allows the Company to call the exercise of the warrants if the closing price of the Ordinary shares exceeds $ 4.70 for twenty (20) consecutive trading days. A delay in registration of the underlying shares resulted of exercise of the warrant, or failure to maintain their effectiveness, will require the Company to make pro rata payments to the investors, as monthly liquidated damages in an amount equal to 2% of the aggregate amount invested. In 2005, the Company issued to its above mentioned investors Ordinary shares in the amount of $ 200 (liquidation damage) as a result of a five month delay in registration. In January 23, 2008 the above mentioned warrants expired without being exercise.

e. During the first quarter of 2005, former investors exercised their warrants for an aggregate consideration of $ 1,179.

f. Stock Option Plans:

Under the Company s 1994, 1998, 2001 and 2003 Stock Option Plans (the Plans), the Company has granted options to purchase Ordinary shares to employees, directors and officers as an incentive to attract and retain qualified personnel. The exercise price of options granted under the Plans may not be less than 100% (110% in the case of a 10% shareholder) of the fair market value of the Company s Ordinary shares on the date of grant for incentive stock options and 75% of the fair market for non-qualified options. Under the terms of these plans, options generally become exercisable ratably over three to five years of employment, commencing with the date of grant or with the date of hire (for new employees at their first grant). The options generally expire no later than 6 years from the date of the grant, and are non-transferable, except under the laws of succession.

Under the Plans, 6,500,000 Ordinary shares of the Company were reserved for issuance. Any options, which are canceled or forfeited before expiration become available for future grants. As of December 31, 2007, there are 1,626,904 options available for future grants.

U.S. dollars in thousands, except share and per share data

NOTE 12: SHAREHOLDERS EQUITY (Cont.)

The following is a summary of the Company s stock options granted among the various plans:

	Year ended December 31,					
	2007		2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	In thousands		In thousands		In thousands	
Outstanding at beginning of year	4,151	$ 1.78	3,552	$ 1.81	4,031	$ 1.97
Granted	804	$ 1.13	1,179	$ 1.84	463	$ 2.61
Exercised	(29)	$ 0.95	(108)	$ 1.60	(431)	$ 1.26
Canceled or forfeited	(967)	$ 1.82	(472)	$ 2.18	(511)	$ 4.26
Outstanding at end of year	3,959	$ 1.57*	4,151	$ 1.78	3,552	$ 1.81
Vested and expected to vest at end of year	3,790	$ 1.46	4,013	$ 2.08	3,552	$ 1.81
Exercisable at end of year	2,095	$ 2.33	2,617	$ 2.11	1,983	$ 2.10

* During 2007, the Company modified the exercise price of certain out of the money stock options to $ 0.5. The modification resulted in an incremental deferred fair value of approximately $ 45 that will be amortized over the remaining vesting period. All re-priced and modified options are reflected in the closing weighted average exercise price in all the summaries tables of stock option.

** The outstanding, exercisable, vested and expected to be vest options are either at the money or out of the money as of December 31, 2007 and their intrinsic value was considered as zero.

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was $ 6, $ 76 and $ 640, respectively.

As of December 31, 2007, there was $ 437 of total unrecognized compensation cost related to non-vested share-based compensation that expected to be recognized over a period of 1.5 years.

NOTE 12: SHAREHOLDERS EQUITY (Cont.)

The options outstanding as of December 31, 2007, have been separated into ranges of exercise price as follows:

Range of exercise price	Options outstanding as of December 31, 2007	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as of December 31, 2007	Weighted average exercise price of options exercisable
	In thousands	Years		In thousands	
$ 0.49 - 0.5	1,536	4.2	$ 0.5	-	$ -
$ 0.82 - 1.75	934	1.9	$ 1.45	877	$ 1.48
$ 1.8 - 2.3	1,131	6.3	$ 2.19	878	$ 2.27
$ 2.42 - 2.78	223	6.9	$ 2.53	205	$ 2.54
$ 6.5 - 10.13	135	2.0	$ 7.96	135	$ 7.96
	3,959		$ 1.57	2,095	$ 2.33

Weighted average fair values and weighted average exercise prices of options whose exercise prices are equal to, lower than or exceed market price of the shares at date of grant are as follows:

	Year ended December 31,					
	2007		2006		2005	
	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price
Equals market price at date of grant	$ 0.57	$ 1.13	$ 1.07	$ 1.84	$ 1.66	$ 2.61

Upon exercise of options by employees, the Company has a policy of issuing registered shares for all options exercised.

NOTE 12: SHAREHOLDERS EQUITY (Cont.)

g. Warrants:

The Company has issued warrants, as follows:

Issuance date	Outstanding as of December 31, 2007		Exercise price	Exercisable as of December 31, 2007	Exercisable through
June 2004 (1)	250,909	*)$	1.25	250,909	**) January 30, 2012
January 2005 (2)	290,909	$	2.75	290,909	January 23, 2008
May 2006 (3)	192,000	*)$	1.25	192,000	**) January 30, 2012
September 2006 (4)	2,400,000	$	1.25	2,400,000	October 9, 2009
September 2006 (5)	100,000	$	1.25	100,000	October 9, 2009
January 2007 (6)	439,883	$	1.36	439,883	January 30, 2012
	3,673,701			3,673,701	

(1) Issued to the lender as part of the credit line agreement (see Note 6). 200,000 warrants were issued in June 2004 and 50,909 warrants were issued in June 2005.

(2) Issued to the investor of the private investment carried out in January 2005 (see Note 12d). Most of the warrants were sold in 2006 to certain shareholders. These warrants expired with no exercises on January 23, 2008.

(3) Issued to the lender as part of the credit line agreement (see Note 6).

(4) Issued to the investor of the private investment carried out in September 2006 (see Note 12b).

(5) Issued to an agent as finder s fee in respect of the private investment carried out in September 2006 (see Note 12b).

(6) Issued to the lender as part of the credit line agreement (see Note 6).

*) The exercise price was adjusted to $ 1.25 as a result of the September 2006 private investment (see Note 8).

**) The exercise period was extended as part of the agreement described in Note 6.

NOTE 13: INCOME TAXES

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the Law):

The production facilities of the Company and its subsidiary, Attunity Software Services Ltd. (ASS), have been granted an Approved Enterprise status under the Investment Law in six investment programs.

NOTE 13: INCOME TAXES (Cont.)

According to the provisions of the Law, the Company has elected to enjoy the alternative benefits track the waiver of grants in return for a tax exemption and, accordingly, income derived from the Approved Enterprise will be tax-exempt for a period of two years commencing with the year it first earns taxable income, and will be taxed at 10% to 25%, based upon the percentage of foreign investment in the Company, for an additional period of five to eight years. The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from the date of approval.

The entitlement to the above benefits is conditional upon the Company s fulfilling the conditions stipulated by the above law, regulations published hereunder and the instruments of approval for the specific investments in Approved Enterprises . In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

On April 1, 2005, an amendment to the Investment Law came into effect (the Amendment) and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a Beneficiary Enterprise, such as provisions generally requiring that at least 25% of the Beneficiary Enterprise s income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

However, the Investment Law provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore, the existing Approved Enterprise of the Israeli subsidiary will generally not be subject to the provisions of the Amendment. As a result of the Amendment, tax-exempt income generated under the provisions of the amended Investment Law, will subject the Company to taxes upon distribution or liquidation and the Company may be required to record deferred tax liability with respect to such tax-exempt income. As of December 31, 2007, the Company did not generate income under the provision of the amended Investment Law.

b. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

The Company s results for tax purposes are measured and reflected in real terms NIS after adjustments for increases in the Israeli Consumer Price Index. As explained in Note 2b, the financial statements of Attunity are presented in U.S. dollars. The difference between the annual change in the Israeli Consumer Price Index and in the NIS/dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes shown in the financial statements. In accordance with paragraph 9(f) of Statement of Financial Accounting Standards No. 109, the Company has not provided deferred income taxes on temporary differences resulting from change in exchange rates and indexing for tax purposes.

NOTE 13: INCOME TAXES (Cont.)

In February 2008, the Knesset (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

c. The Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not result in a change to the Company accumulated deficit.

d. Tax loss carryforwards:

Net operating loss carryforwards as of December 31, 2007 are as follows:

Israel	$ 46,021
United States *)	3,923
UK	3,330
Hong Kong	2,245
Other	1,320
	$ 56,839

Net operating losses in Israel, the UK and Hong Kong may be carried forward indefinitely. Net operating losses in the U.S. may be carried forward through periods which will expire in the years 2008-2027.

*) Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the change in ownership provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

e. Deferred taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax liabilities and assets are as follows:

	December 31,	
	2007	**2006**
Net operating loss carryforwards	$ 14,551	$ 12,537
Other	1,899	1,482
Total deferred tax asset before valuation allowance	16,450	14,019
Less - valuation allowance	(16,450)	(14,019)
Net deferred tax assets	$ -	$ -

The Company has provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future. During fiscal year 2007, the Company increased the valuation allowance by $ 2,431 to $ 16,450.

NOTE 13: INCOME TAXES (Cont.)

f. Reconciliation of the tax expenses to the actual tax expenses:

The main reconciling items of the statutory tax rate of the Company (2005 34%, 2006 31%, 2007 29%) to the effective tax rate (0%) are valuation allowances provided for deferred tax assets (in all reported periods) .

Tax expenses mainly represent withholding taxes on royalties.

No tax asset was recorded since the Company does not expect to utilize such asset in the foreseeable future.

g. Pre-tax loss:

	Year ended December 31,		
	2007	2006	2005
Domestic	$ (7,120)	$ (7,417)	$ (3,005)
Foreign	281	1,107	(330)
	$ (6,839)	$ (6,310)	$ (3,335)

h. Reduction in corporate tax rate:

In June 2004 and in July 2005, the Knesset (Israeli parliament) passed amendments to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 and (No. 147), 2005 respectively, which determine, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2005 34%, 2006 31%, 2007 29%, 2008 27%, 2009 26% and 2010 and thereafter 25%.

NOTE 14: GEOGRAPHIC AND MAJOR CUSTOMERS INFORMATION

The Company manages its business on the basis of one reportable segment: computer software integration tools and application development tools. Total revenues are attributed to geographic areas based on the location of the end customers. This data is presented in accordance with Statement of Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information .

Revenues from sales to unaffiliated customers:

Year ended December 31,		
2007	2006	2005

	Year ended December 31,		
Israel	$ 1,071	$ 1,290	$ 1,514
United States	7,477	7,897	8,112
Europe	1,988	2,573	3,550
Far East	1,082	938	1,138
Other	528	650	835
	$ 12,146	$ 13,348	$ 15,149

In 2007, 2006 and 2005, over 85% of license revenues are derived from the Connect product.

The Company s maintenance and support revenues are derived from annual maintenance and support payments made by customers who use the Connect product or the CorVision, Mancal 2000 and APTuser products, which are legacy products. In addition, maintenance and support revenues are derived from annual maintenance and support payments made by customers who use the Attunity InFocus software. In 2007, 2006 and 2005, maintenance and support revenues derived from the legacy products represented 24%, 28% and 38%, respectively out of the total consolidated maintenance and support revenues. Maintenance and support revenues in 2007, 2006 and 2005 related to the Connect product represented 72%, 71% and 62%, respectively out of the total consolidated maintenance and support revenues. Maintenance and support revenues in 2007 and 2006 related to the InFocus product represented 4% and 1%, respectively out of the total consolidated maintenance and support revenues.

In 2007, 2006 and 2005, the Company had a distributor that accounted for 16.9%, 21.5% and 14.1% of revenues, respectively.

The Company s long-lived assets are as follows:

	December 31,	
	2007	2006
Israel	$ 11,651	$ 11,389
United States	59	125
Other	27	95
	$ 11,737	$ 11,609

NOTE 15: SELECTED STATEMENTS OF OPERATIONS DATA

a. Research and development costs, net:

	Year ended December 31,		
	2007	2006	2005
Total costs	$ 5,169	$ 5,200	$ 4,086
Capitalized software development costs	(1,263)	(1,328)	(1,415)
	$ 3,906	$ 3,872	$ 2,671

b. Termination costs:

During 2007, the Company recorded $ 1,111 as one-time employment termination and offices shutdown costs in respect of terminating its entire France and Australia subsidiaries activity in March 2007 and part of its worldwide workforce in October 2007.

c. Financial income (expenses), net:

	Year ended December 31,		
	2007	2006	2005
Financial income:			
Interest and other income	$ 115	$ 104	$ 72
Foreign currency translation differences, net	-	201	-
	115	305	72
Financial expenses:			
Interest	(306)	(317)	(197)
Amortization of debt discount	(682)	(471)	(400)
Amortization of deferred expenses (issuance expenses and credit line costs)	(207)	(400)	(226)
Foreign currency translation differences, net	(8)	-	(39)
	(1,203)	(1,188)	(862)
	$ (1,088)	$ (883)	$ (790)

In 2007, 2006 and 2005, the financial expenses include non cash amounts of $ 731 and, $ 518 and $ 449, respectively, related to the convertible debt issued to principal shareholders and described in Note 8.

In 2007, 2006 and 2005, the financial expenses include non cash amounts of $ 151, $ 353 and $ 177, respectively, related to the credit line described in Note 6.

NOTE 16: SUBSEQUENT EVENTS (Unaudited)

a. On February 13, 2008 the Company received notice from the staff of the NASDAQ Stock Market, Inc. indicating that Attunity has failed to comply with the minimum $1.00 per share requirement for continued listing as set forth in NASDAQ s Marketplace Rule 4450(a)(5) and as a result the Company s ordinary shares were delisted from The NASDAQ Capital Market at the opening of business on February 22, 2008.

b. In November 2008, the Company entered into a Loan Agreement (the Loan Agreement) with certain of its directors (the Lenders), whereby the Lenders provided a $ 393 convertible bridge loan (the Loan). The Loan is bearing interest at an annual rate of LIBOR plus 5%. According to the Loan Agreement, the outstanding principal amount will be automatically converted into equity securities of the Company upon the closing of an equity financing yielding at least $1,000 (which $1,000 are deemed to include the $393 from the conversion of the Loan), on the same terms and conditions (including price) of such financing.

The Loan, which has an initial six-month maturity date, will be repaid to the Lenders on the later of (1) the maturity date and (2) the full discharge of the Plenus Loan.

In order to secure the Company s obligations and performance pursuant to the Bridge Loan, the Company agreed to record a second priority fixed charge in favor of the Officers on all of its intellectual property, and a second priority floating charge on all of its rights, title and interest in all its assets.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 on its behalf.

ATTUNITY LTD

By: /s/ Dror Elkayam

Dror Elkayam
VP Finance

Dated: November 26, 2008