ACORN FACTOR, INC.
Form 10-K/A
October 19, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO FORM 10-K ON

FORM 10-K/A

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

For the fiscal year ended December 31, 2005 Commission file number: 0-19771

ACORN FACTOR, INC.
(Exact name of registrant as specified in charter)

Delaware	**22-2786081**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 Route 17, Mahwah, New Jersey	**07430**
(Address of principal executive offices)	**(Zip Code)**

(201) 529-2026

Registrant's telephone number, including area code

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
o Yes No x

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.
Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of last day of the second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $9.0 million based on the closing sale price on that date as reported on the Over-the-Counter Bulletin Board.

As of May 23, 2006 there were 8,162,024 shares of Common Stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

EXPLANATORY NOTES

This Amendment No. 2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, is being filed to amend the Registrant's Form 10-K to reflect changes resulting from the recent restatement by the Registrant's Comverge, Inc. equity affiliate of its financial statements.

Effective September 15, 2006, the Registrant changed its name from Data Systems & Software Inc. to Acorn Factor, Inc. That change has been reflected in this Amendment No. 2.

Except as so amended by this Amendment No. 2, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 remains as originally filed on April 11, 2006 and amended by Amendment No.1 on Form 10-K/A filed on June 1, 2006.

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Certain statements contained in this report are forward-looking in nature. These statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should" or "anticipates", or the nega thereof, or comparable terminology, or by discussions of strategy. You are cautioned that our business and operations are subject to a variety of risks and uncertainties and, consequently, our actual results may materially differ from those projected by any forward-looking statements. Certain of such risks and uncertainties are discussed below under the heading "Item 1. Business-Factors That May Affect Future Results."

EasyBill™ and *OncoPro*™ are trademarks of our dsIT Solutions Ltd subsidiary. *Maingate*® is a registered trademark and *PowerCamp*™ is a trademark of Comverge, Inc.

PART I

ITEM 1. BUSINESS

OVERVIEW

Through March 2006, we operated in two reportable segments: software consulting and development and computer hardware sales.

· *Software Consulting and Development*—Providing consulting and development services for computer software and systems, primarily through our dsIT Solutions Ltd. subsidiary.

· *Computer Hardware Sales*—Serving as an authorized dealer and a value-added-reseller (VAR) of computer hardware, through our Databit subsidiary.

In August 2005, we completed the sale of our dsIT Technologies outsourcing consulting business. In the past, these operations accounted for a significant portion of our software consulting and development segment revenues (previous years amounts have been restated to reflect these discontinued operations). In addition, as we no longer have control over our formerly consolidated subsidiary Comverge Inc. (see Note 4 to the Consolidated Financial Statements), effective as of the second quarter of 2003, we account for our investment in Comverge by the equity method and no longer consolidate Comverge's balances and operating activity into our consolidated balance sheets and statements of operations. Comverge’s previously consolidated results comprised our energy intelligence solutions segment.

In March 2006, we completed the sale of our Databit computer hardware sales subsidiary to one of our executive officers. As a result of the sale, we will no longer have activity in our computer hardware segment after the first quarter of 2006. For additional disclosure regarding the sale of Databit and certain related transactions, see Recent Developments.

SALES BY ACTIVITY

The following table shows, for the years indicated, the dollar amount and the percentage of the sales attributable to each of the segments of our operations.

	2003		2004		2005	
	Amount	%	Amount	%	Amount	%
Software consulting and development	$ 4,198	16	$ 3,300	15	$ 4,158	19
Computer hardware sales	18,139	67	18,468	85	17,677	81
Energy intelligence solutions	4,700	17	--	--	--	--
Other	39	--	64	--	29	--
Total	$ 27,076	100	$ 21,832	100	$ 21,864	100

SOFTWARE CONSULTING AND DEVELOPMENT

Services

Through our dsIT Solutions Ltd. (“dsIT”) subsidiary, we provide globally oriented solutions in the areas of real-time & embedded systems (“RT”) and information technology (“IT”). In August 2005, we sold our dsIT Technologies Ltd.

outsourcing consulting business. In previous years, these operations accounted for approximately two-thirds of the revenues of the software consulting and development segment. The strategic decision to sell this business has allowed us to focus our efforts on our RT and IT solutions business, which we believe, offers greater potential for growth. Since the sale, segment revenues have been generated almost entirely from dsIT's solutions activities.

dsIT's RT solutions activities are focused on two areas - naval solutions and other real-time and embedded hardware & software development. Our naval solutions include a full range of sonar and acoustic-related solutions to the commercial, defense and homeland security markets. These solutions include:

- Diver Detection Sonar (DDS);
- Mobile Acoustic Range (MAR);
- Harbor Surveillance System (HSS); and
- Underwater Acoustic Signal Analysis system (UASA)

Our other real-time and embedded hardware & software development solutions expertise include:

- Computerized vision for the Semiconductors industry;
- Modems & data links;
- Bluetooth solutions;
- VOIP/ROIP applications;
- Operation control consoles and HMI applications; and
- Command & control applications

dsIT's IT solutions include its OncoPro™ solution for healthcare markets. OncoPro™ is a state of the art chemotherapy package for oncology and hematology departments, based on experience gained in the largest cancer center in Israel. We also offer EasyBill™, an easy-to-use, end-to-end, modular customer care and billing system designed especially for small and medium-sized enterprises with large and expanding customer bases.

dsIT has initiated discussions for strategic alliances for marketing its sonar technology and OncoPro™ solutions and as well as marketing products for other software developers. We expect some of these discussions to come to fruition during the coming quarters.

During 2003, 2004 and 2005, sales from our RT solutions activities were $3.1 million, $2.0 million and $2.9 million, respectively, accounting for approximately 74%, 60% and 69% of segment sales for 2003, 2004 and 2005, respectively. Sales from our IT solutions activities were $1.1 million, $1.3 million and $1.3 million, respectively, accounting for approximately 26%, 40% and 31% of segment sales for 2003, 2004 and 2005, respectively.

We generally provide our RT and IT solutions on a fixed-price basis. When working on a fixed-price basis, we undertake to deliver software or hardware/software solutions to a customer's specifications or requirements for a particular project, accounting for these services on the percentage-of-completion method. Since the profit margins on these projects are primarily determined by our success in controlling project costs, the margins on these projects may vary as a result of various factors, including underestimating costs, difficulties associated with implementing new technologies and economic and other changes that may occur during the term of the contract.

Customers and Markets

Israel is the primary area of this segment's operations, accounting for 98%, 100% and 100% of segment sales in 2003, 2004 and 2005, respectively. We expect this concentration to continue in the future. We have created significant relationships with some of Israel's largest companies in its defense, electronics and healthcare industries including Israel's largest HMO. In addition, dsIT is investing considerable effort to penetrate European, Asian and other markets in order to broaden its geographic sales base, particularly with respect to our sonar technology solutions and our

OncoPro™ healthcare application. Four customers accounted for 66% (23%, 17%, 15% and 11%, respectively) of segment sales in 2005 (three customers accounted for 60% of segment sales in 2004 (27%, 19% and 13%, respectively)).

Competition

Our software consulting and development activity faces competition from numerous competitors, both large and small, operating in the Israeli and United States markets, some with substantially greater financial and marketing resources. We believe that our wide range of experience and long-term relationships with large corporations as well as the strategic partnerships we are developing will enable us to compete successfully and obtain future business.

Proprietary Rights

The customer, for whom the services are performed, generally owns the intellectual property rights resulting from our consulting and development services. We own two proprietary software packages: *EasyBill™*, a comprehensive customer service and billing system aimed at the low to middle end application market; and *OncoPro™*, which manages hospital medical files and has advanced applications for oncology departments. These are licenses for use by customers, while we retain ownership of the intellectual property.

COMPUTER HARDWARE SALES

Products and Services

On March 10, 2006, we sold our Databit computer hardware sales subsidiary. In the past, Databit provided all the revenue in our computer hardware segment. As a result of the sale, we will no longer have activity in our computer hardware segment after the first quarter of 2006. Through the date of its sale, Databit was engaged in the sale and service of PC-based computer hardware, software, data storage, client/server and networking solutions to large and midsize customers, operating as a value-added-reseller and/or an authorized service provider for equipment and software from such well-known industry leaders as HP/Compaq, IBM, Microsoft, Oracle, 3Com, NEC, Acer, Apple and Dell. Through the operations of the segment, we offered our customers a full range of systems integration services, including design, implementation, hardware and software selection, and implementation of local and wide area networks, as well as maintenance and service to customers under seperate priced and negotiated extended service agreements.

Customers and Markets

Computer hardware segment sales included sales to two major customers, Montefiore Medical Center, a major New York medical center, which accounted for approximately 28%, 40% and 33% of segment sales and 19%, 34%, and 27% of consolidated sales in 2003, 2004 and 2005, respectively, and 67% and 54% of the segment’s receivables and 37% and 34% of consolidated receivables, at the end of 2004 and 2005, respectively, and a large law firm which accounted for approximately 5%, 5% and 22% of segment sales and 3%, 4%, and 18% of consolidated sales in 2003, 2004 and 2005, respectively, and 2% and 6% of the segment’s receivables and 1% and 4% of consolidated receivables, at the end of 2004 and 2005. No other customer accounted for more than 10% of segment sales. Most of our sales are made in the New York City Metropolitan area, with sales in this area accounting for 71%, 75% and 70% of segment revenues in 2003, 2004 and 2005, respectively.

ENERGY INTELLIGENCE SOLUTIONS

Effective as of the second quarter of 2003, as a result of Comverge’s successful placement of private equity, we ceased to own a controlling interest in Comverge. Accordingly, Comverge’s financial results were no longer fully consolidated into our results. However, we continue to own a significant minority interest in Comverge and its financial results are included in our financial statements by utilization of the equity method of accounting. Comverge continues to play a major role in our corporate strategy, and during the periods presented in this Annual Report, Comverge continued to have a material effect on our financial results.

Comverge designs, develops and markets a full spectrum of products, services and turnkey solutions to electric utilities and transmission and distribution companies that provide capacity during periods of peak electricity demand and allow their residential and commercial customers to conserve energy. These Demand Response solutions allow Comverge's customers to reduce usage or "shed load" during peak usage periods, such as the summer air conditioning season, thereby reducing or eliminating the need to buy costly additional power on the spot market, or invest in new peaking generation capacity. Demand Response solutions are cost-effective and environmentally superior to building new generation capabilities.

In addition to Demand Response solutions, Comverge also offers a combination of intelligent hardware and a suite of software products, which, together or separately, help customers address energy usage issues through data communications and analysis, real-time pricing and integrated billing and reporting. Comverge's two-way data communications solutions allow utilities to gather, transmit, verify and analyze real-time usage information, and can be used for automated meter reading, support time-of-use metering, theft detection, remote connect/disconnect and other value-added services.

Comverge's principal offices are located in East Hanover, New Jersey and Atlanta, Georgia. In addition, Comverge operates satellite offices in Newark, California, Pensacola, Florida and Tel Aviv, Israel.

BACKLOG

As of December 31, 2005, our backlog of work to be completed was $1.8 million, all of which related to our software consulting and development segment. We estimate that we will perform approximately $1.7 million of our backlog work in 2006.

EMPLOYEES

At December 31, 2005, we employed a total of 94 people, including 55 in engineering and technical support, 13 in marketing and sales, and 26 in management, administration and finance. A total of 68 of our employees are based in Israel. Of the 26 employees in the United States, 25 were in our Databit computer hardware sales company (four in engineering and technical support, 12 in marketing and sales, and nine in management, administration and finance), which we sold in March 2006. We consider our relationship with our employees to be satisfactory.

We have no collective bargaining agreements with any of our employees. However, with regard to our Israeli activities, certain provisions of the collective bargaining agreements between the Israeli Histadrut (General Federation of Labor in Israel) and the Israeli Coordination Bureau of Economic Organizations (including the Industrialists Association) are applicable by order of the Israeli Ministry of Labor. These provisions mainly concern the length of the workday, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our Israeli employees with benefits and working conditions beyond the required minimums. Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Furthermore, Israeli employees and employers are required to pay specified amounts to the National Insurance Institute, which administers Israel's social security programs. The payments to the National Insurance Institute include health tax and are approximately 5% of wages (up to a specified amount), of which the employee contributes approximately 70% and the employer approximately 30%.

SEGMENT INFORMATION

For additional financial information regarding our operating segments, foreign and domestic operations and sales, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 16 to our Consolidated Financial Statements included in this Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended December 31, 2003, 2004 and 2005 and consolidated balance sheet data as of December 31, 2004 and 2005 has been derived from our audited Consolidated Financial Statements included in this Annual Report. The selected consolidated statement of operations data for the years ended December 31, 2001 and 2002 and the selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003 has been derived from our unaudited consolidated financial statements not included herein.

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This data should be read in conjunction with our Consolidated Financial Statements and related notes included herein and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Selected Consolidated Statement of Operations Data:

	For the Years Ended December 31,				
	2001** (unaudited)	2002** (unaudited)	2003*	2004*	2005
	(in thousands, except per share data)				
Sales	$ 39,146	$ 46,900	$ 27,076	$ 21,832	$ 21,864
Cost of sales	32,212	36,351	21,909	17,215	17,446
Gross profit	6,934	10,549	5,167	4,617	4,418
Research and development expenses	2,284	1,526	153	30	53
Selling, marketing, general and administrative expenses	15,349	16,398	10,259	7,137	6,543
Impairment of goodwill and investment	227	90	--	--	--
Gain on issuance of shares in subsidiary	397	--	--	--	--
Operating loss	(10,529)	(7,465)	(5,245)	(2,550)	(2,178)
Interest income	1,086	229	46	31	29
Interest expense	(357)	(1,001)	(738)	(118)	(99)
Other income (loss), net	(55)	12	(322)	240	6
Loss from operations before taxes on income	(9,745)	(8,225)	(6,259)	(2,397)	(2,242)
Taxes on income	(37)	(35)	(40)	31	(38)
Loss from operations of the Company and its consolidated subsidiaries	(9,782)	(8,190)	(6,219)	(2,428)	(2,204)
Share of losses in Comverge	--	--	(1,752)	(1,242)	(380)
Gain on sale of shares in Comverge	--	--	--	705	--
Minority interests, net of tax	--	880	264	(90)	(73)
Loss from continuing operations	(9,782)	(7,310)	(7,707)	(3,055)	(2,657)
Gain on sale of discontinued operations, net of income taxes	--	--	--	--	541
Income (loss) from discontinued operations, net of income taxes	(13)	(834)	1,425	1,883	798
Net loss	$ (9,795)	$ (8,144)	$ (6,282)	$ (1,172)	$ (1,318)
Basic and diluted net income (loss) per share:					
Loss from continuing operations	$ (1.41)	$ (1.00)	$ (1.00)	$ (0.38)	$ (0.32)
Discontinued operations	(0.00)	(0.11)	0.19	0.23	0.16
Net loss per share (basic and diluted)	$ (1.41)	$ (1.11)	$ (0.81)	$ (0.15)	$ (0.16)
Weighted average number of shares Outstanding - basic and diluted	6,970	7,349	7,738	7,976	8,117

* Results have been restated for the discontinued operations of our Israel based consulting business, which was sold in August 2005.
** The selected consolidated statements of operations data for the years ended December 31, 2001 and 2002 have been restated for the discontinued operations of our Israel and US-based consulting business and are unaudited.

Selected Consolidated Balance Sheet Data:

	As of December 31,				
	2001 (unaudited)	2002 (unaudited)	2003 (unaudited)	2004	2005
	(in thousands)				
Working capital	$ 6,809	2,845	$ 729	$ 874	$ 1,458
Total assets	39,244	33,347	17,784	17,025	10,173
Short-term and long-term debt	8,681	10,033	2,259	1,396	365
Minority interests	2,530	1,609	1,367	1,471	--
Total shareholders' equity	14,362	7,128	3,200	2,125	820

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT DEVELOPMENTS

Sale of Databit and Related Transactions; Appointment of New CEO

On March 10, 2006 we entered into a Stock Purchase Agreement dated as of March 9, 2006 (the "SPA"), for the sale of all the outstanding capital stock of Databit to Shlomie Morgenstern, President of Databit and a Vice President of the Company. The transactions contemplated under the SPA, and the related transactions to which we, Shlomie Morgenstern and our CEO George Morgenstern were party to, were consummated on March 10, 2006 and included the following:

· Termination of the Employment Agreement dated August 19, 2004 among Shlomie Morgenstern, Databit and us and our release from any and all liability including the waiver by Shlomie Morgenstern of any and all severance or change of control payments to which he would have been entitled.

· Amendment of the option and restricted stock agreements between us and Shlomie Morgenstern to provide for acceleration of any unvested grants on the closing of the transactions and for all options to be exercisable through 18 months from the closing.

· The assignment to and assumption by Databit of our obligations to George Morgenstern under the Employment Agreement between the Company and George Morgenstern dated January 1, 1997, as amended (the "GM Employment Agreement") upon the following terms:

(i) Reduction of the amounts owed to George Morgenstern under the GM Employment Agreement by the lump sum payment payment of $600,000 and a release by George Morgenstern releasing us from any and all liability and obligations to him under the GM Employment Agreement.

(ii) The amendment of the option agreement with George Morgenstern dated December 30, 2004 to provide for the acceleration of the 60,000 options that are not currently vested and the extension of the exercise period for all options held by him to the later of (i) September 2009 and (ii) 18 months after the cessation of service under the new consulting agreement described below.

(iii) The amendment of the Restricted Stock Agreement dated August 31, 1998 between George Morgenstern and us to provide for the removal of any vesting conditions from the 20,000 shares still subject to such conditions.

· The assumption by Databit of our obligations under leases for the premises in New York City and Mahwah, New Jersey, which provide for aggregate rents of approximately $450,000 over the next three years.

- A new consulting agreement between George Morgenstern and us for a period of two years, pursuant to which George Morgenstern would serve as a consultant to us, primarily to assist in the management of our dsIT subsidiary. The agreement provides for de minimus compensation per year plus a non-accountable expense allowance of $65,000 per year to cover expected costs of travel and other expenses.

As a result of the transaction, we expect to record a loss of approximately $2.0 million in the first quarter of 2006.

Concurrent with the sale of Databit, George Morgenstern ceased to serve as our President and CEO but will continue to serve as a member of the Board of Directors and as Chairman of the Board. Shlomie Morgenstern also ceased to serve as Vice President--Operations and will no longer act as an officer or director. In addition, John A. Moore was appointed President and CEO as well as one of our directors.

Settlement of Litigation

In March 2006, we reached a settlement agreement with an Israeli bank with respect to our claims against the bank and the bank's counterclaim against us. As part of the settlement agreement, the bank will return to us approximately $94,000 plus interest and CPI adjustments of attorney fees and court costs we had previously paid. As a result of the settlement agreement, the accrued loss for contingent performance of bank guarantees of $410,000 will be reversed and the $247,000 collateralized portion of these guarantees (shown as restricted cash at December 31, 2005) will no longer be restricted. We expect to record income of approximately $330,000 in the first quarter of 2006 as a result of the settlement agreement.

Option Grants

On March 27, 2006, the Board of Directors of the Company approved the following option grants, upon the following terms, to John A. Moore:

a) an option for the purchase of 200,000 shares of Common Stock at an exercise price of $2.00 per share, vesting on September 30, 2006 and expiring on March 31, 2011; and

b) an option to purchase 200,000 shares of Common Stock at an exercise price of $2.25 per share, vesting on March 30, 2009 and expiring on March 31, 2011; subject to accelerated vesting as to (i) 100,000 shares of Common Stock upon the Company's having raised $1 million in gross proceeds from the sale of its equity and (ii) 100,000 shares of Common Stock upon the Common's Common Stock achieving a five-day average closing market price of $5.00 or greater per share.

All of the above options granted to Mr. Moore are subject to acceleration upon (in addition to those events specified with respect to the option in (b) above) the termination of Mr. Moore's employment by the Registrant without Cause, a Change of Control of the Registrant, or the termination by Mr. Moore of his employment with the Registrant for Good Reason (as such terms are defined in such option agreements between Mr. Moore and the Registrant).

On March 27, 2006, the Board of Directors also approved the grant of an option to purchase 25,000 shares of Common Stock at an exercise price of $2.65 per share, to each of the following non-management directors: Elihu Levine, Shane Yurman, and Samuel M. Zentman. These options shall vest on the date of the next held annual meeting and expire upon the earlier of (i) March 30, 2011 or (ii) 18 months from the date on which the grantee ceases to be a director.

In addition, the Board of Directors of the Registrant approved the modification of all outstanding options to purchase Common Stock issued under the Registrant's 1994 Stock Option Plan for Outside Directors held by Mr. Levine, Mr. Yurman, and Dr. Zentman, to permit their exercise until 18 months after the grantee ceases service as a director.

Additional Investment in Comverge

In March 2006, Comverge had an additional round of private equity financing. As a result of the most recent financing round, in which we participated at a cost of $210,000, we currently own approximately 7% of Comverge's preferred shares and 76% of its common shares, representing approximately 25% of its total equity.

OVERVIEW AND TREND INFORMATION

The following discussion includes statements that are forward-looking in nature. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations. Certain of these factors are discussed in "Item 1. Business-Risk Factors Which May Affect Future Results."

We operate in two reportable segments: software consulting and development, and computer hardware sales. Until March 31, 2003, we included the results of Comverge in our energy intelligence solutions segment. Since March 31, 2003, we no longer consolidate the results of Comverge (see Note 3 to our Consolidated Financial Statements included in this report) and therefore no longer include their results in our segment reporting. As we have sold our outsourcing consulting business in August 2005, the information provided below does not include the results from those activities as they have been reclassified and consolidated on one line as net income from discontinued operations, after tax.

In March 2006, we sold our Databit computer hardware sales company to Shlomie Morgenstern, President of Databit and our Vice President, in exchange for the release of Acorn Factor from obligations relating to our former CEO's consulting agreement and various lease obligations. As part of the agreement, we agreed to pay our former CEO $600,000 at closing and pay certain costs for Databit. In addition, cash, which had previously been restricted with respect to our former CEO's employment agreement, will no longer be restricted (net of transaction costs and the $600,000 payment to our former CEO). As a result of the transaction, we expect to record a loss of approximately $2.0 million in the first quarter of 2006. Subsequent to the first quarter of 2006, we will no longer have any activity in our computer hardware segment.

The following analysis should be read together with the segment information provided in Note 16 to our Consolidated Financial Statements included in this report.

Software Consulting and Development

Segment revenues increased by $0.7 million or 16% in 2005 as compared to 2004. The increase came from our RT services ($0.5 million from Naval solutions and $0.2 million from embedded hardware and software development) with revenues from our IT solutions remaining stable. Within our IT solutions, the revenues from our OncoPro™ solutions increased in 2005 by $0.3 million. This was offset by a $0.3 million decrease in revenues from our EasyBill™ billing system. Segment gross profits also increased in 2005 as compared to 2004 by $0.4 million or 36%. Segment gross profit percentage continued to increase (from 25% in 2004 to 29% in 2005) as we continue to improve our cost structure, though a portion of the improvement was the result of a non-recurring license sale, which increased our gross profit and gross profit percentage by $145,000 and 2%, respectively.

Our projected growth in sales in 2006 is expected to come primarily from our Naval solutions products with slight increases in our OncoPro™ solutions being offset by slight decreases in embedded hardware and software development and EasyBill™ billing system. Due to the sale of our outsourcing business in August 2005, our segment overhead currently is a heavier burden to the segment and we must generate a higher level of sales to reach profitability. We anticipate our sales to increase throughout 2006, with the segment reaching profitability towards the end of the year.

dsIT has been successful in bidding (together with our former Databit subsidiary) for certain combined hardware/software solutions for the Israeli Ministry of Defense (MoD). Despite our recent sale of Databit, we expect this cooperation to continue to produce increased revenues in 2006.

Computer Hardware Sales

Sales in 2005 were lower than in 2004, and combined with a reduced gross profit margin caused gross profit to decrease by more than 15%. The segment's dependency on sales to one particular customer has decreased to a certain extent, however during 2005 we remained heavily dependent on two particular customers while we continued to invest significant efforts to diversify our sales base.

In March 2006, we sold our Databit computer hardware sales company and after the first quarter of 2006, will no longer have any further activity in this segment.

Energy Intelligence Solutions

We continue to account for Comverge on the equity method; however since our losses to date exceed our investment, Comverge's losses no longer affect our consolidated results.

Through January 2006, Comverge has continued to strengthen its strategic alliances and broadened the spectrum of solutions offered, while continuing to perform under its Virtual Peaking CapacityTM ("VPC") contracts. Comverge has recently increased its VPC programs to more than 225 Megawatts under contract.

Comverge has also recently announced that its Maingate® C&I gateway technology and PowerCAMP software suite were selected by American Electric Power (AEP) to provide a full scale digital cellular AMR solution for AEP's over 15,000 commercial and industrial sites. Maingate® C&I is currently in use at utilities across the US and provides access to robust meter data in real-time. Available in external box and underglass designs, Maingate® C&I offers utilities both retrofit and drop in replacement solutions designed to lower recurring communications costs and increase data read reliability. The PowerCAMP suite enables AEP to collect data and automatically integrate this data with existing billing and CRM tools.

Comverge's continued marketing, installation and development of products require significant financial resources. To the extent required, it intends to utilize and further increase its bank credit lines and seek additional investor financing. In February 2006, Comverge completed a Series C Preferred Stock financing round, raising approximately $5.2 million. This brought the total capital raised by Comverge from 2003 to 2005 to approximately $37 million. The investing group supporting Comverge includes, in addition to us, Air Products and Chemicals, Easton Hunt Capital Partners, Rockport Capital Partners, Nth Power Management, EnerTech Capital, Norsk Hydro Technology Ventures, and Ridgewood Capital. As a result of the most recent financing round, in which we participated at a cost of $210,000, we currently own approximately 7% of Comverge's preferred shares and 76% of its common shares, representing approximately 25% of its total equity.

Corporate

In March 2006, we appointed John Moore as our President and CEO to succeed George Morgenstern, our founder and President and CEO since 1986. Mr. Morgenstern will continue to serve on the board of directors and as Chairman of the Board focusing on efforts to grow our projects and solutions activities in Israel. As a result of the sale of our US operating activities and the assignment of the employment agreement with our former CEO and lease agreements for our US properties, we expect corporate expenses to be reduced.

For disclosure regarding our recently announced agreement for the sale of our Databit computer hardware sales company, see "Recent Developments" above.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following discussion of critical accounting policies represents our attempt to report on those accounting policies, which we believe are critical to our consolidated financial statements and other financial disclosure. It is not intended to be a comprehensive list of all of our significant accounting policies, which are more fully described in Note 2 of the Notes to the Consolidated Financial Statements included in this Annual Report. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which the selection of an available alternative policy would not produce a materially different result.

We have identified the following as critical accounting policies affecting our company: principles of consolidation and investments in associated companies; revenue recognition; foreign currency transactions; income taxes; and stock-based compensation.

Principles of Consolidation and Investments in Associated Companies

Our consolidated financial statements include the accounts of all majority-owned subsidiaries. All intercompany balances and transactions have been eliminated. Minority interests in net losses are limited to the extent of their equity capital. Losses in excess of minority interest equity capital are charged against us in our consolidated statements of operations.

Investments in associated companies are accounted for by the equity method. Our Comverge investment is comprised of both common and preferred stock. As of December 31, 2005 the balance of our investment was a net liability of $1.8 million comprised of our negative investment in common shares of $1.8 million and our investment in preferred shares of $3.6 million which we have written down to zero value as a result of accumulated equity losses against our preferred investment. We currently no longer record equity losses in Comverge. Should we begin to record equity income on our investment in Comverge, we would record that equity income to our preferred investment up to our original $3.6 million preferred share investment in Comverge, and thereafter to our investment in Comverge's common shares, of which we currently own approximately 76%. As at December 31, 2005, we have a provision for unrecognized losses in Comverge of $173,000. As at December 31, 2005, we will record equity income from our preferred investment in Comverge, if and when Comverge records net income in excess of approximately $2,500,000.

Revenue Recognition

Revenue from time-and-materials service contracts, maintenance agreements and other services is recognized as services are provided.

Revenues from the sale of software licenses are recognized when a license agreement exists, delivery has occurred, the license fee is fixed or determinable, and collectibility is reasonably assured. Such sales of software licenses are incidental to the sale of our hardware products. We also provide integration and maintenance services along with our computer hardware sales. These integration and maintenance services are subject to an agreement separate from our hardware sales. Integration services, when provided, are based on hourly rates commensurate with market rates. Revenue from these services is recognized at the time the service is provided.

Maintenance and subscription contracts are sold separately and are priced based upon predetermined price lists. Maintenance and subscription revenue is recognized ratably over the contract period (generally 12 to 24 months).

Revenues from the sale of products (primarily hardware which generally includes pre-loaded off-the-shelf software) are recognized when the products are shipped provided that appropriate signed documentation of the arrangement, such as a signed contract, purchase order or letter of agreement, has been received, the fee is fixed or determinable and collectibility is reasonably assured. The software included in the sale of these products is incidental to the sale of the hardware products.

Revenue from drop-shipments of third-party hardware and software sales are recognized upon delivery, and recorded at the gross amount when a majority of the following factors exist:

- when we are responsible for fulfillment of the customer order
- when we have latitude in pricing
- when we have discretion in the selection of the supplier
- when we customize the product to the customer’s specifications
- when we have credit risk from the customer

In 2005, we derived $3.2 million of revenues from fixed-price contracts, all of which are attributable to our software and consulting development segment, representing approximately 14% of consolidated sales in 2005 ($2.8 million and 13%, and $3.2 million and 12%, in 2004 and 2003, respectively), which require the accurate estimation of the cost, scope and duration of each engagement. Revenue and the related costs for these projects are recognized for a particular period, using the percentage-of-completion method as costs (primarily direct labor) are incurred, with revisions to estimates reflected in the period in which changes become known. If we do not accurately estimate the resources required or the scope of work to be performed, or do not manage our projects properly within the planned periods of time or satisfy our obligations under the contracts, then future revenue and consulting margins may be significantly and negatively affected and losses on existing contracts may need to be recognized. Any such resulting changes in revenues and reductions in margins or contract losses could be material to our results of operations.

Foreign Currency Transactions

The currency of the primary economic environment in which our corporate headquarters and our U.S. subsidiaries operate is the United States dollar (“dollar”). Accordingly, the Company and all of its U.S. subsidiaries use the dollar as their functional currency.

Our dsIT Israeli subsidiary accounts for approximately 21% of our net revenues for the year ended December 31, 2005 (16% for the year ended December 31, 2004), and 45% of our assets and 42% of our total liabilities as of December 31, 2005 (71% of our assets and 39% of our total liabilities as of December 31, 2004). dsIT’s functional currency is the New Israeli Shekel (“NIS”) and its financial statements have been translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts have been translated using the exchange rate at date of transaction. In 2003 the resulting translation adjustments were not reported, as they were immaterial. All exchange gains and losses denominated in non-functional currencies are reflected in other income (loss), net in the consolidated statement of operations when they arise.

Income Taxes

We have a history of unprofitable operations due to losses incurred in a number of our operations. These losses generated sizeable state, federal and foreign tax net operating loss (“NOL”) carryforwards, which as of December 31, 2005 were approximately $11.9 million, $9.7 million and $0.9 million, respectively.

Generally accepted accounting principles require that we record a valuation allowance against the deferred income tax asset associated with these NOL carryforwards and other deferred tax assets if it is “more likely than not” that we will not be able to utilize them to offset future income taxes. Due to our history of unprofitable operations, we only recognize net deferred tax assets in those subsidiaries in which we believe that it is “more likely than not” that we will be able to utilize them to offset future income taxes in the future. We currently provide for income taxes only to the extent that we expect to pay cash taxes on current income or disallowed expenses.

It is possible, however, that we could be profitable in the future at levels which cause management to conclude that it is more likely than not that we will realize all or a portion of the NOL carryforwards and other deferred tax assets. Upon reaching such a conclusion, we would immediately record the estimated net realizable value of the deferred tax assets at that time and would then provide for income taxes at a rate equal to our combined federal and state effective rates or foreign rates. Subsequent revisions to the estimated net realizable value of the deferred tax assets could cause our provision for income taxes to vary significantly from period to period.

Stock-based Compensation

In December 2002, the FASB issued SFAS No.148--Accounting for Stock-Based Compensation--Transition and Disclosure (“FAS 148”). This statement amends SFAS No. 123--Accounting for Stock-Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting for stock based employee compensation. SFAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. We elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by APB No. 25, Accounting for Stock Issued to Employees (“APB No. 25”), and related interpretations. Under the provisions of APB No. 25, compensation expense is measured at the grant date for the difference between the fair value of the stock and the exercise price. In December 2004, the Financial Accounting Standards Board (“FASB”) issued the revised Statement of Financial Accounting Standards (“FAS”) No. 123, “Share-Based Payment” (“FAS 123R”), which addresses the accounting for share-based payment transactions in which we obtain employee services in exchange for (a) our equity instruments or (b) liabilities that are based on the fair value of our equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for employee share-based payment transactions using APB No. 25 and requires instead that such transactions be accounted for using the grant-date fair value based method. For us, this statement will be effective as of January 1, 2006 and we expect to apply the modified prospective application transition method, as permitted by the statement. We estimate that the cumulative effect of adopting FAS 123R as of January 1, 2006, our adoption date, based on the awards outstanding as of December 31, 2005, will be immaterial. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur subsequent to December 31, 2005.

We account for stock-based compensation issued to non-employees on a fair value basis in accordance with SFAS No. 123 and EITF Issue No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in conjunction with Selling, Goods or Services” and related interpretations. We use the Black-Scholes valuation method to estimate the fair value of warrants.

RESULTS OF OPERATIONS

The following table sets forth selected consolidated statement of operations data as a percentage of our total sales:

	Year Ended December 31,				
	2001 (unaudited)	2002 (unaudited)	2003	2004	2005
Sales	100%	100%	100%	100%	100%
Cost of sales	82	78	81	79	80
Gross profit	18	22	19	21	20
Research and development expenses	6	3	1	--	--
Selling, marketing, general and administrative expenses	39	35	38	33	30
Impairment of goodwill and investment	1	--	--	--	--
Gain on issuance of shares in subsidiary	1	--	--	--	--
Operating loss	(27)	(16)	(19)	(12)	(10)
Interest income (expense), net	2	(2)	(3)	--	--
Other income (loss), net	--	--	(1)	1	--
Loss from operations before taxes on income	(25)	(18)	(23)	(11)	(10)
Taxes on income	--	--	--	--	--
Loss from operations of the Company and its consolidated subsidiaries	(25)	(17)	(23)	(11)	(10)
Share of losses in Comverge	--	--	(6)	(6)	(2)
Gain on sale of shares in Comverge	--	--	--	3	--
Minority interests, net of tax	--	2	1	--	--
Loss from continuing operations	(25)	(16)	(28)	(14)	(12)
Income (loss) from discontinued operations, net of income taxes	--	(2)	5	9	4
Gain on sale of discontinued operations, net of income taxes	--	--	--	--	2
Net loss	(25)%	(17)%	(23)%	(5)%	(6)%

The following table sets forth certain information with respect to revenues and profits of our reportable business segments for the years ended December 31, 2003, 2004 and 2005, including the percentages of revenues attributable to such segments. Until March 31, 2003, we included the results of Comverge in our energy intelligence solutions segment. Since March 31, 2003, we no longer consolidate the results of Comverge and no longer include their results in our segment reporting (see Note 4 to our consolidated financial statements). Segment information excludes the discontinued results of our US based consulting activities, which were discontinued in 2004, and our Israel based outsourcing activities, which were discontinued in 2005 (see Note 3 to our consolidated financial statements). The column marked "Other" aggregates information relating to miscellaneous operating segments, which may be combined for reporting under applicable accounting principles.

	Software Consulting and Development	Energy Intelligence Solutions	Computer Hardware	Other	Total
			(dollars in thousands)		
Year ended December 31, 2005:					
Revenues from external customers	$ 4,158	$ --	$ 17,677	$ 29	$ 21,864
Percentage of total revenues from external customers	19%	--	81%	--	100%
Gross profit	1,213	--	3,176	29	4,418
Segment income (loss) before income taxes	(850)	--	45	19	(786)
Year ended December 31, 2004:					
Revenues from external customers	$ 3,300	$ --	$ 18,468	$ 64	$ 21,832
Percentage of total revenues from external customers	15%	--	85%	--	100%
Gross profit	809	--	3,744	64	4,617
Segment income (loss) before income taxes	(1,461)	--	19	38	(1,404)
Year ended December 31, 2003:					
Revenues from external customers	$ 4,199	$ 4,700	$ 18,139	$ 39	$ 27,076
Percentage of total revenues from external customers	16%	17%	67%	--	100%
Gross profit	690	1,313	3,125	39	5,167
Segment loss before income taxes	(1,990)	(1,422)	(191)	(17)	(3,620)

2005 COMPARED TO 2004

Sales. The marginal increase in sales in 2005, as compared to 2004, was due to an increase in sales in our software consulting and development segment offset by a corresponding decrease in sales in our computer hardware segment.

Gross profit. The decrease in gross profit in 2005, as compared to 2004, was entirely attributable to a decrease in gross profits in our computer hardware segment of $0.6 million. This decrease was partially offset by an increase in gross profit in our software consulting and development segment of $0.4 million. In the software consulting and development segment, the gross profit margin increased to 29%, from 25% in 2004, whereas in the computer hardware sales segment, gross profit margin decreased to 18%, from 20% in 2004. The decreased gross profit margin in our computer hardware segment more than offset the increase in our software consulting and development gross profit margin.

Selling, marketing, general and administrative expenses ("SMG&A"). The decrease in SMG&A in 2005, as compared to 2004, was primarily due to a decrease in corporate professional fees, as well as compensation expense in the computer hardware segment.

Interest income (expense), net. The decrease in net finance expenses is attributable to the continued reduction of our outstanding balances of bank debt.

Other income, net. During the second quarter of 2004, we received a decision from the Israeli Supreme Court in our dispute with an Israeli bank. In its decision, the Court reversed the district court's award for costs in favor of the bank for which we had previously accrued. The courts also remanded to the district court our claims against the bank for a determination as to the amount of damages. As a result of the decision we recorded other income of approximately $0.2 million in 2004.

Taxes on Income. The change in income tax expense in 2005 as compared to 2004 was primarily due to a one-time expense due to the reorganization of business at dsIT, as a result of which, previously recognized foreign income tax assets were expensed. Those expenses were offset by a tax benefit recorded from the sale of our dsIT Technologies subsidiary.

Share of Losses in Comverge. Our share of Comverge's $8.0 million and $9.3 million of net losses in 2005 and 2004, respectively, was $0.4 million and $1.2 million, respectively. The reduction in our share of losses in 2005 is attributable to our no longer recording equity losses in Comverge, as our preferred stock investment has been reduced to zero.

Gain on sale of discontinued operations, net of tax. In August 2005, we sold our Israeli outsourcing consulting business for approximately $3.7 million, resulting in a gain of $0.5 million.

Minority interests. Minority interests reflect the minority interests in income generated by our former dsIT Technologies subsidiary.

Net income from discontinued operations, net of tax. In August 2005, we sold our Israel based consulting business. As a result, net income from discontinued operations, net of income taxes for those operations have been restated for 2004. The decrease in net income from discontinued operations, net of tax is due to 2005 results reflected results for a seven and a half month period as compared to 2004 which reflects an entire year's results.

2004 COMPARED TO 2003

Sales. The decrease in sales in 2004, as compared to 2003, was due almost entirely to the inclusion of Comverge's sales of $4.7 million in the first quarter of 2003; commencing the second quarter of 2003, we no longer consolidated Comverge's operations. Sales in our consolidated segments decreased with the decrease in our software consulting and development segment offsetting the increase in our computer hardware segment sales.

Gross profit. The decrease in gross profits in 2004, as compared to 2003, was entirely attributable to the inclusion of Comverge's gross profit of $1.3 million in the first quarter of 2003. This decrease was net of an increase in gross profit in both of our consolidated segments, as a result of improved gross profit margins. In the software consulting and development segment the gross profit margin increased to 25%, from 16% in 2003, and in the computer hardware sales segment, gross profit margin increased to 20%, from 17% in 2003. The improved gross profit margins in our consolidated segments offset more than one-half of the detraction of Comverge's gross profit.

Research and development expenses ("R&D"). The decrease in R&D expenses was primarily due to our company no longer consolidating Comverge's operations since the second quarter of 2003.

Selling, marketing, general and administrative expenses ("SMG&A"). The decrease in SMG&A in 2004, as compared to 2003, was primarily attributable to the fact that SMG&A in the 2003 period included $2.2 million of Comverge's SMG&A and, since the second quarter of 2003, we no longer consolidate Comverge's operations. The remaining decrease in SMG&A was due to a decrease in SMG&A in our software consulting and development segment as well as decreased corporate G&A.

Interest income (expense), net. The decrease in net finance expenses is attributable in part to completing the accretion of discounts and the amortization of related costs in connection with convertible debt and warrants in the first few months of 2003, which accounted for almost one-half of these expenses in 2003. Finance expense has also decreased as a result of the continued reduction in Israel of our outstanding balances of bank debt as well as reductions in interest rates throughout 2003 and 2004.

Other income, net. During the second quarter of 2004, we received a decision from the Israeli Supreme Court in our dispute with an Israeli bank. In its decision, the Court reversed the district court's award for costs in favor of the bank for which we had previously accrued. The courts also remanded to the district court our claims against the bank for a determination as to the amount of damages. As a result of the decision we recorded other income of approximately $0.2 million.

Share of Losses in Comverge. Our share of Comverge's $9.3 million and $8.0 million of net losses in 2004 and 2003, respectively, was $1.2 million and $1.8 million, respectively. Comverge's increased losses during 2004 were primarily due to increased SG&A expenses, primarily attributable to the marketing expenses associated with its new VPC programs.

Gain on sale of shares in Comverge. In the third quarter of 2004, we signed an agreement with certain other shareholders of Comverge's Preferred Stock for the sale by us to other shareholders of 480,769 shares of Comverge Preferred Stock for approximately $1.0 million, resulting in a gain of $0.7 million.

Minority interests. Minority interests reflect the minority interests in income generated by our dsIT subsidiary.

Discontinued operations. In August 2005, we sold our Israel based outsourcing consulting business. As a result, income from discontinued operations, net of income taxes for those operations have been restated for 2003 and 2004 ($1.7 million and $1.4 million, respectively). The decrease in net income from our discontinued outsourcing consulting business was due primarily to decreasing revenues. In addition, since the latter part of 2003, we have not recorded revenues from our US based consulting business. During the second quarter of 2004, we decided to discontinue our efforts to reestablish this business as it was previously conducted. As a result, in 2004 we recorded income from discontinued operations of $0.3 million.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2005, we had working capital of $1.5 million, including $0.9 million in unrestricted cash and cash equivalents. Net cash of $0.2 million was provided during 2005. Net cash of $1.7 million was used in operating activities during 2005. The net loss for the year ended December 31, 2005 of $1.3 million, was due primarily to corporate expenses of $1.5 million, net losses of $0.9 million from the continuing operations of the software consulting and development segment and losses from our investment in Comverge of $0.4 million. These losses were partially offset by the gain of $0.5 million on the sale of our outsourcing consulting business and net income from those discontinued operations of $0.8 million. Our use of cash of $1.7 million in operating activities during 2005 was primarily due to the aforementioned gain of $0.9 million and to reductions in accounts payable and other liabilities in excess of collections of trade accounts receivables, unbilled work-in-process and other assets of $0.3 million, net. Net cash of $2.2 million provided by investing activities was primarily from the net result of the cash provided by the sale of dsIT of $3.4 million less increases in restricted cash of $1.3 million. Net cash of $0.2 million used in financing activities was primarily for payment of long-term debt of $0.5 million net of short-term borrowings of $0.2 million, net.

Our working capital of $1.5 million at December 31, 2005, included working capital of $0.7 million in our dsIT subsidiary. Due to Israeli tax and company law constraints and dsIT's own cash flow requirements, working capital and cash flows from dsIT's operations are not readily available to finance US based activities. As if December 31, 2005, dsIT was utilizing approximately $0.1 million of its approximately $0.3 million lines of credit. dsIT's lines of credit are denominated in NIS and bear a weighted average interest rate of the Israeli prime rate plus 2.5% per annum. The Israeli prime rate fluctuates and as of December 31, 2005 was approximately 6.0%.

In August 2005, we consummated the sale of the outsourcing consulting business of our dsIT Technologies subsidiary receiving at closing approximately $3.1 million as our share of the gross proceeds paid at closing. We also received an additional $0.4 million of restricted cash in connection with the sale, which was released in November 2005.

Following the sale, in accordance with the provisions of the employment agreement with our then CEO, we set aside $1.4 million to secure payments to be made under this agreement.

Immediately after the sale of the consulting business, dsIT Solutions began to refocus its activities, initiating measures to improve the results from its remaining operations and its liquidity based on these operations. We believe that dsIT will have sufficient liquidity to finance its activities from cash flow from its own operations over the next 12 months. This is based on continued utilization of its lines of credit and expected improved operating results stemming from anticipated growth in sales. However, there is no assurance the measures taken by will be successful and we may need to provide supplementary financing, or sell all or part of that business.

As described above under Recent Developments, in March 2006, we sold our Databit computer hardware sales subsidiary. In connection with the transaction, we paid our then CEO $0.6 million and our remaining obligations under the employment agreement with him were assigned to and assumed by Databit. The balance of the cash previously restricted was released from any restriction. In addition, as described above under Recent Developments, we recently settled a litigation with an Israeli bank which resulted in the release of approximately $250,000 of previously restricted cash.

The unrestricted cash balance in our US operations as of the end of 2005 was $832,000, and as of March 31, 2006 was $677,000. Management currently projects significantly reduced corporate expenses for the next 12 months. We believe that the unrestricted cash available will provide more than sufficient liquidity to finance Acorn Factor's activities for the foreseeable future and for the next 12 months in particular.

There is no assurance that we will be able to reduce our corporate expenses to the projected levels. Management has formulated contingency plans, which include various financing options, including the possible sale of shares in Acorn Factor, to provide additional liquidity to finance our US operations. There is no assurance that we will be able to raise additional funds on a timely basis and on acceptable terms.

Contractual Obligations and Commitments

The table below provides information concerning obligations under certain categories of our contractual obligations as of December 31, 2005.

As noted above, in March 2006, we sold our Databit computer hardware sales subsidiary and entered into related transactions which resulted in certain payments to our then CEO and the release of Acorn Factor from obligations relating to our former CEO's consulting agreement and various lease obligations. As a result of the sale, the information included in the table below related to future cash payments due under our agreement with our then CEO and under our leases which were assigned as part of the transaction, includes payments which we are not, or may not, be obligated to make.

As noted above, in March 2006, we reached a settlement agreement with an Israeli bank with respect to our litigation. As a result of the settlement agreement, the accrued loss for contingent performance of bank guarantees of $410,000 will be reversed in the first quarter of 2006 and we will have no obligation to make any payments under these bank guarantees.

Cash Payments due to Contractual Obligations	Total	2006	2007-2008	2009-2010	2011 and thereafter
	Ending December 31, (in thousands)				
Long-term debt	191	149	34	8	--
Contingent performance of bank guarantees (1)	410	410	--	--	--
Operating leases	1,933	728	1,007	198	--
Potential severance obligations to Israeli employees (2)	2,540	277	--	--	2,263
Consulting agreement with CEO (3)	1,350	300	600	300	150
Purchase commitments	--	--	--	--	--
Total contractual cash obligations	$ 6,424	$ 1,864	$ 1,641	$ 506	$ 2,413

We expect to finance these contractual commitments in 2005 from cash currently on hand and cash generated from operations.

(1) Previously, we accrued a loss for contingent performance of bank guarantees, the balance of which was $0.4 million at December 31, 2005, included in other current liabilities. A portion of these guarantees was collateralized by means of a deposit of $0.2 million as of December 31, 2005. As a result of the abovementioned settlement agreement, we no longer have this liability contractual obligation.

(2) Under Israeli law and labor agreements, dsIT is required to make severance payments to dismissed employees and to employees leaving employment under certain other circumstances. The obligation for severance pay benefits, as determined by the Israeli Severance Pay Law, is based upon length of service and last salary. These obligations are substantially covered by regular deposits with recognized severance pay and pension funds and by the purchase of insurance policies. As of December 31, 2005, we accrued a total of $2.6 million for potential severance obligations ($0.3 million in other current liabilities and $2.3 million in long term liabilities) of which approximately $1.7 million was funded with cash to insurance companies ($0.3 million in other current assets and $1.4 million in non-current assets).

(3) Under the terms of his employment agreement with us, as amended, we had an obligation to continue to pay our former Chief Executive Officer consulting fees over a seven-year period starting January 1, 2005. As described above, in connection with our sale of our Databit computer hardware sales company, made a cash payment of $600,000 to our then CEO and were released from any further obligations under this agreement.

Certain Information Concerning Off-Balance Sheet Arrangements.

Our Israeli subsidiary provided various performance, advance and tender guarantees as required in the normal course of its operations. As of December 31, 2005, such guarantees totaled approximately $0.1 million and are due to expire through November 2006.

We had certain obligations to pay consulting fees to our former CEO over the next seven years as described above in Note 3 to the table included under Contractual Obligations and Commitments. As described above, as a result of the recently announced sale of our Databit computer hardware sales company, and upon the payment of $600,000 to our former CEO, the employment agreement with our former CEO has been terminated.

Under the employment agreement with our then Vice President who served as the Chief Executive Officer of Databit, we had certain obligations to him if his employment agreement was not renewed after the initial term and certain additional obligations if it was terminated by us other than for cause and certain other circumstances. As a result of the recently announced sale of Databit, this agreement has been terminated and we were released from all obligations without payment of any of the additional considerations discussed above.

Impact of Inflation and Currency Fluctuations

A majority of our sales are denominated in dollars. The remaining portion is either in NIS or denominated in NIS, linked to the dollar. Such sales transactions are negotiated in dollars; however, for the convenience of the customer they are settled in NIS. These transaction amounts are linked to the dollar between the date the transactions are entered into until the date they are effected and billed. From the time these transactions are effected and billed through the date of settlement, amounts are primarily unlinked. The majority of our expenses in Israel are in NIS, while a portion is in dollars or dollar-linked NIS.

The dollar cost of our operations in Israel may be adversely affected in the future by a revaluation of the NIS in relation to the dollar, should it be significantly different from the rate of inflation. In 2005 the depreciation of the NIS against the dollar was 6.8%, whereas in 2004 the appreciation of the NIS against the dollar was 1.6%. Inflation in Israel was 2.4% in 2005 and 1.2% during 2004. During the first two months of 2006, the NIS was devalued against the dollar by 2.2% and inflation during this period was 0.3%.

As of December 31, 2005, virtually all of our monetary assets and liabilities that were not denominated in dollars or dollar-linked NIS were denominated in NIS. In the event that in the future we have material net monetary assets or liabilities that are not denominated in dollar-linked NIS, such net assets or liabilities would be subject to the risk of currency fluctuations.

SUMMARY QUARTERLY FINANCIAL DATA (Unaudited)

The following table sets forth certain of our unaudited quarterly consolidated financial information for the years ended December 31, 2004 and 2005. This information should be read in conjunction with our Consolidated Financial Statements and the notes thereto.

	2004				2005			
	First Quarter*	Second Quarter*	Third Quarter*	Fourth Quarter*	First Quarter*	Second Quarter*	Third Quarter*	Fourth Quarter
	(in thousands, except per share amounts)							
Sales	$ 5,040	$ 5,363	$ 5,507	$ 5,922	$ 6,340	$ 5,014	$ 5,273	$ 5,237
Cost of sales	4,022	4,188	4,527	4,478	4,998	4,034	4,300	4,114
Gross profit	1,018	1,175	980	1,444	1,342	980	973	1,123
Research and development expenses	--	--	--	30	9	17	16	11
Selling, marketing, general and administrative expenses	1,764	1,457	2,112	1,804	1,858	1,676	1,764	1,245
Operating income (loss)	(746)	(282)	(1,132)	(390)	(525)	(713)	(807)	(133)
Interest income (expense), net	(32)	(7)	(25)	(23)	(22)	(28)	(21)	1
Other income (loss), net	83	193	6	(42)	10	51	(23)	(32)
Income (loss) before taxes on income	(695)	(96)	(1,151)	(455)	(537)	(690)	(851)	(164)
Taxes on income	(12)	(21)	30	34	13	(4)	(42)	(5)
Loss from operations of the Company and its consolidated subsidiaries	(683)	(75)	(1,181)	(489)	(550)	(686)	(809)	(159)
Minority interests, net of tax	(15)	(33)	(11)	(31)	(42)	(17)	(14)	--
Gain on sale of shares in Comverge	--	--	705	--	--	--	--	--
Share of loss in Comverge	(353)	(331)	(382)	(176)	(201)	(179)	--	--
Net loss from continuing operations	(1,051)	(439)	(869)	(696)	(793)	(882)	(823)	(159)
	--	--	--	--	--	--	542	(1)

Gain on sale of discontinued operations, net of tax								
Net income (loss) from discontinued operations, net of tax	456	646	397	384	354	310	154	(20)
Net income (loss)	$ (595)	$ 207	$ (472)	$ (312)	$ (439)	$ (572)	$ (127)	$ (180)
Basic and diluted net income (loss) per share:								
Net income (loss) per share from continuing operations	$ (0.14)	$ (0.05)	$ (0.11)	$ (0.09)	$ (0.09)	$ (0.11)	$ (0.14)	$ (0.02)
Discontinued operations	0.06	0.08	0.05	0.05	0.04	0.04	0.12	--
Net income (loss) per share	$ (0.08)	$ 0.03	$ (0.06)	$ (0.04)	$ (0.05)	$ (0.07)	$ (0.02)	$ (0.02)
Weighted average number of shares outstanding - basic	7,920	7,922	7,936	8,117	8,117	8,117	8,117	8,117
Weighted average number of shares outstanding - diluted	7,920	7,964	7,936	8,117	8,117	8,117	8,117	8,117

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* Results have been restated for the discontinued operations of our Israel based consulting business which was sold in August 2005.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Furnished at the end of this report commencing on page F-1.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) List of Financial Statements of the Registrant

The consolidated financial statements of the Registrant and the report thereon of the Registrant's Independent Registered Public Accounting Firm are included in this Annual Report beginning on page F-1.

Report of Kesselman & Kesselman
Consolidated Balance Sheets as of December 31, 2004 and 2005
Consolidated Statements of Operations for the years ended December 31, 2003, 2004 and 2005
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2003, 2004 and 2005
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2004 and 2005
Notes to Consolidated Financial Statements

(a)(2) List of Financial Statement Schedules

Financial Statement Schedules:

The financial statement schedule of the Registrant and the report thereon of the Registrant's Independent Registered Public Accounting Firm are included in this Annual Report beginning on page S-1.

Schedule II - Valuation and Qualifying Accounts

Separate Financial Statements of 50 Percent or Less Owned Persons:

The consolidated financial statements of Comverge, Inc. and the report thereon of Comverge's independent Registered Public Accounting Firm are included in this Annual Report beginning on page C-1.

Consolidated Financial Statements of Comverge, Inc.:

Report of PricewaterhouseCoopers LLP
Consolidated Balance Sheets as of December 31, 2004 and 2005
Consolidated Statements of Operations for the years ended December 31, 2003, 2004 and 2005
Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2003, 2004 and 2005.
Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004
Notes to Consolidated Financial Statements

(a)(3) List of Exhibits

No.	
3.1	Certificate of Incorporation of the Registrant, with amendments thereto (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 33-70482) (the "1993 Registration Statement")).
3.2	By-laws of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-44027) (the "1992 Registration Statement")).

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3.3	Amendments to the By-laws of the Registrant adopted December 27, 1994 (incorporated herein by reference to Exhibit 3.3 of the Registrant's Current Report on Form 8-K dated January 10, 1995).
4.1	Specimen certificate for the Common Stock (incorporated herein by reference to Exhibit 4.2 to the 1992 Registration Statement).
4.2	Warrant to Purchase Common Stock of the Registrant, dated October 12, 1999 (incorporated herein by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 10-K")).
4.3	Securities Purchase Agreement, dated as of June 11, 2002, by and among the Registrant, Databit, Inc. and Laurus Master Fund, Ltd. ("Laurus") (including the forms of convertible note and warrant) (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 11, 2002).
4.4	Purchase and Security Agreement, dated as of December 4, 2002, made by and between Comverge ("Comverge") and Laurus (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 5, 2002 (the "December 2002 8-K")).
4.5	Convertible Note, dated December 4, 2002, made by and among Comverge, Laurus and, as to Articles III and V only, the Registrant (incorporated herein by reference to Exhibit 10.2 to the December 2002 8-K).
4.6	Common Stock Purchase Warrant, dated December 5, 2002, issued by the Registrant to Laurus (incorporated herein by reference to Exhibit 10.3 to the December 2002 8-K).
4.7	Registration Rights Agreement, dated as of December 4, 2002, by and between the Registrant and Laurus (incorporated herein by reference to Exhibit 10.4 to the December 2002 8-K).
10.1	Employment Agreement between the Registrant and George Morgenstern, dated as of January 1, 1997 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 10-K")).*
10.2	Employment Agreement between the Registrant and Yacov Kaufman, dated as of January 1, 1999 (incorporated herein by reference to Exhibit 10.22 of the Registrants Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K")).*
10.3	1991 Stock Option Plan (incorporated herein by reference to Exhibit 10.4 to the 1992 Registration Statement).*
10.4	1994 Stock Incentive Plan, as amended. (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004(the "2004 10-K")).*
10.5	1994 Stock Option Plan for Outside Directors, as amended (incorporated herein by reference to Exhibit 10.5 to the Registrant's Form 10-K for the year ended December 31, 1995 (the "1995 10-K")).*
10.6	1995 Stock Option Plan for Non-management Employees, as amended (incorporated herein by reference to Exhibit 10.6 to the 2004 10-K).*
10.7	Agreement dated January 26, 2002, between the Registrant and Bounty Investors LLC (incorporated herein by reference to Exhibit 10.12 to the 2000 10-K).

10.8	Lease Agreement, dated February 5, 2002, between Duke-Weeks Realty Limited Partnership and Comverge, (incorporated herein by reference to Exhibit 10.13 to the 2000 10-K).
10.9	Share Purchase Agreement, dated as of November 29, 2001, by and among the Registrant, Decision Systems Israel Ltd., Endan IT Solutions Ltd., Kardan Communications Ltd., Neuwirth Investments Ltd., Jacob Neuwirth (Noy) and Adv. Yossi Avraham, as Trustee for Meir Givon (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 13, 2001).
10.10	Registration Rights Agreement, dated as of December 13, 2002, by and among the Registrant, Kardan Communications Ltd. and Adv. Yossi Avraham, as Trustee for Meir Givon (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated December 13, 2002).
10.11	First Amendment to Employment Agreement, dated as of May 17, 2002, by and between the Registrant and George Morgenstern (incorporated herein by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.*
10.12	Agreement, dated as of February 25, 2003, between the Registrant and J.P. Turner & Company, L.L.C. (incorporated herein by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 10-K").
10.13	Second Amendment to Employment Agreement, dated as of March 12, 2002, between the Registrant and George Morgenstern (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).*
10.14	Amendment to Employment Agreement, dated as of June 1, 2002, between the Registrant and Yacov Kaufman (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).*
10.15	Preferred Stock Purchase Agreement, dated as of April 7, 2003, by and among Comverge, the Registrant and the other investors named therein (incorporated herein by reference to Exhibit 10.29 to the 2002 10-K).
10.16	Investors' Rights Agreement, dated as of April 7, 2003, by and among Comverge, the Registrant and the investors and Comverge management named therein (incorporated herein by reference to Exhibit 10.30 to the 2002 10-K).
10.17	Co-Sale and First Refusal Agreement, dated as of April 7, 2003, by and among Comverge, the Registrant and the investors and stockholders named therein (incorporated herein by reference to Exhibit 10.31 to the 2002 10-K).
10.18	Voting Agreement, dated as of April 7, 2003, by and among Comverge, the Registrant and the other investors named therein (incorporated herein by reference to Exhibit 10.32 to the 2002 10-K).
10.19	Letter Agreement, dated as of April 1, 2003, by and between the Registrant and Laurus (incorporated herein by reference to Exhibit 10.33 to the 2002 10-K).
10.20	Employment Agreement dated as of August 19, 2004 and effective as of January 1, 2004 by and between the Registrant and Shlomie Morgenstern (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*

10.21	Restricted Stock Award Agreement dated as of August 19, 2004, by and between the Registrant and Shlomie Morgenstern (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.22	Stock Option Agreement dated as of August 19, 2004, by and between Shlomie Morgenstern and the Registrant (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.23	Second Amended and Restated Co-Sale And First Refusal Agreement dated as of October 26, 2004, by and among Comverge, Inc., the Registrant and other persons party thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.24	Third Amendment to Employment Agreement, dated as of December 30, 2004, between the Registrant and George Morgenstern(incorporated herein by reference to Exhibit 10.34 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 10-K").*
10.25	Form of Stock Option Agreement to employees under the 1994 Stock Incentive Plan(incorporated herein by reference to Exhibit 10.35 of the 2004 10-K).
10.26	Form of Stock Option Agreement under the 1994 Stock Option Plan for Outside Directors (incorporated herein by reference to Exhibit 10.36 of the 2004 10-K).
10.27	Form of Stock Option Agreement under the 1995 Stock Option Plan for Nonmanagement Employees (incorporated herein by reference to Exhibit 10.37 of the 2004 10-K).
10.28	Stock Option Agreement dated as of December 30, 2004 by and between George Morgenstern and the Registrant (incorporated herein by reference to Exhibit 10.38 of the 2004 10-K).*
10.29	Stock Option Agreement dated as of December 30, 2004 by and between Yacov Kaufman and the Registrant (incorporated herein by reference to Exhibit 10.39 of the 2004 10-K).*
10.30	Stock Option Agreement dated as of December 30, 2004 by and between Sheldon Krause and the Registrant (incorporated herein by reference to Exhibit 10.35 of the 2004 10-K).*
10.31	Stock Purchase Agreement dated as of March 9, 2006 by and between Shlomie Morgenstern, Databit Inc., and Data Systems & Software Inc. (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 16, 2006 (the "2006 8-K")).
10.32	Termination and Release Agreement dated as of March 9, 2006 by and between Shlomie Morgenstern and Data Systems and Software Inc. (incorporated herein by reference to Exhibit A to Exhibit 10.1 to the 2006 8-K).*
10.33	Amendment Agreement to GM Employment Agreement dated as of March 9, 2006 by and between George Morgenstern and Data Systems & Software Inc. (incorporated herein by reference to Exhibit B to Exhibit 10.1 to the 2006 8-K).*
10.34	Amendment Agreement to Purchaser Option Agreements and Restricted Stock Award Agreement dated as of March 9, 2006 by and between Shlomie Morgenstern and Data System's and Software Inc. (incorporated herein by reference to Exhibit C to Exhibit 10.1 to the 2006 8-K).*
10.35	Amendment Agreement to GM Option Agreements and Restricted Stock Agreement dated as of March 9, 2006 by and between George Morgenstern and

	Data System's & Software Inc. (incorporated herein by reference to Exhibit D to Exhibit 10.1 to the 2006 8-K).*
10.36	Consulting Agreement dated as of March 9, 2006 by and between George Morgenstern and Data Systems & Software Inc. (incorporated by reference to Exhibit E to Exhibit 10.1 to the 2006 8-K).*

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10.37	Form of Consent Agreement (incorporated herein by reference to Exhibit F to Exhibit 10.1 to the 2006 8-K.).
14.1	Code of Ethics of the Registrant (incorporated herein by reference to Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
21.1	List of subsidiaries (this exhibit was previously filed with the Registrant's 2005 Annual Report on Form 10-K filed on April 11, 2006).
#23.1	Consent of Kesselman & Kesselman CPA.
#23.2	Consent of PricewaterhouseCoopers LLP.
#31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
#31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
#32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
#32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* This exhibit includes a management contract, compensatory plan or arrangement in which one or more directors or executive officers of the Registrant participate.
# This Exhibit is filed or furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Mahwah, State of New Jersey, on October 19, 2006.

Acorn Factor, Inc.

/s/ John A. Moore

John A. Moore
President and Chief Executive Officer

ACORN FACTOR, INC.
(FORMERLY KNOWN AS DATA SYSTEMS & SOFTWARE INC.)
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF ACORN FACTOR, INC.:

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Acorn Factor, Inc. (formerly known as Data Systems & Software Inc.)

We have audited the consolidated balance sheets of Acorn Factor, Inc. (formerly known as Data Systems & Software Inc., the "Company") and its subsidiaries as of December 31, 2005 and 2004, 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, 2005. These financial statements are the responsibility of the Company's Board of Directors and 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2005 and 2004 and the results of their operations and of their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, the Company has restated its 2005 financial statements as they relate to the results of its equity investment in Comverge, Inc.

April 11, 2006 except for Note 4 as to which the date is October 18, 2006

/s/ Kesselman & Kesselman
Certified Public Accountants
A member of PricewaterhouseCoopers International Limited
Tel-Aviv, Israel

ACORN FACTOR, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS DATA SYSTEMS & SOFTWARE INC.)
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS	As of December 31, 2004	2005
Current assets:		
Cash and cash equivalents	$ 685	$ 913
Short-term bank deposits	72	--
Restricted cash	354	247
Restricted cash (under agreement with a related party)	--	300
Accounts receivable, net	6,069	4,096
Unbilled work-in-process	533	348
Inventory	61	25
Other current assets	540	709
Total current assets	8,314	6,638
Property and equipment, net	649	500
Other assets	737	334
Funds in respect of employee termination benefits	2,836	1,441
Restricted cash – non-current (under agreement with a related party)	--	1,050
Goodwill	4,408	129
Other intangible assets, net	81	81
Total assets	$ 17,025	$ 10,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term bank credit	$ 729	$ 130
Current maturities of long-term debt	466	160
Trade accounts payable	2,283	1,950
Accrued payroll, payroll taxes and social benefits	1,735	740
Other current liabilities	2,227	2,200
Total current liabilities	7,440	5,180
Long-term liabilities:		
Investment in Comverge, net	1,444	1,824
Long-term debt	201	75
Liability for employee termination benefits	4,279	2,264
Other liabilities	65	10
Total long-term liabilities	5,989	4,173
Commitments and contingencies (Note 12)		
Minority interests	1,471	--
Shareholders' equity:		
Common stock - $0.01 par value per share:		
Authorized - 20,000,000 shares; Issued -8,937,395 share at December 31, 2004 and 2005	88	88
Additional paid-in capital	39,733	40,011
Warrants	461	183
Deferred stock-based compensation	(59)	(36)
Accumulated deficit	(34,290)	(35,608)
Treasury stock, at cost - 820,704 shares for December 31, 2004 and 2005	(3,791)	