BackWeb Technologies Ltd.
ANNUAL REPORT
For the Year Ended December 31, 2008

Address of principal executive offices:
10 Ha'amal Street, Park Afek, Rosh Ha'ayin, 48092 Israel
Telephone number: +972-3-9002700

Ordinary Shares, NIS 0.03 par value

As of November 30, 2009, the company had 41,333,704 Ordinary Shares outstanding.

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BackWeb Technologies Ltd. was incorporated in the State of Israel in 1995. Our principal executive offices are located at 10 Ha’amal Street, Park Afek, Rosh Ha’ayin, Israel, 48092. In the United States, our principal executive offices are located at 2077 Gateway Place, Suite 500, San Jose, California 95110. Our Website may be accessed at www.backweb.com; however, the information in, or that can be accessed through, our Website is not part of this Annual Report.

BackWeb, the BackWeb logo, ProactivePortal, Polite, Polite Agent, Polite Neighborcast, Polite Proxy, and Polite Upstream are our registered trademarks and Offline Access Server, e-Accelerator, Polite Sync Server, and Foundation are trademarks of ours that appear in this Annual Report. All other trademarks or trade names appearing elsewhere in this Annual Report are the property of their respective owners.

The terms “BackWeb,” “Company,” “we,” “us,” and “our” as used in this Annual Report refer to BackWeb Technologies Ltd. and its subsidiaries as a combined entity, except where it is made clear that such term means only the parent company.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report contains express or implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. For example, our statements regarding revenue and expense trend expectations, the expected impact our legal proceedings and new business development activities in this Annual Report are forward-looking statements. The words "believes," "expects," "anticipates," "intends," "forecasts," "projects," "plans," "estimates" or similar expressions may identify forward-looking statements. Readers are cautioned not to place undue reliance on our forward-looking statements, as they involve many risks and uncertainties. Our actual results may differ materially from such statements. Factors that may cause or contribute to such differences include those discussed in this Annual Report under the caption "Risk Factors" and elsewhere in this Annual Report. Forward-looking statements reflect our current views with respect to future events and financial performance or operations and speak only as of the date of this report. Except as required by law, we undertake no obligation to issue any updates or revisions to any forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.

Item 1. Business

In our 2007 Annual Report, which was published in October 2008, we reported on the company's major activities during calendar 2007 and during the period from the end of 2007 to the October 2008 publication of the 2007 Annual Report.

This 2008 Annual Report will cover major activities in calendar 2008 and in the period between the end of 2008 and the November 2009 publication of this report.

In our 2007 Annual Report, we reported that the company had three main areas of activity at the beginning of 2008. Those primary areas of activity were:

- identifying ways to monetize the Company's current assets and intellectual property;
- executing on the partnership in the local search market with OneCall Ltd.; and
- managing our traditional business at a much lower level of activity then in preceding years.

In October 2008, as previously reported by press release and the 2007 Annual Report, the company completed a sale of BackWeb's investment in Red Bend Holdings Ltd. for $1.56 million plus future contingency payments in the event of an exit event for Vintage in Red Bend. This transaction closed on October 2, 2008. Since the Red Bend transaction, BackWeb has had no additional asset sale activity.

Since October 2008, the company has worked primarily in two areas, the local search market and our traditional market for communications and offline web software. The activities in these two areas are discussed in detail below.

<u>Local Search Activity and Relationship with OneCall</u>

In the 2007 Annual Report and various press releases in 2008, BackWeb announced its activity with OneCall Ltd. of Israel. BackWeb engaged in a partnership with OneCall as a potential growth opportunity after determining in 2007 that our business was not progressing satisfactorily.

In January 2008, BackWeb announced the signing of a Joint Development Agreement between with OneCall that called for BackWeb to develop software for OneCall's local search / lead generation web service and for BackWeb to work with OneCall to develop their business for the international market outside of their home market in Israel. As part of this agreement, BackWeb developed significant software for the operation of a local search / lead generation business suitable for operating the OneCall business in Israel and in the United States. During 2008, BackWeb and OneCall also negotiated and signed agreements calling for additional transactions between the two companies, including a BackWeb investment in OneCall and BackWeb's transfer of people and assets related to the Joint Development Activity to OneCall in the form of an asset sale and transfer of personnel. The intention was for BackWeb to significantly accelerate OneCall's business through the Joint Development Activity, personnel, assets and investment and thereby take an equity position in OneCall. These agreements, which required shareholder approval, were announced on October 2, 2008 in advance of the shareholder meeting scheduled for November 6, 2008.

In the weeks between the October 2, 2008 announcement and November 6, 2008 shareholder meeting, it became apparent to BackWeb's board of directors and management that the on-going disruptions to global financial markets made it necessary to restructure the agreements between the two companies. BackWeb announced on November 5, 2008 that the proposed transactions had been withdrawn from the agenda of the BackWeb shareholder meeting scheduled for the following day.

On December 11, 2008, BackWeb announced it had reached an agreement with OneCall in which BackWeb terminated the Joint Development Agreement, cancelled the $500,000 receivable due BackWeb under the terms of the Joint Development Agreement, and paid $500,000 in cash in exchange for the intellectual property developed during the course of the joint development agreement (referred to as the "LocalTop IP" in this report). Additionally, BackWeb granted OneCall a royalty free license to utilize the software for its service in Israel.

Since that December 2008 announcement, BackWeb has worked to further develop the software and conducted market research and business development to explore plans for BackWeb's entering the local search market in the United States, dedicating approximately eight full time employees to the effort. Our efforts in this market have been primarily focused on establishing a service that promotes local businesses online on a revenue-share or pay-per-job basis. This model can potentially be attractive to local businesses because it aligns marketing expenses with results in a clearer way than the other approaches – such as fixed fees, pay-per-click or pay-per-lead – commonly available in the market today.

In September 2009, BackWeb began operating a pilot project in the San Francisco Bay Area to test the technical concepts and business processes it developed for the local search market. The activity is being operated under the name LocalTop at http://www.localtop.com and is serving residents of the San Francisco Bay Area only.

BackWeb's future plans for the local search market are still being determined and will depend on the results of the pilot project and the resources of the company for all the activities summarized in this report.

Activity in our traditional market

As previously reported, in January 2008, despite improvements in our 2007 operating results, we had concluded that our prospects for faster revenue growth in our traditional market were not good. The company's traditional market for communications and offline web software showed indications of decline. Revenue for our core products and existing Oracle partner products had been flat for two years, and our Salesforce.com partner service introduced in 2007 did not contribute materially to our revenue. We also saw new competition in the offline web application market from products from Google and Adobe.

In January 2008, we announced a number of actions in addition to the activities with OneCall which were described above. Specifically, we announced:

- layoffs of one-third of our personnel, primarily from sales, marketing and administration and a corresponding expectation that our revenues would decline as a result;
- our plans to support our Foundation and OAS products fully to the end of 2009 and then in a more limited fashion until the end of 2010; and
- our plans to terminate the registration of BackWeb's Ordinary Shares pursuant to the Securities Exchange Act of 1934 in order to eliminate the substantial costs associated with SEC reporting and compliance;

Following our announced deregistration of our ordinary shares, our shares have traded on the Pink Sheets (BWEBF.PK). While trades of our stock on the Pink Sheets is facilitated by a number of market makers, trading on the Pink Sheets does not provide as much liquidity as did trading on the NASDAQ and OTC Bulletin Board markets. As a result, our investors may experience limitations in the amount of stock they can trade at any given time. Although BackWeb has continued to publish Annual Reports since the deregistration of our shares, we have not reported our quarterly earnings on a regular basis, which further impacts liquidity of the stock on the Pink Sheets. BackWeb will continue to publish Annual Reports but may not report its quarterly earnings on a regular basis.

As reported in this report, our revenues did decline by almost one-half (48% decline, from $5.2m to $2.7m) as a result of our elimination of our sales force and the deterioration in offline web application market demand we cited above. We have continued to support customers on maintenance plans in accordance with the support plans announced in January 2008. We continue to provide support and renew support contracts for the period through the end of 2010 for those customers requiring such support. While we have a number of customers who are renewing maintenance for the full period, we also have customers who are not renewing their support contracts and instead are retiring their use of BackWeb's products and/or transitioning to other solutions. Additionally, some customers are discussing extensions of their license agreements with BackWeb as they continue to expand their usage of existing BackWeb solutions. We will continue to work closely with our valued customers to try and meet their individual needs as we finish the announced support periods in 2009 and 2010.

In 2009, with a small business development staff, the company also pursued new licensing opportunities for its Foundation and OAS software and intellectual property. These licensing efforts involved existing BackWeb customers and new customer prospects.

During 2009, patent litigation related to our traditional business was initiated by the company. In 2008 and early 2009, BackWeb conducted due diligence on the opportunity for licensing its intellectual property. In the course of that due diligence, BackWeb's board and management concluded that its intellectual property may have been infringed by other companies in the market. Related to that conclusion, the following legal activities occurred in 2009:

- On March 20, 2009, the company filed a lawsuit in the United States District Court in San Francisco, California against Microsoft Corporation, alleging patent infringement and seeking damages, an injunction and a declaration by the Court that Microsoft's software update technologies infringe BackWeb's patents. In that complaint, BackWeb alleged that Microsoft's Windows BITS communication product and other products infringe three BackWeb patents related to polite, background communication and one BackWeb patent in the peer-to-peer communications area.

- On April 15, 2009 this lawsuit was amended to include Sybase Inc. and its subsidiary iAnywhere Inc. We alleged that the Sybase / iAnywhere Afaria product infringes BackWeb's three polite, background communications patents.

- On June 1, 2009, Microsoft responded to BackWeb's complaint and denied the allegations.

- On July 22, 2009, the company amended the lawsuit to also include Symantec Corporation, alleging that Symantec's Altiris product infringes BackWeb's three polite, background communications patents.

- On September 18, 2009, Microsoft filed a counterclaim against BackWeb that BackWeb's Offline Access Server product infringed Microsoft's U.S. Patent No. 6,493,758.

- On September 30, 2009 the company announced that it had reached a settlement agreement with Sybase under which Sybase acquired a license to the BackWeb patents. The Sybase companies were dismissed from the suit.

- On September 30, 2009 the company also announced that it had received a trial date from the court following a case management conference on September 15. The trial is scheduled for April 4, 2011.

Conclusion

As we report on calendar 2008 and activity through November 2009, the company is now focused on its local search activity and the management of our traditional business including the patent infringement litigation described above. In the remainder of 2009 and in 2010 we intend to determine if there is an opportunity for the company in the local search market and continue the activities in our traditional market described above.

Item 2. Risk Factors

You should consider the following factors, as well as other information set forth in this Annual Report, in connection with any investment in our Ordinary Shares. If any of the risks described below occurs, our business, results of operations and financial condition could be adversely affected. In such cases, the price of our Ordinary Shares could decline, and you could lose part or all of your investment.

Risks Relating to Our Cash Position

The company has limited cash resources which may not be sufficient to cover the current activities in patent litigation and local search.

Our patent litigation effort has on-going expenses and the effort could go on for some time with unpredictable costs against far larger and better funded defendants. Furthermore, our efforts in the local search business requires cash for mostly personnel expense. We may not have enough cash to fully support both activities or see either one through to its optimal results.

Risks Relating to Our Business and Legal Activities

Our patent litigation against Microsoft and Symantec may not be successful and the conclusion could take many years.

Our patent litigation effort may or may not result in a favorable outcome for BackWeb shareholders and the process may take many years to work its way though the courts. The legal standards for successfully proving claims of patent infringement are rigorous, the large companies we have sued are capable and proven at defending themselves against patent claims. Our efforts to achieve what we consider a fair outcome for BackWeb shareholders could fail for many reasons including the time and expense involved in prosecuting the matter, the strength of counterclaims filed by the defendants against BackWeb, the decisions of the judge and jury in the trial and pre-trial proceedings and the process is complex and unpredictable. Indeed the economic return for BackWeb could be negative. However, the company feels that its claims are valid and that it has an obligation to defend and protect its intellectual property, which is a product of a significant research and development investment by the company.

Our efforts in the local search market might not yield a return for BackWeb or its shareholders.

BackWeb continues to employ personnel and spend cash on its business development and product development in the local search / lead generation market as described in Item 1 of this Annual Report. The local search market has many large, established competitors and the market is a difficult one in which to execute with the need to design solutions for consumers whose behavior is hard to predict and the need to work with tens of thousands of small businesses. Our efforts in this market could fail to produce a business that is viable or defendable and therefore our efforts could cost the company money without producing any return.

Our efforts in the local search market may require additional funding in order to reach a viable stage.

BackWeb may not have sufficient cash for its local search / lead generation market activities and may need to seek external funding in order for the efforts to become a viable business. It may not be possible for the company to obtain external funding which means BackWeb could be forced to shut down the activity before it becomes viable and generates any return for BackWeb shareholders. Additionally, if BackWeb does obtain external funding it will dilute BackWeb's share of the local search business and therefore dilute the interest of BackWeb shareholders.

We may not have sufficient insurance to cover all potential product liability and warranty claims.

Our products are integrated into our customers' networks. The sale and support of our products may entail the risk of product liability or warranty claims based on damage to these networks. In addition, the failure of our products to perform to customer expectations could give rise to warranty claims. Although we carry general commercial liability insurance, our insurance may not cover potential claims of this type or may not be adequate to protect us from all liability that may be imposed. Furthermore, our local search pilot activity in the San Francisco Bay Area means we now potentially serve hundreds or thousands of consumers and our exposure to business or insurance claims in this new business area are unpredictable and possibly not covered by our current insurance.

Our expense reduction efforts could impair our ability to operate our core business and reduce our revenues beyond our expectations.

In January 2008 we reduced headcount in an effort to reduce our cash burn. While the headcount reduction did decrease our cash operating expenses, it also limits our ability to support our customers, sustain our maintenance services revenue and new business development activities, all of which could adversely affect our revenues and operating results. If we are not able to operate our business profitably or with a minimal use of cash despite the reduction in our operating expenses, we may not have enough cash to invest in other opportunities such as our patent litigation and our local search activities, or to continue as a going concern.

Our financial performance and workforce reduction may adversely affect the morale and performance of our personnel.

In connection with the evolution of our business model and in order to reduce our cash expenses, we have adopted a number of changes in personnel, including a significant workforce reduction in 2008 and reductions of selected personnel in 2009. The changes in personnel may adversely affect morale and our ability to attract and retain key personnel. In addition, the current trading levels of our Ordinary Shares have decreased the value of many of the stock options granted to employees pursuant to our stock option plan. As a result of these and other factors, we have experienced an increased level of employee departures and our remaining personnel may seek employment with larger, more established companies or companies they perceive to have better prospects. If we continue to experience employee departures, our operations in general could be impacted. None of our officers or other key employees is bound by an employment agreement for any specific term. Our relationships with these officers and key employees are at will. Moreover, we do not have "key person" life insurance policies covering any of our employees.

We have a history of losses and we expect future losses.

Since our inception, we have not achieved profitability, and we expect to continue to incur net losses. We incurred net losses of approximately $0.5 million for the year ended December 31, 2008, $1.6 million for the year ended December 31, 2007 and $3.7 million for the year ended December 31, 2006. As of December 31, 2008, we had an accumulated deficit of $151 million.

Our future quarterly operating results will be difficult to predict.

Given the recent restructuring in our traditional business, end-of-life announcement for our products, unpredictable nature of our patent litigation and local search efforts, our future operating results will be very difficult to predict. Our new license revenue will decrease, and a number of customers will likely not renew their maintenance contracts or contract for professional services, thus decreasing our services revenue as well. Because this decreased level of activity in our current market is new to BackWeb, our financial results at this level of activity are not yet predictable.

Our efforts to protect our proprietary rights may be inadequate.

To protect our proprietary rights, we rely primarily on a combination of patent, copyright, trade secret and trademark laws, confidentiality agreements with employees and third parties, and protective contractual provisions such as those contained in license agreements with customers, consultants and vendors. However, these parties could breach such confidentiality agreements and other protective contracts. In addition, we have not signed confidentiality agreements in every case. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products and obtain and use information that we regard as proprietary. We may not become aware of, or have adequate remedies in the event of, such breaches.

We pursue the registration of some of our trademarks and service marks in the United States and in certain other countries, but we have not secured registration of all our marks. We license certain trademark rights to third parties. Such licensees may not abide by compliance and quality control guidelines with respect to such trademark rights and may take actions that would adversely affect our trademarks.

We do not conduct comprehensive patent searches to determine whether the technology used in our products and services infringes patents held by third parties. Product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, which are confidential when filed, with regard to potentially similar technologies. We expect that software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Although we believe that our products and services do not infringe the proprietary rights of any third parties, third parties could assert infringement claims against us in the future. The defense of any such claims would require us to incur substantial costs and would divert management's attention and resources, which could materially and adversely affect our financial condition and operations. If a party succeeded in making such a claim we could be liable for substantial damages, as well as injunctive or equitable relief that could effectively block our ability to sell our products and services. Royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. Any such outcome could have a material adverse effect on our business, financial condition, operating results and share price.

We may experience tax liabilities in connection with the liquidation of wholly owned subsidiaries that have ceased operations.

As a result of the restructuring plans we announced on July 1, 2001 and September 30, 2002, we ceased commercial operations of the following subsidiaries: BackWeb Technologies B.V., BackWeb Technologies (U.K.) Ltd., BackWeb Technologies S.a.r.l., BackWeb Technologies A.B., BackWeb Canada Inc., and BackWeb K.K. Ltd. We decided to liquidate these companies in order to further streamline our operations and to simplify our legal entity structure. We cannot assure you that we will not have any termination liability issues with the appropriate tax authorities in each jurisdiction. If such termination liability issues were to arise and we did not prevail, we might be required to pay significant taxes and penalties, which could adversely affect our cash balances and results of operations.

Our products and services may be used in an unintended and negative manner.

Our products are used to transmit information through the Internet. Our products could be used to transmit harmful applications, negative messages, unauthorized reproduction of copyrighted material, inaccurate data, or computer viruses to end users in the course of delivery. Any such transmission could damage our reputation or could give rise to legal claims against us. In the past, we have received some comments from end users questioning whether or not BackWeb was a form of spyware. These comments have decreased substantially in the last two years as people became more accustomed to automated communication services and as BackWeb's market presence decreased. In the event that any such questions or allegations reoccur, they could lead to legal or other activities requiring time and money, which could have a material adverse effect on our business.

Risks Relating to Our Ordinary Shares

The deregistration of our Ordinary Shares and trading on The Pink Sheets could have a negative impact on the liquidity and trading price of the Ordinary Shares.

In February 2008, we deregistered our Ordinary Shares with the United States Securities and Exchange Commission. As a result, our shares are no longer eligible to trade on the OTC BB, and our shares now trade on The Pink Sheets. As a result of this change, the ability of our shareholders to trade our shares and obtain liquidity for their shares is more limited than in the past when the shares traded on the OTC BB.

BackWeb's future reporting could be minimal.

BackWeb is no longer subject to SEC regulations that dictate its reporting to shareholders. The Company's desire to minimize costs and maintain confidentiality on sensitive matters where appropriate may lead management to minimize the frequency of its reports to shareholders and the quantity of information it discloses when it provides reports. The reporting frequency and completeness could have an impact on the liquidity of the BackWeb Ordinary shares on The Pink Sheets.

Our principal shareholders own a large percentage of BackWeb and could significantly influence the outcome of actions.

Our principal shareholders, in the aggregate, beneficially owned approximately 26% of our outstanding Ordinary Shares as of December 31, 2008. An officer of an entity in which these principal shareholders have an interest serves as one of our directors. These shareholders, if acting together, would be able to significantly influence all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions.

Holders of our Ordinary Shares who are United States residents could face higher tax rate.

We believe that we will be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our Ordinary Shares and may cause a reduction in the value of such shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset, which produces passive income. Passive income also includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets, which produce passive income. As a result of our cash position and the decline in the value of our stock, we might be considered a PFIC under a literal application of the asset test that looks solely to market value. If we are a PFIC for U.S. federal income tax purposes, holders of our Ordinary Shares who are residents of the United States ("U.S. Holders") would be required, in certain circumstances, to pay an interest charge together with tax calculated at maximum rates on certain "excess distributions," including any gain on the sale of Ordinary Shares.

The consequences described above can be mitigated if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. A shareholder making the QEF election is required for each taxable year to include in income a pro rata share of the net capital gain of the QEF as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the United States Internal Revenue Service, or IRS.

As an alternative to making the QEF election, the U.S. Holder of PFIC stock which is publicly traded could mitigate the consequences of the PFIC rules by electing to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder’s adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years.

All U.S. Holders are advised to consult their own tax advisers about the PFIC rules generally and about the advisability, procedures and timing of their making any of the available tax elections, including the QEF or mark-to-market elections.

Risks Relating to Our Location in Israel

Any major developments in the political or economic conditions in Israel could cause our business to suffer because we are incorporated in Israel and have important facilities and resources located in Israel.

We are incorporated under the laws of the State of Israel. Our research and development facilities, as well as one of our executive offices, are located in Israel. Although substantial portions of our sales are currently made to customers outside of Israel, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could significantly harm our business. Since September 2000, a continuous armed conflict with the Palestinian Authority has been taking place, with increased hostilities since the beginning of 2006. We cannot predict the effect on BackWeb of an increase in the degree of violence in Israel or of any possible military action elsewhere in the Middle East.

Because our revenues are generated in U.S. dollars but a large portion of our expenses is incurred in New Israeli Shekels (NIS), our results of operations may be seriously harmed by currency fluctuations.

We incur a large portion of our costs from operations in Israel in NIS. The U.S. dollar has recently lost value in relation to the NIS. The devaluation of the U.S. dollar means that our NIS-denominated expenses will increase and our NIS-denominated cash balances will decrease upon financial consolidation in U.S. dollars, and our results of operations and financial condition are negatively impacted. If this trend continues, our financial results and financial condition would be further negatively impacted.

Any future profitability may be diminished if tax benefits from the State of Israel are reduced or withheld.

Pursuant to the Law for the Encouragement of Capital Investments, 1959, the Israeli Government has granted “Approved Enterprise” status to our existing capital investment programs. Consequently, we are eligible for tax benefits for the first several years in which we generate taxable income. Our future profitability may be diminished if all or portions of these tax benefits are reduced or eliminated. These tax benefits may be cancelled if we fail to comply with requisite conditions and criteria. Currently the most significant conditions that we must continue to meet include making specified investments in fixed assets, financing at least 30% of these investments through the issuance of capital stock, and maintaining the development and production nature of our facilities. We cannot assure you that the benefits will be continued in the future at their current levels or at any level.

Israeli regulations may limit our ability to engage in research and development and export our products.

Under Israeli law, we are required to obtain an Israeli government license to engage in research and development and the export of the encryption technology incorporated in our products. Our current government license to engage in these activities expires in May 2008. Our research and development activities in Israel, together with our ability to export our products out of Israel, would be limited if the Israeli government revokes our current license, our current license is not renewed, our license fails to cover the scope of the technology in our products, or Israeli law regarding research and development or export of encryption technologies were to change.

Israeli courts might not enforce judgments rendered outside of Israel that may make it difficult to collect on judgments rendered against us.

Some of our directors and executive officers are not residents of the United States and some of their assets and our assets are located outside the United States. Service of process upon these directors and executive officers, and enforcement of judgments obtained in the United States against us, and these directors and executive officers, may be difficult to obtain within the United States. BackWeb Technologies, Inc., our U.S. subsidiary, is the U.S. agent authorized to receive service of process in any action against us in any federal or state court arising out of our initial public offering or any related purchase or sale of securities. We have not given consent for this agent to accept service of process in connection with any other claim.

We have been informed by our legal counsel in Israel, Naschitz, Brandes & Co., that it may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the substance of the applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. Furthermore, there is little binding case law in Israel addressing these matters.

Israeli courts might not enforce judgments rendered outside Israel, which may make it difficult to collect on judgments rendered against us. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that:

- the judgment was rendered by a court that was, according to the laws of the state of the court, competent to render the judgment;
- the judgment may no longer be appealed;
- the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and
- the judgment is executory in the state in which it was given
- Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court also will not declare a foreign judgment enforceable if:
- the judgment was obtained by fraud;
- there was no due process;
- the judgment was rendered by a court not competent to render it according to the laws of private international law in Israel;
- the judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or
- at the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in NIS, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action to recover an amount in non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in NIS at the rate of exchange on the date of payment, but the judgment debtor also may make payment in non-Israeli currency. Pending collection, the amount of the judgment of an Israeli court stated in NIS ordinarily will be linked to the Israel consumer price index plus interest at the annual rate (set by Israeli law) prevailing at that time. Judgment creditors bear the risk of unfavorable exchange rates.

We have adopted anti-takeover provisions that could delay or prevent an acquisition of BackWeb, even if an acquisition would be beneficial to our shareholders.

Provisions of Israel corporate and tax law and of our articles of association, such as our staggered Board, may have the effect of delaying, preventing or making more difficult a merger or other acquisition of BackWeb, even if an acquisition would be beneficial to our shareholders.

Israeli corporate law regulates acquisitions of shares through tender offers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. In addition, our articles of association provide for a staggered board of directors.

Our results of operations may be negatively affected by the obligation of key personnel to perform military service.

Certain of our officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. Although we have operated effectively under these requirements since our inception, we cannot predict the effect these obligations will have on us in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our officers or key employees due to military service. Such military requirement could be increased in the event of war or military action involving Israel.

Item 3. Properties

As of December 31, 2008, BackWeb leased 1,312 square feet in a single office building located in Rosh Ha'ayin, Israel, and 17,600 square feet in a single office building located in San Jose, California. The office space in Rosh Ha'ayin, Israel was leased pursuant to a lease that terminated in June 2008 but which now continues on a month-to-month basis till the negotiated lease agreement will be renewed. The negotiated lease in Rosh Ha'ayin is planned to be expired on December 2009. The office space in San Jose, California is leased pursuant to a lease that expires in January 2010. The majority of the San Jose office space is now subleased. The lease office space in New York was terminated in May 2008. The company maintained a lease on a small office in New Jersey which is leased on an annual basis and was terminated on July 2009. We believe that our current facilities will be adequate to meet our needs for the foreseeable future.

For a more complete discussion of our lease obligations, please refer to Note 7 of the Notes to Consolidated Financial Statements found elsewhere in this Annual Report.

Item 4. Legal Proceedings

On November 13, 2001, BackWeb, six of our officers and directors, and various underwriters for our initial public offering were named as defendants in a consolidated action captioned In re BackWeb Technologies Ltd. Initial Public Offering Securities Litigation, Case No. 01-CV-10000, a purported securities class action lawsuit filed in the United States District Court, Southern District of New York. Similar cases have been filed alleging violations of the federal securities laws in the initial public offerings of more than 300 other companies, and these cases have been coordinated for pretrial proceedings as In re Initial Public Offering Securities Litigation, 21 MC 92. A consolidated amended complaint filed in the case asserts that the prospectus from our June 8, 1999 initial public offering failed to disclose certain alleged improper actions by the underwriters for the offering, including the receipt of excessive brokerage commissions and agreements with customers regarding aftermarket purchases of our Ordinary Shares. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. On or about July 15, 2002, an omnibus motion to dismiss was filed in the coordinated litigation on behalf of defendants, including BackWeb, on common pleadings issues. In October 2002, the Court dismissed all six individual defendants from the litigation without prejudice, pursuant to a stipulation. On February 19, 2003, the Court denied the motion to dismiss with respect to the claims against BackWeb. No trial date has yet been set.

A proposal was made in 2003 for the settlement and for the release of claims against the issuer defendants, including BackWeb, and has been submitted to the Court. We have agreed to the proposal. The settlement is subject to a number of conditions, including approval by the proposed settling parties and the court. In September 2004, an agreement of settlement was submitted to the court for preliminary approval. In 2008, substantial progress toward a final settlement of the matter was reported to BackWeb by our attorneys.

In September 2009, BackWeb was informed by its counsel in this matter that: the parties in the lawsuit have reached a proposed global settlement of the litigation, which presiding Judge Scheindlin preliminarily approved on June 9, 2009; that the Judge Scheindlin held a fairness hearing for final approval of the settlement on September 10, 2009; and that Judge Scheindlin did not rule on the motion for final approval at the hearing and did not indicate when she would do so. On October 5, 2009, Judge Scheindlin issued an order of final approval for the settlement in the IPO securities litigation matters. On October 27, 2009 we were informed that a group of objectors had filed a petition requesting permission to appeal the Court's October 5, 2009. The matter remains on-going.

Under the terms of the proposed settlement, the company and the officer and director defendants (who were previously dismissed from the case pursuant to tolling agreements) would receive complete dismissals from the case, and the company's insurers would pay the settlement share allocated to the company (so the company would bear no financial responsibility under this settlement).

If the settlement does not occur, and litigation against us continues, we believe we have meritorious defenses and intend to defend the case vigorously. However, the results of any litigation are inherently uncertain and can require significant management attention, and we could be forced to incur substantial expenditures, even if we ultimately prevail. In the event there were an adverse outcome, our business could be harmed. Thus, we cannot assure you that this lawsuit will not materially and adversely affect our business, results of operations, or the price of our Ordinary Shares. We have not accrued any fees related to this litigation as we cannot reasonably estimate the probability or the amount of fees that could result from this action.

Additionally, we were named in a judgment during September 2005 for approximately $500,000 related to a claim against our dormant French subsidiary. The judgment is related to a dispute between a former French distributor of ours and one of the distributor's end user customers. While we believe we have additional defenses against the claim and will ultimately not be responsible for payments under the judgment, we accrued approximately $300,000, or approximately one-half of the total judgment against us and the former distributor, in the third quarter of 2005.

As described in Item 1 above, during 2009, patent litigation related to our traditional business was initiated by the company. In 2008 and early 2009, BackWeb conducted due diligence on the opportunity for licensing its intellectual property. In the course of that due diligence, BackWeb's board and management concluded that its intellectual property may have been infringed by other companies in the market. Related to that conclusion, the following legal activities occurred in 2009:

- On March 20, 2009, the company filed a lawsuit in the United States District Court in San Francisco, California against Microsoft Corporation, alleging patent infringement and seeking damages, an injunction and a declaration by the Court that Microsoft's software update technologies infringe BackWeb's patents. In that complaint, BackWeb alleged that Microsoft's Windows BITS communication product and other products infringe three BackWeb patents related to polite, background communication and one BackWeb patent in the peer-to-peer communications area.

- On April 15, 2009 this lawsuit was amended to include Sybase Inc. and its subsidiary iAnywhere Inc. We alleged that the Sybase / iAnywhere Afaria product infringes BackWeb's three polite, background communications patents.

- On June 1, 2009, Microsoft responded to BackWeb's complaint and denied BackWeb's allegations of infringement.

- On July 22, 2009, the company amended the lawsuit to also include Symantec Corporation, alleging that Symantec's Altiris product infringes BackWeb's three polite, background communications patents.

- On September 18, 2009, Microsoft filed a counterclaim against BackWeb that BackWeb's Offline Access Server product infringed Microsoft's U.S. Patent No. 6,493,758.

- On September 30, 2009 the company announced that it had reached a settlement agreement with Sybase under which Sybase acquired a license to the BackWeb patents. The Sybase companies were dismissed from the suit.

- On September 30, 2009 the company also announced that it had received a trial date from the court following a case management conference on September 15. The trial is scheduled for April 4, 2011.

From time to time, we are involved in litigation incidental to the conduct of our business. Apart from the litigation described above, we are not party to any lawsuit or proceeding that, in our opinion, is likely to seriously harm our business.

Please see additional notes on significant legal proceedings related to BackWeb in Item 8 / Note 12: Events after the balance sheet date (unaudited).

Item 5. Submission of Matters to a Vote of Security Holders

On November 6, 2008, we held our 2008 Annual General Meeting of Shareholders at which our shareholders voted on and approved the following matters:

1. Election of Ms. Yael Reznick Cramer as a Class III director (term through the 2011 Annual General Meeting of Shareholders):

For	15,649,667
Withhold Authority	1,262,521

2. Re-election of Ms. Kara Andersen Reiter as an outside director (term through the 2011 Annual General Meeting of Shareholders):

For	15,649,644
Withhold Authority	1,262,544

3. To approve consummation of the Transaction Agreements and completion of the Transaction by BackWeb; Proposal number 3 as set forth in the Proxy Statement distributed to shareholders was withdrawn from the Meeting on the authority of the board of directors of the Company.

4. To approve the incentive compensation to Mr. William Heye

For	1,697,361
Against	172,038
Abstain	34,434
Broker non – votes	15,008,354

5. To ratify the appointment and compensation of our independent public accountants, Deloitte Brightman Almagor & Co.:

For	15,644,736
Against	1,199,789
Abstain	67,661
Broker non – votes	-

6. To approve the grant of incentive stock to Backweb's independent board members:

For	394,107
Against	1,473,422
Abstain	36,305
Broker non – votes	15,008,354

Item 6. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since February 7, 2008, our Ordinary Shares have traded on The Pink Sheets under the symbol BWEBF.PK. From January 16, 2007 through February 6, 2008, our Ordinary Shares were traded on the OTC Bulletin Board Market under the symbol BWEBF.OB. Prior to January 16, 2007, our Ordinary Shares were traded on the Nasdaq Capital Market under the symbol BWEB.

According to the records of our transfer agent, American Stock Transfer & Trust Company, we had 165 shareholders of record as of July 6, 2009. Because many of our Ordinary Shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

Our policy is to reinvest any earnings to fund future operations. Accordingly, we have never declared a dividend and do not anticipate declaring or paying any dividends in the foreseeable future.

If we were to distribute cash dividends out of income that had been exempt from tax because of our investment program's "Approved Enterprise" status (for description of such status please refer to the section entitled "Effective Corporate Tax Rate" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" below) such income would become subject to Israeli corporate tax.

If we were to declare dividends in the future, we would declare those dividends in NIS but pay those dividends to our non-Israeli shareholders in U.S. dollars. Because exchange rates between NIS and the dollar fluctuate continuously, a U.S. shareholder would be subject to currency fluctuation risk between the date when the dividends were declared and the date the dividends were paid.

In 1998, the Israeli currency control regulations were liberalized significantly, and, since January 1, 2003, all exchange control restrictions have been removed, although there are still reporting requirements for foreign currency transactions. There are no longer Israeli currency control restrictions on remittances of dividends on the Ordinary Shares (after deduction of withholding tax) or the proceeds from the sale of the Ordinary Shares, and shareholders may freely convert these amounts into non-Israeli currencies and remit these amounts abroad. However, legislation remains in effect, pursuant to which currency controls can be imposed by administrative action at any time.

There were no repurchases of our Ordinary Shares by us, or on our behalf, during 2008.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with, and is qualified by, the "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this report, as well as "Risk Factors." In addition, this discussion contains forward-looking statements and is, therefore, subject to the overall qualification on forward-looking statements that appears at the beginning of this report.

Business Overview

This section overviews our business and financial results as of the end of 2008. For discussion on the significant events that occurred in 2009 prior to the publication of this 2008 Annual Report, please see Item 1, Item 4 and Item 8 (Note 12).

In our 2007 Annual Report, we stated that our intent in 2008 was to focus on three main areas of activity: managing its traditional, current business at a much lower level of activity; executing on the partnership with OneCall Ltd.; and identifying ways to monetize the Company's current assets and intellectual property. Overall in 2008, we achieved a 70% reduction in our net loss, losing $0.5 million vs. a loss of $1.6 million in 2007. The components of this overall result reflect the actions we announced in 2008 for each of these three main areas of activity.

In January 2008, we announced that we were seeing a decline in our traditional market, that we were significantly scaling back our activities in that business, and that we expected a decline in revenue in 2008. As a result of these actions, we did see a large decrease of 48% or $2.5 million in revenue in 2008 as compared with 2007. Comparing the same periods, we also significantly reduced sales and marketing expenses by 44% or $1.1 million and reduced research and development expenses by a smaller amount of 18% or $0.3 million.

Our work in the Joint Development Agreement and related transactions with OneCall Ltd., announced in January 2008, resulted in our cutting 2008 R&D expenses less than we would have in the absence of that activity. We cut R&D expenses only 18% or $0.3 million in 2008 versus 2007 because we retained more engineering staff than necessary to sustain our traditional business in order to execute on the activity with OneCall. The approximate amount of R&D expense dedicated to the OneCall partnership activity in 2008 was $0.5 million. The activity with OneCall also included G&A expenses which, combined with the G&A efforts to monetize our existing assets, led to a 4% or $0.1 million increase in G&A expenses in 2008 versus 2007.

Our efforts to monetize our existing assets led to the sale of our holdings in Red Bend Ltd. For $1.56 million plus future contingency payments in the event of an exit event for Vintage in Red Bend, which was announced October 14, 2008. This led to a $1.4 million in Interest and Other Income in 2008 as compared to a negligible eight thousand dollars of Interest and Other Income in 2007. The work on the Red Bend related transactions incurred G&A expense and this, along with the work on the OneCall transactions was responsible for the $0.1 million increase in G&A expenses referred to above.

The license revenues realized during 2008 were primarily the result of the large, previously announced OEM sale that resulted in quarterly payments. We also made repeat and add-on sales to existing customers, include a French system integrator for a sales and marketing solution for a major French auto manufacturer. Our services revenue reflected our on-going maintenance and professional services to our customers.

Our current or traditional business has been to offer communications and offline web application technologies and solutions to enterprise customers. Historically, we have derived revenue from licensing our products and from maintenance, consulting and training services. Prior to 2008, we marketed our products worldwide primarily through a direct sales force. Our sales efforts in 2008 were also primarily direct but through a smaller business development effort than the larger sales effort of previous years. We also have generated revenue through business partners. However, we did not see meaningful demand or material revenue from our partnerships with Oracle and Salesforce.com in 2008, and because they required on-going sustaining activity, we terminated those partnerships so as to not incur expenses without corresponding revenues.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. We consider the accounting polices described below to be our critical accounting polices. These critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Consolidated Financial Statements and actual results could differ materially from the amounts reported based on these policies.

Our critical accounting policies are as follows:

- revenue recognition; and
- estimating valuation allowances and accrued liabilities, specifically the trade receivable allowance for doubtful accounts.

Revenue Recognition

Historically, we have derived revenue primarily from software license fees, maintenance service fees, and consulting services paid to us directly by corporate customers and resellers and, to a lesser extent, from royalty fees from OEMs. Revenue derived from resellers is not recognized until the software is sold through to the end user. Royalty revenue is recognized when reported to us by the OEM after delivery of the applicable products. In addition, royalty revenue can arise from the right of OEMs and other distributors to use our products. Royalties are classified by product in the applicable revenue category; license royalties are classified in license revenue and royalties from maintenance arrangements are classified as maintenance revenue. As described below, management estimates must be made and used in connection with the revenue we recognize in any accounting period.

We recognize software license revenue in accordance with Statement of Position 97-2 “Software Revenue Recognition” (“SOP 97-2”), as amended, and SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions” (“SOP 98-9”). SOP 98-9 requires that revenue be recognized under the Residual Method when vendor specific objective evidence (“VSOE”) of fair value exists for all undelivered elements and no VSOE of fair value exists for the delivered elements. Under the “Residual Method,” any discounts in the arrangement are allocated to the delivered elements.

When contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the “Residual Method” prescribed by SOP 98-9. Maintenance revenue included in these arrangements is deferred and recognized on a straight-line basis over the term of the maintenance agreement. The VSOE of fair value of the undelivered elements (maintenance, training, and consulting services) is determined based on the price charged for the undelivered element when sold separately.

Revenue from software license agreements is recognized when all of the following criteria are met as set forth in SOP 97-2: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is probable. We do not generally grant a right of return to our customers. When a right of return exists, we defer revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met. 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 license our products on a perpetual and on a term basis. We recognize license revenue arising from perpetual licenses and multi-year term licenses in the accounting period that all revenue recognition criteria have been met, which is generally upon delivery of the software to the end user. For term licenses with a contract period of less than two years, revenue is recognized on a monthly basis.

At the time of each transaction, we assess whether the fee associated with our license sale is fixed or determinable. If the fee is not fixed or determinable, we recognize revenue as payments become due from the customer provided that all other revenue recognition criteria have been met. In determining whether the fee is fixed or determinable, we compare the payment terms of the transaction to our normal payment terms. We assess the likelihood of collection based on a number of factors, including past transaction history, the credit worthiness of the customer and, in some instances, a review of the customer’s financial statements. We do not request collateral from our customers. If credit worthiness cannot be established, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon the receipt of cash.

Service revenue is primarily comprised of revenue from standard maintenance agreements and consulting services. Customers licensing products generally purchase the standard annual maintenance agreement for the products. We recognize revenue from maintenance over the contractual period of the maintenance agreement, which is generally one year. Maintenance is priced as a percentage of the license revenue. For those agreements where the maintenance and license is quoted as one fee, we value the maintenance as an undelivered element at standard rates and recognize this revenue over the contractual maintenance period. Consulting services are billed at an agreed-upon rate, plus out-of-pocket expenses. We generally charge for our consulting services on a time and materials basis and recognize revenue from such services as they are provided to the customer. We account for fixed fee service arrangements in a similar manner to an agreement containing an acceptance clause. Our arrangements do not generally include acceptance clauses. However if an acceptance provision exists, then we defer revenue recognition until we receive written acceptance of the product from the customer.

Deferred revenue includes amounts billed to customers and cash received from customers for which revenue has not been recognized.

Estimating Valuation Allowances and Accrued Liabilities, Including the Allowance for Doubtful Accounts

Management continually reviews the collectibility of trade accounts receivable and the adequacy of the allowance for doubtful accounts against the trade accounts receivable. Management specifically analyzes customer accounts, account receivable aging reports, history of bad debts, the business or industry sector to which the customer belongs, customer concentrations, customer credit-worthiness, current economic trends, and any other pertinent factors. Generally, we make a provision for doubtful accounts when a trade receivable becomes 90 days past due. In exceptional cases, we will waive a provision after a trade receivable is 90 days or more past due when, in the judgment of management, after conducting due diligence with the management of the customer, the receivable is still collectible and the customer has demonstrated that payment is imminent. During 2008, management's review of the allowance for doubtful accounts resulted in an expense increase of $11,000

Management believes that it is able to make reasonably objective judgments on the adequacy of other provisions relating to trade accruals. We have not made any provision for contingent liabilities which has involved significant management judgment that either we will prevail in the case of material litigation or that we have sufficient insurance to cover any adverse outcome. A discussion of our outstanding material litigation is contained in Item 4 "Legal Proceedings" of this Form Annual Report.

Results of Operations

The following table sets forth the results of operations, for the periods indicated, expressed as a percentage of total revenue.

	Year Ended December 31,		
	2008	2007	2006
Revenue:			
Licenses	5%	25%	39%
Licenses subject to contract accounting	38%	24%	0%
Services	57%	51%	61%
Total revenue	100%	100%	100%
Cost of revenue:			
Licenses	0%	2%	1%
Licenses subject to contract accounting	1%	1%	0%
Services	8%	13%	16%
Total cost of revenue	9%	16%	17%
Gross profit	91%	84%	83%
Operating expenses:			
Research and development	56%	35%	46%
Sales and marketing	53%	48%	76%
General and administrative	54%	27%	41%
Restructuring	0%	5%	0%
Total operating expenses	162%	115%	164%
Loss from operations	-72%	-31%	-81%
Interest and other income, net	53%	0%	4%
Net loss	-18%	-31%	-77%

Revenue

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Revenue								
Licenses	$ 145	$1,296	$(1,151)	-89%	$1,296	$1,868	$ (572)	-31%
Licenses subject to contract accounting	1,000	1,250	(250)	-20%	$1,250	-	1,250	-
Services	1,519	2,610	(1,091)	-42%	$2,610	2,928	(318)	-11%
Total revenue	$2,664	$5,156	$(2,492)	-48%	$5,156	$4,796	$ 360	8%

We derive revenue from licensing and providing maintenance and consulting services for our BackWeb Offline Access Server (OAS), BackWeb Polite Sync Server, and BackWeb e-Accelerator products. The decrease in total revenue in 2008 as compared to 2007 was due to BackWeb's announcement on January 31, 2008 that it would substantially decrease its sales and marketing personnel and activity while continuing to support its products through December 2010 for customers that are current on their maintenance agreements. BackWeb will provide customers full support, including maintenance software releases and technical support services as it does today, through December 2009 and technical support only through the end of 2010. The increase in total revenue in 2007 as compared to 2006 was due to a large license sale, which is captioned as "licenses subject to contract accounting" in the table above and in the statement of operations. As of the end of 2008, an additional $0.75 million was still owed to BackWeb on the contract in periodic payments through the third quarter of 2009. As of July 31, 2009, the remaining amount of $750,000 had been paid to the company and there are no further payments on this contract.

For 2008 as compared to 2007, services revenue declined in 42% as a result of BackWeb's announcement on January 31, 2008 that it would substantially decrease its sales and marketing personnel and activity while continuing to support its products through December 2010 for customers that are current on their maintenance agreements. These announcements caused some customers to decline renewals on their maintenance agreements and other customers to reduce the professional services for which they contracted with BackWeb. Still, other customers did renew their maintenance contracts with BackWeb.

For 2007 as compared to 2006, services revenue declined as the result of a 19% reduction in professional services revenue and a 7% decrease in maintenance revenue. Our customers utilize our professional services during the installation and configuration of our software.

We have limited visibility to forecast revenue for 2009, and therefore we are unable to quantify future overall trends in our total revenue. However, in the sections below we discuss expected trends in the individual components of our total revenue and in our product revenue mix.

Customers outside of the United States accounted for 17%, 12% and 23% of our total revenue in the years ended December 31, 2008, 2007 and 2006, respectively. The variations in the mix of revenue generated in the United States as compared to the revenue generated outside of the United States is partially due to the small number of deals closed in these periods, as each individual deal had a greater impact on the composition of our revenue and the significant variability in the value of these deals.

In 2008, one customer accounted for 37% of revenue. In 2007, one customer accounted for 24% of revenue. In 2006, one customer accounted for 12% of revenue. We expect that a small number of customers will continue to account for a substantial portion of our total revenue and that revenue from one or more of these customers may represent more than 10% of our total revenue in the future.

License Revenue, including Licenses Subject to Contract Accounting

In 2008, total license revenue, including from licenses subject to contract accounting, decreased by 55% as compared to 2007. License revenue in 2008 included $1million in connection with a large license sale, which is captioned as "licenses subject to contract accounting" in the table above and in the statement of operations. As of the end of 2008, an additional $0.75 million was still owed to BackWeb on the contract in periodic payments through the third quarter of 2009. As of July 30, 2009, the remaining amount of $750,000 had been paid to the company and there are no further payments on this contract.

In 2007, total license revenue, including from licenses subject to contract accounting, increased by 38% as compared to 2006. License revenue in 2007 included $1.25 million in connection with a large license sale, which is captioned as "licenses subject to contract accounting" in the table above and in the statement of operations. As of the end of 2007, an additional $1.75 million was still owed to BackWeb on the contract in periodic payments through the third quarter of 2009. As of June 30, 2008, an additional $500,000 had been paid to the company and $1.25 million was still owed to BackWeb on the same contract.

During 2009, we expect license revenue to decrease as a result of the end in Q3/2009 of the quarterly payments for a large OEM contract previously announced, further impact from our reduced sales and marketing efforts announced in January 2008, and overall depressed market conditions impacting the macro economy and enterprise software budgets. In 2009, BackWeb will continue to pursue, via a small business development team, selected new license opportunities with new and existing customers.

Service Revenue

Service revenue consists of maintenance, consulting and training services. In general, we experience an increase in consulting revenues in the quarters following license sales, and the vast majority of consulting revenue has been related to deployments of our OAS product.

The decrease in services revenue in 2008 as compared to 2007 was related to declines in software license installations and to a decline in customer maintenance renewals.

The decrease in services revenue in 2007 as compared to 2006 was related to declines in software license installations and to a decline in customer maintenance renewals.

During 2009, we expect services revenue to decrease as a result of expiration of existing maintenance contracts, limited renewals of existing maintenance contracts, further impact from our reduced sales and marketing efforts announced in January 2008, and overall depressed market conditions impacting the macro economy and enterprise software budgets. In 2009, BackWeb will continue to pursue, via a small business development team, selected new license opportunities with new and existing customers and there may be services opportunities associated with any of these opportunities, if any are realized.

Cost of Revenue

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Cost of revenue								
Licenses	$ 1	$ 110	$ (109)	-99%	$ 110	$ 64	$ 46	72%
Licenses subject to contract accounting	23	77	(54)	-70%	$ 77	-	77	-
Services	226	654	(428)	-65%	$ 654	762	(108)	-14%
Total cost of revenue	$ 250	$ 841	$ (591)	-70%	$ 841	$ 826	$ 15	2%
% of revenue	9%	16%			16%	17%		

In 2008, cost of revenue decreased as a percentage of revenue as compared to 2007, primarily due to low costs in relation to revenue for license, our source code license sale to a customer, for which we made modifications to the software for the customer and services.

In 2007, cost of revenue decreased slightly as a percentage of revenue as compared to 2006, primarily due to low costs in relation to revenue for our source code license sale to a customer, for which we made modifications to the software for the customer.

Operating Expenses

Research and Development

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Research and development expense	$1,483	$1,818	$ (335)	-18%	$1,818	$2,211	$ (393)	-18%
% of revenue	56%	35%			35%	46%		

Research and development expenses consist of personnel, equipment and supply costs for our development efforts. We charge these expenses to operations as they are incurred. Our research and development facilities are located in Israel.

In 2008, research and development expenses declined as compared to 2007, primarily due to layoff of R&D personnel at the beginning of 2008 and due to reduction of the facilities space in Rosh Haayin, Israel.

In 2007, research and development expenses declined as compared to 2006, primarily due to our subleasing most of our facilities space in San Jose, California, and also due to a reduction in stock-based compensation expense due to the expiration of old stock options.

We have reduced research and development personnel and spending in 2009 as we scale back our operations to conserve cash as we adopt a new strategic plan.

Sales and Marketing

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Sales and marketing expense	$1,408	$2,493	$ (1,085)	-44%	$2,493	$3,655	$ (1,162)	-32%
% of revenue	53%	48%			48%	76%		

Sales and marketing expenses consist of personnel and related costs for our direct sales force and our product management, marketing, business development, and operations management employees, together with the costs of marketing programs, including trade shows and other related direct expenses and general overhead.

In 2008, sales and marketing expense decreased as compared to 2007 as the result of layoff of sales, pre-sales, and marketing personnel at the beginning of 2008.

In 2007, sales and marketing expense decreased as compared to 2006 as the result of subleasing most of our facilities space in San Jose, California, eliminating the use of consultants in marketing and terminating a salesperson in late 2006.

We have substantially reduced sales and marketing spending in 2009 reflecting our scaled-back operations and our intention to conserve cash as we adopt a new strategic plan.

General and Administrative

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
General and administrative expense	$ 1,428	$ 1,374	$ 54	4%	$ 1,374	$ 1,981	$ (607)	-31%
% of revenue	54%	27%			27%	41%		

General and administrative expenses consist primarily of personnel and related costs and outside services for general corporate functions, including finance, accounting, general management, human resources, information services, and legal, as well as the provision for bad debts.

In 2008, general and administrative expense increased as compared to 2007 primarily due to a legal adviser cost for One Call transaction.

In 2007, general and administrative expense declined as compared to 2006 primarily due to a decline in employee count, subleasing most of our facilities space in San Jose, California, and a credit to bad debt expense.

We have substantially reduced general and administrative spending in 2009, reflecting our scaled-back operations and our efforts to conserve cash as we adopt a new strategic plan.

Restructuring Expense

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Restructuring Expense	$ -	$249	$ (249)	-100%	$249	$ -	$ 249	-
% of revenue	0%	5%			5%	0%		

Restructuring expense includes severance costs and impairments of long-lived assets in connection with management actions to substantially reduce expense in order to reorient the business.

In 2007, restructuring expense included $135,000 of severance costs and $114,000 of impairments of prepaid royalties in connection with employee terminations carried out in early 2008, and the substantial scaling back of our sales activities.

In 2005, we recorded a credit to restructuring expense upon incurring less actual severance costs than we had estimated when we accrued those costs in 2004. The 2004 restructuring plan involved terminating 19 employees throughout the Company, including our Chief Executive Officer and Chief Financial Officer.

Interest and Other Income, Net

	Year Ended December 31,				Year Ended December 31,			
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentages)							
Interest and other income (expense), net	$1,414	$ 8	$1,406	17575%	$ 8	$170	$ (162)	-95%
% of revenue	53%	0%			0%	4%		

Interest and other income, net includes interest income earned on our cash, cash equivalents and short-term investments, offset by interest expense and the effects of exchange gains and losses arising from the re-measurement of transactions in foreign currencies.

In 2008, the increase in interest and other income as compared to 2007 was primarily due to sale of its equity stake in Red Bend Ltd. On Thursday, October 2, 2008 BackWeb completed the sale of its equity stake in Red Bend Ltd., a private Israeli company ("Red Bend"), for $1.56 million plus possible future contingency payments. BackWeb had invested a total of $1 million in Red Bend in 2000 and 2002 and the investment was written down to zero on the Company's Balance sheet in 2003 due to uncertainty at that time in Red Bend's financial condition and future prospects.

In 2007, the decrease in interest and other income as compared to 2006 was primarily due to a 36% reduction in average cash balance in 2007 as compared to 2006, as well as lower average interest rates in the period.

In 2009, we expect interest income to decline as our cash balances decline due to continuing losses.

Income Taxes

There is no provision for income taxes because we have incurred operating losses since our inception. As of December 31, 2007, we had approximately $175 million of Israeli net operating loss carry forwards and $6.4 million of U.S. federal and state net operating losses carry forwards, available to offset future taxable income. The U.S. federal and state net operating loss carry forwards expire in varying amounts between the years 2008 and 2025. The Israeli net operating loss carry forwards have no expiration date.

Off-Balance Sheet Financings and Liabilities

Off-Balance Sheet Arrangement. We provide indemnifications of varying scope and size to certain customers against claims of intellectual property infringement made by third parties arising from the use of our products. Management evaluates estimated losses for such indemnifications under SFAS No. 5, “Accounting for Contingencies,” as interpreted by FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees.” Management considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. As of December 31, 2008, we had not encountered material costs as a result of such obligations and had not accrued any liabilities related to such indemnifications in our consolidated financial statements.

Liquidity and Capital Resources

As of December 31, 2008, we had $2.7 million of cash and cash equivalents as compared to $2.9 million as of December 31, 2007.

Net cash used in operating activities was $0.3 million and $1.5 million for the years ended December 31, 2008 and 2007, respectively, and was primarily used to fund our ongoing operational needs. The $1.2 million decrease in cash used in operating activities was primarily due to a $1.2 million reduction in operating expenses in 2008 as compared to 2007. Cash used in investment activities for the year ended December 31, 2008 was $13,000, which primarily reflects purchase of property and equipment. Cash provided by investment activities for the year ended December 31, 2007 was $2.0 million, which primarily reflects the amount of cash transferred from short-term investments to fund our operations during 2007.. Cash provided by financing activities was $26,000 and $5,000 for the years ended December 31, 2008 and 2007, respectively, and consisted of long term liability and proceeds from the issuance of Ordinary Shares under our employee stock plans, respectively.

One June 30, 2008 the company’s previous line of credit with a lender expired. Related to our leased office space in San Jose, California, we have an outstanding $225,000 letter of credit. This lease deposit is not a draw down of the line of credit and therefore does not bear interest. Any draw down of the line of credit would bear interest at the Prime rate. We renewed the letter of credit in June 2009 till February 2010 with a cash deposit as security.

As of December 31, 2008, we had no material commitments for capital expenditures. Our capital requirements depend on numerous factors, including market acceptance of our products, the resources we devote to developing, marketing, selling and supporting our products and the timing and extent of establishing additional operations.

We believe that our current cash and cash equivalents balances will be sufficient to fund our operations for at least the next 12 months. However, since our inception we have not achieved profitability, and we expect to continue to incur net losses for the foreseeable future.

Contractual Obligations

The following table summarizes our contractual obligations under non-cancelable operating leases with initial terms in excess of one year at December 31, 2008 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

Payments due by period:	
2009	$ 483,000
2010	35,000
	$ 518,000

We did not have long-term debt obligations, capital lease obligations, or purchase obligations as of such date.

Effective Corporate Tax Rates

Our tax rate reflects a mix of the U.S. statutory tax rate on our U.S. income, European country tax rates on our individual European country income and the Israeli tax rate discussed below. We expect that most of our future taxable income will be generated in Israel. Israeli companies were generally subject to corporate tax at the rate of 27% of their taxable income in 2008. Pursuant to tax reform legislation that came into effect in 2003, the corporate tax rate is to undergo further staged reductions to 25% by the year 2010. In order to implement these reductions, the corporate tax rate is scheduled to decline to 27% in 2008, 26% in 2009, and 25% in 2010. However, the rate is effectively reduced for income derived from an Approved Enterprise. The majority of our income is derived from our capital investment program with “Approved Enterprise” status under the Law for the Encouragement of Capital Investments, and is eligible therefore for tax benefits. As a result of these benefits, we expect to have a tax exemption on income derived during the first two years in which this investment program produces taxable income, provided that we do not distribute such income as a dividend, and a reduced tax rate of 10% to 25% for the following five to eight years, depending upon the proportion of foreign ownership of BackWeb.

On April 1, 2005, an amendment to the Law for the Encouragement of Capital Investments in Israel came into effect, which revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a Privileged Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the amendment provides tax benefits to both local and foreign investors and simplifies the approval process. The amendment does not apply to investment programs approved prior to December 31, 2004. The new tax regime will apply to new investment programs only.

As a result of the amendment, tax-exempt income generated under the provisions of the new law will subject us to taxes upon distribution or liquidation and we may be required to record deferred tax liability with respect to such tax-exempt income. We are currently evaluating the impact the amendment will have on us. Based on our preliminary analysis, it will not adversely affect our 2008 financial statements.

All of these tax benefits are subject to various conditions and restrictions. We cannot assure you that we will obtain approval for additional Approved Enterprise Programs, or that the provisions of the law will not change.

Since we have incurred tax losses through December 31, 2008, we have not yet used the tax benefits for which we are eligible. See “Risk Factors — Risks Relating to Our Business — Any future profitability may be diminished if tax benefits from the State of Israel are reduced or withheld.”

Impact of Inflation and Currency Fluctuations

Most of our sales are denominated in U.S. dollars. However, we incur a large portion of our costs from our operations in Israel. A substantial portion of our operating expenses, primarily our research and development costs, are denominated in NIS. Costs not denominated in U.S. dollars are translated to U.S. dollars when recorded, at prevailing rates of exchange. This is done for the purposes of our financial statements and reporting. Costs not denominated in U.S. dollars will increase if the rate of inflation exceeds the devaluation of the foreign currency as compared to the U.S. dollar or if the timing of such devaluations lags considerably behind inflation. Consequently, we are, and will be, affected by changes in the prevailing exchange rate. We might also be affected by the U.S. dollar exchange rate to the major European currencies due to the fact that we do business in Europe. To date these fluctuations have not been material.

Item 8. Financial Statements and Supplementary Data

(a) Quarterly Financial Summary

The following are summaries of consolidated quarterly financial data for the years ended December 31, 2008 and 2007:

	2008				2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 767	$ 720	$ 596	$ 581	$1,173	$1,377	$1,371	$1,235
Gross profit	675	653	547	539	963	1,095	1,161	1,096
Operating expense	1,080	1,146	1,005	1,088	1,467	1,400	1,360	1,707
Net profit/(loss)	(374)	(512)	(484)	879	(479)	(301)	(208)	(623)
Basic and diluted net profit/(loss) per share	$ (0.01)	$ (0.01)	$ (0.01)	$ 0.02	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)

(b) Financial Statements

The following consolidated financial statements and the related notes thereto of BackWeb Technologies Ltd. and the Report of the Independent Public Accountants are filed as a part of this Annual Report.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of BackWeb Technologies Ltd.

We have audited the accompanying consolidated balance sheets of BackWeb Technologies Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and as of December 31, 2007 and the related consolidated statement of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31,2008. 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.

The financial statements of the Company for the year ended December 31, 2006 were audited by other auditors whose report, dated March 26, 2007 on those statements expressed an unqualified opinion.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2008 and 2007 and the consolidated results of their operations and their consolidated cash flows for each of the two years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Brightman Almagor & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
November 30, 2009

BACKWEB TECHNOLOGIES LTD.
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,673	$ 2,948
Accounts receivable, net of allowance for doubtful accounts of $70 and $59, respectively	213	1,105
Other current assets	221	450
Total current assets	3,107	4,503
Property and equipment, net	46	102
Other non-current assets	501	53
Total assets	$ 3,654	$ 4,658
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 79	$ 125
Accrued liabilities	1,413	1,635
Deferred revenue	280	558
Total current liabilities	1,772	2,318
Long Term Liabilities	26	-
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Ordinary Shares, nominal value NIS 0.03 per share; 152,854,103 shares authorized at December 31, 2008 and 2007, respectively; 41,333,704 and 41,333,704 shares issued and outstanding at December 31, 2008 and 2007, respectively	152,385	152,378
Accumulated deficit	(150,529)	(150,038)
Total shareholders' equity	1,856	2,340
Total liabilities and shareholders' equity	$ 3,654	$ 4,658

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

BACKWEB TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share data)		
Revenue:			
Licenses	$ 145	$ 1,296	$ 1,868
Licenses subject to contract accounting	1,000	1,250	-
Services	1,519	2,610	2,928
Total revenue	2,664	5,156	4,796
Cost of revenue:			
Licenses	1	110	64
Licenses subject to contract accounting	23	77	-
Services	226	654	762
Total cost of revenue	250	841	826
Gross profit	2,414	4,315	3,970
Operating expenses:			
Research and development	1,483	1,818	2,211
Sales and marketing	1,408	2,493	3,655
General and administrative	1,428	1,374	1,981
Restructuring	-	249	-
Total operating expenses	4,319	5,934	7,847
Loss from operations	(1,905)	(1,619)	(3,877)
Interest and other income (loss), net	1,414	8	170
Net loss	$ (491)	$ (1,611)	$ (3,707)
Basic and diluted net loss per share	$ (0.01)	$ (0.04)	$ (0.09)
Weighted-average number of shares used in computing basic and diluted net loss per share	41,334	41,319	41,250

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

BACKWEB TECHNOLOGIES LTD.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Ordinary Shares					
	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2005	**41,140,813**	**$ 151,763**	**$ (2)**	**$ (144,720)**		**$ 7,041**
Issuance of Ordinary Shares pursuant to options exercised and ESPP purchases, net	163,181	74				74
Stock-based compensation		421				421
Comprehensive loss:						
Net loss				(3,707)	(3,707)	(3,707)
Unrealized income on available for sale marketable securities			2		2	2
Total comprehensive loss					(3,705)	
Balance at December 31, 2006	**41,303,994**	**$ 152,258**	**$ -**	**$ (148,427)**		**$ 3,831**
Issuance of Ordinary Shares pursuant to ESPP purchases, net	29,710	4				4
Stock-based compensation		116				116
Comprehensive loss:						
Net loss				(1,611)	(1,611)	(1,611)
Unrealized income on available for sale marketable securities			-		-	-
Total comprehensive loss					(1,611)	
Balance at December 31, 2007	**41,333,704**	**$ 152,378**	**$ -**	**$ (150,038)**		**$ 2,340**
Stock-based compensation		7				7
Comprehensive loss:						
Net loss				(491)	(491)	(491)
Unrealized income on available for sale marketable securities						-
Total comprehensive loss					(491)	
Balance at December 31, 2008	**41,333,704**	**$ 152,385**	**$ -**	**$ (150,529)**		**$ 1,856**

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

BACKWEB TECHNOLOGIES LTD.CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(In thousands)	
Operating Activities		
Net loss	$ (491)	$ (1,611)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	87	87
Stock-based compensation	7	116
(Reversal of) provision for doubtful accounts	11	(118)
Changes in operating assets and liabilities:		
Accounts receivable	881	382
Other current and non-current assets	(237)	34
Accounts payable and accrued liabilities	(268)	12
Deferred revenue	(278)	(390)
Total adjustments	203	123
Net cash used in operating activities	(288)	(1,488)
Investing Activities		
Net proceeds from sales of short-term investments	-	2,068
Purchases of property and equipment	(13)	(63)
Net cash (used in)/ provided by investing activities	(13)	2,005
Financing Activities		
Proceeds from issuance of Ordinary Shares	-	5
Long term liabilities	26	-
Net cash provided by financing activities	26	5
Net (decrease)/increase in cash and cash equivalents	(275)	522
Cash and cash equivalents at beginning of period	2,948	2,426
Cash and cash equivalents at end of period	$ 2,673	$ 2,948

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

BACKWEB TECHNOLOGIES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

BackWeb Technologies Ltd. was incorporated under the laws of Israel in August 1995 and commenced operations in November 1995. BackWeb Technologies Ltd. and its subsidiaries (collectively, "BackWeb," or "the Company") is a provider of communications and offline Web infrastructure that enables companies to communicate their content, data and web applications to their customers, partners and employees. The Company's products address the need of mobile users who are disconnected from a network to access and transact with critical enterprise Web content, such as sales tools, forecast management, contact lists, service repair guides, expense report updates, pricing data, time sheets, collaboration sessions, work orders and other essential document and applications. The Company's products are designed to reduce network costs and improve the productivity of increasingly mobile workforces. The Company sells its products primarily to end users from a variety of industries, including the telecommunications, financial and computer industries, through its direct sales force, resellers, OEMs and sales/marketing partners.

The BackWeb group of companies consists of wholly owned subsidiary operating , BackWeb Technologies, Inc., a U.S. corporation.

BackWeb Canada, Inc., a Canadian corporation; BackWeb Technologies GmbH, a German corporation; and BackWeb Technologies Europe Limited, a United Kingdom corporation ceased commercial operations in various years ranging from 2002 to 2008.

Other subsidiaries ceased commercial operations in January 2002 but continue to be wholly owned subsidiaries. These subsidiaries are registered as BackWeb Technologies (U.K.) Ltd., a United Kingdom corporation, and BackWeb Technologies S.a.r.l., a French corporation. Other subsidiaries ceased commercial operations in September 2001 and were formally dissolved during 2004.

The Company believes that its current cash and cash equivalents balances will be sufficient to fund its operations for at least the next 12 months. However, since its inception the Company has not achieved profitability and expects to continue to incur net losses for the foreseeable future.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles.

Local Search Activity and Relationship with OneCall

In the 2007 Annual Report and various press releases in 2008, BackWeb announced its activity with OneCall Ltd. of Israel. BackWeb engaged in a partnership with OneCall as a potential growth opportunity after determining in 2007 that our business was not progressing satisfactorily.

In January 2008, BackWeb announced the signing of a Joint Development Agreement with OneCall that called for BackWeb to develop software for OneCall's local search / lead generation web service and for BackWeb to work with OneCall to develop their business for the international market outside of their home market in Israel. As part of this agreement, BackWeb developed significant software for the operation of a local search / lead generation business suitable for operating the OneCall business in Israel and in the United States. During 2008, BackWeb and OneCall also negotiated and signed agreements calling for additional transactions between the two companies, including a BackWeb investment in OneCall and BackWeb's transfer of people and assets related to the Joint Development Activity to OneCall in the form of an asset sale and transfer of personnel. The intention was for BackWeb to significantly accelerate OneCall's business through the Joint Development Activity, personnel, assets and investment and thereby take an equity position in OneCall. These agreements, which required shareholder approval, were announced on October 2, 2008 in advance of the shareholder meeting scheduled for November 6, 2008.

In the weeks between the October 2, 2008 announcement and November 6, 2008 shareholder meeting, it became apparent to BackWeb's board of directors and management that the on-going disruptions to global financial markets made it necessary to restructure the agreements between the two companies. BackWeb announced on November 5, 2008 that the proposed transactions had been withdrawn from the agenda of the BackWeb shareholder meeting scheduled for the following day.

On December 11, 2008, BackWeb announced it had reached an agreement with OneCall in which BackWeb terminated the Joint Development Agreement, cancelled the $500,000 receivable due BackWeb under the terms of the Joint Development Agreement, and paid $500,000 in cash in exchange for the intellectual property developed during the course of the joint development agreement (referred to as the "LocalTop IP" in this report). Additionally, BackWeb granted OneCall a royalty free license to utilize the software for its service in Israel.

Since that December 2008 announcement, BackWeb has worked to further develop the software and conducted market research and business development to explore plans for BackWeb's entering the local search market in the United States, dedicating approximately eight full time employees to the effort. Our efforts in this market have been primarily focused on establishing a service that promotes local businesses online on a revenue-share or pay-per-job basis. This model can potentially be attractive to local businesses because it aligns marketing expenses with results in a clearer way than the other approaches – such as fixed fees, pay-per-click or pay-per-lead – commonly available in the market today.

In September 2009, BackWeb began operating a pilot project in the San Francisco Bay Area to test the technical concepts and business processes it developed for the local search market. The activity is being operated under the name LocalTop at http://www.localtop.com and is serving residents of the San Francisco Bay Area only.

BackWeb's future plans for the local search market are still being determined and will depend on the results of the pilot project and the resources of the company for all the activities summarized in this section.

2. Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of the consolidated financial statements, applied on a consistent basis, are:

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are based on historical experience, input from sources outside of the Company, and other relevant facts and circumstances. Actual results could differ from these estimates.

Financial Statements in U.S. Dollars

The Company prepares its financial statements in U.S. dollars, which is also its functional currency. Most of the revenue generated is in U.S. dollars. A significant portion of the Company's research and development expenses is incurred in New Israeli Shekels ("NIS"). However, most of the expenses are denominated and determined in U.S. dollars. Since the U.S. dollar is the primary currency in the economic environment in which BackWeb conducts its operations, the U.S. dollar is the functional and reporting currency of BackWeb Technologies Ltd. and its subsidiaries.

Monetary accounts maintained in currencies other than the U.S. dollar are re-measured using the foreign exchange rate at the balance sheet date in accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translations." Operational accounts and non-monetary balance sheet accounts are measured and recorded in current operations at the rate in effect at the date of the transaction. The foreign currency re-measurement effect included in interest and other income, net for the years ended December 31, 2008, 2007 and 2006 was a loss of $5,000, a loss of $77,000 and a loss of $55,000, respectively.

Principles of Consolidation

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

Cash Equivalents

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

Long-Term Investments

Investments in non-marketable securities in which the Company holds less than 20% of the capital stock of the entity are recorded at the lower of cost or estimated fair value, since the Company does not have the ability to exercise significant influence over operating and financial policies of the investee.

Other Long-Term Assets

Other long-term assets are primarily comprised of security deposits related to leased facilities which are recorded at cost.

Property and Equipment, Net

Property and equipment are stated at cost, net of accumulated depreciation. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Computers and peripheral equipment	2-3
Office furniture and equipment	3
Leasehold improvements	Over the shorter of term of lease or estimated life

The Company's property and equipment are reviewed for impairment in accordance with Statement of Financial Accounting Standard ("SFAS") 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. Impairment of assets to be held and used is assessed by a comparison of the carrying amount of the asset group 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition

The Company derives revenue primarily from software license fees, maintenance service fees, and consulting services paid directly by corporate customers and resellers and, to a lesser extent, from royalty fees from OEMs. Revenue derived from resellers is not recognized until the software is sold through to the end user. Royalty revenue is recognized when reported to the Company by the OEM after delivery of the applicable products. In addition, royalty revenue can arise from the right to use the Company's products. Royalties are classified by product in the applicable revenue category; license royalties are classified in license revenue and royalties from maintenance arrangements are classified as maintenance revenue. As described below, management estimates must be made and used in connection with the revenue the Company recognizes in any accounting period.

The Company recognizes software license revenue in accordance with Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended, by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" ("SOP 98-9"). SOP 98-9 requires that revenue be recognized under the Residual Method when vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements and no VSOE of fair value exists for the delivered elements. Under the "Residual Method," any discounts in the arrangement are allocated to the delivered element.

When contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, the Company accounts for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9. Maintenance revenue included in these arrangements is deferred and recognized on a straight-line basis over the term of the maintenance agreement. The VSOE of fair value of the undelivered elements (maintenance, training, and consulting services) is determined based on the price charged for the undelivered element when sold separately.

Revenue from software license agreements is recognized when all of the following criteria are met as set forth in SOP 97-2: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. The Company does not generally grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met. 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.

The Company licenses its products on a perpetual and on a term basis. It recognizes license revenue arising from perpetual licenses and multi-year term licenses in the accounting period that all revenue recognition criteria have been met, which is generally upon delivery of the software to the end user. For term licenses with a contract period of less than two years, revenue is recognized on a monthly basis.

At the time of each transaction, the Company assesses whether the fee associated with its license sale is fixed and determinable. If the fee is not fixed or determinable, the Company recognizes revenue as payments become due from the customer provided that all other revenue recognition criteria have been met. In determining whether the fee is fixed or determinable, the Company compares the payment terms of the transaction to its normal payment terms. The Company assesses the likelihood of collection based on a number of factors, including past transaction history, the credit worthiness of the customer and, in some instances, a review of the customer's financial statements. The Company does not request collateral from its customers. If credit worthiness cannot be established, the Company defers the fee and recognizes revenue at the time collection becomes reasonably assured, which is generally upon the receipt of cash.

Service revenue is comprised primarily of revenue from standard maintenance agreements and consulting services. Customers licensing products generally purchase the standard annual maintenance agreement for the products. The Company recognizes revenue from maintenance over the contractual period of the maintenance agreement, which is generally one year. Maintenance is priced as a percentage of the license revenue. For those agreements where the maintenance and license is quoted as one fee, the Company values the maintenance as an undelivered element at standard rates and recognizes this revenue over the contractual maintenance period. Consulting services are billed at an agreed-upon rate, plus out-of-pocket expenses. The Company generally charges for consulting services on a time and materials basis and recognize revenue from such services as they are provided to the customer. The Company accounts for fixed fee service arrangements in a similar manner to an agreement containing an acceptance clause. The Company's arrangements do not generally include acceptance clauses. However, if an acceptance provision exists, then the Company defers revenue recognition until written acceptance of the product from the customer is received.

Deferred revenue includes amounts billed to customers and cash received from customers for which revenue has not been recognized.

Research and Development

Research and development expenditures are charged to operations as incurred. SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model. The Company generally does not incur any significant costs between the completion of the working model and the point at which the product is ready for general release. Through December 31, 2008 the Company had recognized all software development costs as research and development expense in the period incurred.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This Statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using 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.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, short-term investments, forward exchange contracts and trade accounts receivable. The Company's cash and cash equivalents generally consist of money market funds with high credit quality financial institutions and corporate securities of corporations, which management believes are financially sound and are managed by major banks in the United States. Such investments 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 with respect to these investments. The Company has established guidelines relative to credit ratings, diversification and maturity that seek to maintain safety and liquidity. At December 31, 2008, the Company did not have any outstanding forward exchange contracts, and, accordingly, there was no credit risk associated with such investments. At December 31, 2008, the Company had no off-balance-sheet concentration of credit risk such as option contracts or other foreign hedging arrangements.

The Company sells its products to customers primarily in North America and Europe. The Company performs ongoing credit reviews of its customers' financial condition and generally does not require collateral. The Company maintains reserves to provide for estimated credit losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection.

Net Loss per Share

Basic net loss per share is comprised of the weighted average number of Ordinary Shares outstanding each year.

Diluted net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during the year plus potentially dilutive Ordinary Shares considered outstanding during the year in accordance with SFAS No. 128, “Earnings per Share.”

The following table presents the calculation of the basic and diluted net loss per Ordinary Share (in thousands, except per share data):

	Year Ended December 31,		
	2008	2007	2006
Net loss	$ (491)	$ (1,611)	$ (3,707)
Basic and diluted:			
Weighted-average shares	41,334	41,319	42,030
Less weighted-average shares subject to forfeiture	-	-	(780)
Weighted-average number of shares used in computing basic and diluted net loss per share	41,334	41,319	41,250
Basic and diluted net loss per share	$ (0.01)	$ (0.04)	$ (0.09)

All, outstanding stock options and warrants have been excluded from the calculation of the diluted net loss per share because all such securities are considered to be anti-dilutive for all periods presented in the statements of operations. The total number of Ordinary Shares related to outstanding options and warrants excluded from the calculations of diluted net loss per share were 3,398,614, 4,651,408 and 5,699,092for the years ended December 31, 2008, 2007 and 2006, respectively.

Accounting for Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 123R, “Share Based Payment” (“SFAS No. 123R”), which revised SFAS No. 123, “Accounting for Stock Based Compensation” (“SFAS No. 123”). SFAS No. 123R requires all share-based payments to employees, or to non-employee directors as compensation for service on the Board of Directors, to be recognized as compensation expense in the consolidated financial statements based on the fair values of such payments. The Company maintains shareholder approved stock-based compensation plans, pursuant to which it grants stock-based compensation to its employees, and to non-employee directors for Board service. These grants are primarily in the form of options that allow a grantee to purchase a fixed number of shares of the Company’s Ordinary Shares at a fixed exercise price equal to the market price of the shares at the date of the grant. The options may vest on a single date or in tranches over a period of time, but normally they do not vest unless the grantee is still employed by, or is a director of, the Company on the vesting date. The compensation expense for these grants will be recognized over the requisite service period, which is typically the period over which the stock-based compensation awards vest.

The Company made no modifications to outstanding options with respect to vesting periods or exercise prices prior to adopting SFAS No. 123R. In March 2005, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 107 (“SAB No. 107”), which provides guidance on the implementation of SFAS 123R. The Company applied the principles of SAB No. 107 in conjunction with its adoption of SFAS No. 123R.

The Company adopted SFAS No. 123R effective January 1, 2006, using the modified-prospective transition method. Under this transition method, compensation expense will be recognized based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R for all new grants effective January 1, 2006, and for options granted prior to but not vested as of December 31, 2005. Prior periods were not restated to reflect the impact of adopting the new standard and therefore do not include compensation expense related to stock-based award grants for those periods.

Stock-based compensation expense and the related income tax benefit recognized under SFAS No. 123R in the Consolidated Income Statements in connection with stock options and the ESPP for the year ended December 31, 2006 was as follows:

The Company has not provided an income tax benefit for stock-based compensation expense for current and prior year periods, since it is more likely than not that the deferred tax assets associated with this expense will not be realized. To the extent the Company realizes deferred tax assets associated with the stock-based compensation expense in the future, the income tax effects of such and event may be recognized at that time.

The adoption of SFAS No. 123R had a material effect on the Company's financial results during the year ended December 31, 2006. The Company's net loss for the year ended December 31, 2006 increased by approximately $421,000 as a result of the adoption of SFAS No. 123R. Basic and diluted net loss per share for the year ended December 31, 2006 was $0.01 higher than if the Company had continued to account for stock-based compensation under APB 25.

Fair Value of Financial Instruments

The Company used the following methods and assumptions in estimating the fair value disclosures for financial instruments.

The carrying amounts of cash and cash equivalents, trade accounts receivable and trade accounts payable approximate their fair value due to the short-term maturity of such instruments.

The fair value for marketable securities is based on quoted market prices.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations" ("SFAS 141(R)") and SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statement" ("SFAS 160"). SFAS 141(R) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values and changes other practices under FAS 141, some of which could have a material impact on how we account for business combinations. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. SFAS 160 requires entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. We are required to adopt SFAS 141(R) and SFAS 160 simultaneously in our fiscal year beginning January 1, 2009. The provisions of SFAS 141(R) will only impact the Company if it is a party to a business combination after the pronouncement has been adopted. The Company does not expect that the adoption of SFAS 160 will have a significant impact on its financial statements.

In February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective for the company beginning January 1, 2009. The company does not expect the impact of this adoption to be material.

In April 2008, the FASB issued FSP 142-3. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142, and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142's entity-specific factors. FSP 142-3 is effective for us beginning January 1, 2009. The provisions of FSP 142-3 will only impact the Company if it is a party to a business combination after the pronouncement has been adopted. The Company does not expect that the adoption of FSP 142-3 will have a significant impact on its financial statements.

3. Other Current Assets

Other current assets consist of the following (in thousands):

	December 31, 2008	December 31, 2007
Deferred rent	$ 47	$ 102
Call option in OneCall Contract Centers Ltd.	-	100
Facilities bank guarantee	-	91
Prepaid insurance	54	38
Institutions	92	-
Other	28	119
	$ 221	$ 450

The call option listed above represents the right for the Company to invest $1.0 million in Ordinary Shares of OneCall Contact Centers Ltd. The call option was extended twice during 2008 in total cost of $70,000 based on the terms of a financing completed in late 2007. Once BackWeb's Board Withdraws OneCall Transaction Proposal from November 6, 2008 Shareholder Meeting Agenda, the option was not extended and expired.

4. Property and Equipment, Net

Property and equipment, net consists of the following (in thousands):

	December 31, 2008	December 31, 2007
Computers and peripheral equipment	$ 3,391	$ 3,378
Leasehold improvements	1,106	1,106
Office furniture and equipment	163	163
	4,660	4,647
Less: accumulated depreciation	(4,614)	(4,545)
Property and Equipment, net	$ 46	$ 102

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was $69,000, $87,000 and $156,000, respectively.

5. Other non - current assets

Other non - current assets consists mainly of the intellectual property “LocalTop IP” that was acquired by the company in December 2008.

The LocalTop IP developed so far by BackWeb consists of software developed to operate a "lead generation business" for local businesses. It is designed to match consumer service requests with appropriate local service provider businesses. It consists of a web site and a backend CRM system.

The company aquired the LocalTop IP from OneCall Ltd. in December 2008 for $500,000. Since then the company has continued development of the software so it is applicable to the U.S. market. As of the time of this report’s publication, the software has been developed to a production status. It is now handling live consumer service requests and billing service providers in the company’s pilot test of the business concept and the technology in the San Francisco Bay Area as described in other sections of this Annual Report.

The LocalTop IP will be amortized over 3 years.

6. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2008	December 31, 2007
Accrued employee compensation	$ 478	$ 712
Accrued Legal	528	555
Other	407	368
	$ 1,413	$ 1,635

7. Commitments and Contingencies

Leases

The Company leases its office facilities under cancelable and non-cancelable operating leases. Future rental payments on a fiscal year basis under non-cancelable operating leases with initial terms in excess of one year are as follows:

2009	$ 483
2010	35
	$ 518

Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accounts for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. However, the results of any litigation or dispute are inherently uncertain and, and this time, no estimate could be made regarding the loss or range of loss, if any, from certain litigation matters and disputes except as noted below. Accordingly, the Company has not recorded any liabilities relating to these contingencies as of December 31, 2008 except as noted below. Legal fees are expensed as incurred.

On November 13, 2001, BackWeb, six of its officers and directors, and various underwriters for its initial public offering were named as defendants in a consolidated action captioned In re BackWeb Technologies Ltd. Initial Public Offering Securities Litigation, Case No. 01-CV-10000, a purported securities class action lawsuit filed in the United States District Court, Southern District of New York. Similar cases have been filed alleging violations of the federal securities laws in the initial public offerings of more than 300 other companies, and these cases have been coordinated for pretrial proceedings as In re Initial Public Offering Securities Litigation, 21 MC 92. A consolidated amended complaint filed in the case asserts that the prospectus from the Company's June 8, 1999 initial public offering failed to disclose certain alleged improper actions by the underwriters for the offering, including the receipt of excessive brokerage commissions and agreements with customers regarding aftermarket purchases of the Company's Ordinary Shares. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. On or about July 15, 2002, an omnibus motion to dismiss was filed in the coordinated litigation on behalf of defendants, including BackWeb, on common pleadings issues. In October 2002, the Court dismissed all six individual defendants from the litigation without prejudice, pursuant to a stipulation. On February 19, 2003, the Court denied the motion to dismiss with respect to the claims against BackWeb. No trial date has yet been set.

A proposal was made in 2003 for the settlement and for the release of claims against the issuer defendants, including BackWeb, has been submitted to the Court. The Company has agreed to the proposal. The settlement is subject to a number of conditions, including approval by the proposed settling parties and the court. In September 2004, an agreement of settlement was submitted to the court for preliminary approval. In 2008, substantial progress toward a final settlement of the matter was reported to BackWeb by our attorneys.

In September 2009, BackWeb was informed by its counsel in this matter that: the parties in the lawsuit have reached a proposed global settlement of the litigation, which Judge Scheindlin preliminarily approved on June 9, 2009; that the Judge Scheindlin held a fairness hearing for final approval of the settlement on September 10, 2009; and that Judge Scheindlin did not rule on the motion for final approval at the hearing and did not indicate when she would do so.

On October 5, 2009, Judge Scheindlin issued an order of final approval for the settlement in the IPO securities litigation matters. On October 27, 2009 we were informed that a group of objectors had filed a petition requesting permission to appeal the Court's October 5, 2009. The matter remains on-going.

Under the terms of the proposed settlement, the company and the officer and director defendants (who were previously dismissed from the case pursuant to tolling agreements) would receive complete dismissals from the case, and the company's insurers would pay the settlement share allocated to the company (so the company would bear no financial responsibility under this settlement).

If the settlement does not occur, and litigation against the Company continues, the Company believes it has meritorious defenses and intends to defend the case vigorously. However, the results of any litigation are inherently uncertain and can require significant management attention, and the Company could be forced to incur substantial expenditures, even if the Company ultimately prevails. In the event there were an adverse outcome, the Company’s business could be harmed. Thus, the Company cannot assure you that this lawsuit will not materially and adversely affect its business, results of operations, or the price of its Ordinary Shares. The Company has not accrued any fees related to this litigation as it cannot reasonably estimate the probability or the amount of fees that could result from this action.

Additionally, the Company was named in a judgment during September 2005 for approximately $500,000 related to a claim against its dormant French subsidiary. The judgment is related to a dispute between a former French distributor of the Company and one of the distributor’s end user customers. While the Company believes it has additional defenses against the claim and will ultimately not be responsible for payments under the judgment, against the Company accrued approximately $300,000, or approximately one-half of the total judgment against distributor, in the third quarter of 2005.

Line of Credit

In April 2007, the Company renewed its bank line of credit. The amended line of credit provides for borrowings of up to $1.5 million, compared to $500,000 under the previous line of credit agreement. There was no amount outstanding at December 31, 2007 and the line of credit expired on June 30, 2008. The Company decided not to renew the line of credit.

Related to its leased office space in San Jose, California, the Company has an outstanding $225,000 letter of credit, which is included under the line of credit. This lease deposit is not a draw down of the line of credit and therefore does not bear interest. Any draw down of the line of credit would bear interest at the Prime rate. The Company renewed the letter of credit in June 2009 till February 2010 with a cash deposit as a security.

8. Shareholders’ Equity

Ordinary Shares

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Under current Israeli law the Company cannot declare and pay a dividend unless the Company has a positive balance of retained earnings from which the dividend may be declared and paid. If the Company were to declare dividends in the future, the Company would declare those dividends in NIS but pay those dividends to its non-Israeli shareholders in U.S. dollars. Because exchange rates between NIS and the dollar fluctuate continuously, a U.S. shareholder would be subject to currency fluctuation between the date when the dividends were declared and the date the dividends were paid. The Company has not paid dividends in the past.

Preferred Shares

The Company is authorized to provide for the issuance of up to 50,000,000 shares of undesignated preferred shares, none of which had been issued at December 31, 2008.

Stock Option Plans

Under the 1996 Israel Stock Option Plan (the “1996 Israel Plan”), the Company is authorized to grant options to purchase Ordinary Shares to its Israeli employees and other eligible participants. Options granted under the 1996 Israeli Plan expire seven years from the date of grant and terminate upon the termination of the option holder’s employment or other relationship with BackWeb. The options under the 1996 Israel Plan will vest as determined by the plan administrator and generally vest over a four-year period. The 1996 Israel Plan does not have a termination date. Stock options cancelled or forfeited are credited back to the stock option pool.

Under the 1996 U.S. Stock Option Plan (the “1996 U.S. Plan”), the Company is authorized to grant incentive stock options to employees and non-statutory stock options to employees, officers, directors and consultants at BackWeb or any other member of the BRM group. Options granted under the 1996 U.S. Plan expire no later than seven years from the date of grant and generally vest over a four-year period. BackWeb is no longer granting options under the 1996 U.S. Plan. In the event of merger, sale or dissolution of the Company, all options will terminate immediately, except to the extent a successor corporation assumes the options.

Under the 1998 U.S. Option Plan (the “1998 U.S. Plan”), the Company is authorized to grant incentive stock options to employees and non-statutory stock options and share purchase rights to employees, directors and consultants. Options and share purchase rights under the 1998 U.S. Plan will vest as determined by the plan administrator and, if not assumed or substituted by a successor corporation, will accelerate and become fully vested in the event of an acquisition of the Company. The exercise price of options and share purchase rights granted under the 1998 U.S. Plan will be as determined by the plan administrator, although the exercise price of incentive stock options must not be less than the fair market value of the underlying Ordinary Shares at the date of the grant. Options granted under the 1998 U.S. Plan generally vest over four years. Stock options cancelled or forfeited are credited back to the stock option pool. The plan administrator may amend, modify or terminate the 1998 U.S. Plan at any time as long as such amendment, modification or termination does not impair vesting rights of 1998 U.S. Plan participants. The 1998 U.S. Plan will terminate in 2008, unless terminated earlier by the plan administrator.

Effective July 1, 2000, the Company amended the 1998 U.S. Plan and the 1996 Israel Plan (the “Plans”) to adopt an annual increase provision, commonly referred to as an “evergreen” provision, to each of the Plans. These amendments provide for an automatic increase on each anniversary beginning July 1, 2000 in the number of shares authorized for issuance under the Plans equal to the lesser of (a) an aggregate amount equal to 1,960,000 shares, (b) 5% of the outstanding shares on such date, or (c) an amount to be determined by the Board of Directors. The total annual increase will be allocated 70% to the 1998 U.S. Plan and 30% to the 1996 Israel Plan, unless the Board of Directors determines a different allocation. Therefore, for the 1996 Israel Plan, the amount of the increase would be equal to the lesser of 588,000 shares, or 1.5% of the outstanding shares on such date, unless the Board of Directors determines a different allocation between the Plans or decides on a lesser amount. Also, for the 1998 U.S. Plan the amount of the increase would be equal to the lesser of 1,372,000 shares or 3.5% of the outstanding shares on such date, unless the Board of Directors determines a different allocation between the Plans or decides on a lesser amount.

In addition to the automatic annual increase on July 1, 2000, the Company approved an additional increase in the shares available under the 1998 U.S. Plan and the 1996 Israel Plan to increase the shares available under the Plans by 1,894,622 shares as of June 30, 2000. The total amount of the increase was allocated 70% to the 1998 U.S. Plan and 30% to the 1996 Israel Plan, which was 1,326,235 shares for the 1998 U.S. Plan and 568,387 shares for the 1996 Israel Plan.

In addition to the automatic annual increase on July 1, 2001, the Company approved an additional increase in the Ordinary Shares available under the 1998 Plan and the 1996 Israel Plan to increase the total Ordinary Shares available under the Plans by an aggregate of 2,500,000 Ordinary Shares, as of June 30, 2001. The total amount of the increase was allocated 60% (1,500,000 Ordinary Shares) to the 1998 Plan and 40% (1,000,000 Ordinary Shares) to the 1996 Israel Plan. During the years ended 2004, 2005 and 2006, there were no increases beyond the automatic annual increase.

In March 2009, the company’s board approved a grant of stock options to employees. In conjunction with the grant, the company approved a 2009 United States Equity Incentive Plan to replace the previously expired 1998 U.S. Share Option Plan. The stock options granted were in accordance with the terms and conditions of the newly adopted 2009 United States Equity Incentive Plan and the existing 1996 Israeli Option Plan. The total number of options granted was 2,434,968 and the vesting schedule was monthly over the course of two years.

Employee Stock Purchase Plan has not been offered to the Company’s employees since the beginning of 2008.

In 2003, the Company adopted an amendment to its 1996 Israel Plan. In accordance with the terms and conditions imposed by Section 102 of the Israel Income Tax Ordinance, grantees that receive options under the 2003 amendment to the 1996 Israel Plan are afforded certain tax benefits (excluding controlling shareholders of the Company or those who are not employees or directors of the Company). The Company has elected the benefits available under a “capital gains” alternative. There are various conditions that must be met in order to qualify for these benefits, including registration of the options in the name of a trustee (the “Trustee”) for each of the employees who is granted options. Each option, and any Ordinary Shares acquired upon the exercise of the option, must be held by the Trustee for a period commencing on the date of grant and ending no earlier than 24 months after the end of the tax year in which the option was granted and deposited in trust with the Trustee.

There were options to purchase 3,198,614, 4,451,408 and 4,614,467 shares exercisable as of December 31, 2008, 2007 and 2006, respectively. No options were exercised during 2008. At December 31, 2008, the option price of all outstanding options was higher than the ending stock price.

Warrants Issued

As part of its settlement of lease obligations with its landlord in San Jose, California, in November 2003, the Company issued warrants to purchase 200,000 Ordinary Shares. These warrants were valued at $0.66 per Ordinary Share, and expire seven years from the date of issuance. The Company recorded a charge of $120,000 related to the warrants during 2003.

9. BackWeb Technologies Inc. 401(k) Plan

The Company offers a defined contribution plan (the "Plan") for eligible employees in the U.S. During 2007, participants in the Plan were allowed to contribute up to the lower of 25% of their compensation or $15,000 in the Plan. The participants are 100% vested in the Plan at the time of contribution. The Company does not make contributions to the Plan.

10. Income Taxes

Israeli Income Taxes

Measurement of Taxable Income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2, the Company's financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with SFAS No. 109, the Company has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities.

Tax Benefits Under the Israeli Law for the Encouragement of Industry (Taxation), 1969:

The Company is currently viewed as qualifying as an "industrial company" under the Israeli Law for the Encouragement of Industry (Taxation), 1969 and, as such, is entitled to certain tax benefits, including accelerated rates of depreciation, deduction of public offering expenses in three equal annual installments and deduction of 12.5% per annum on the purchase know-how and a patent to be used in furthering development.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959:

The Company's production facilities have been granted the status of "Approved Enterprise" by the Israel government under the law for the Encouragement of Capital Investments, 1959 (the "Law") for two separate investment programs. The Company has elected the alternative benefits program, waiver of grants in return for tax-exemptions. Pursuant thereto, income derived in Israel from the "Approved Enterprise" entitles the Company to tax exemption for a period of two years commencing in the first year that it will earn taxable income from the Approved Enterprise. After this the Company is entitled to a reduced tax rate of 10%-25% for an additional 5 to 8 year period (depending on the rate of foreign investment in BackWeb in the relevant year). The tax benefit period is limited to the earlier of 12 years from the date the Approved Enterprise was activated or 14 years from receiving the approval. In addition, the Company is entitled to take a tax deduction in respect of accelerated depreciation on the approved investment in fixed assets. Accordingly, the period of benefits relating to these investment programs will expire in the years 2009 through 2014. Thereafter, BackWeb will be subject to the regular corporate tax rate on its Israel income. Income from sources other than the Approved Enterprise will be subject to tax at the regular rate.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated in the Investment Law and the regulations thereunder and the criteria set forth in the applicable certificate of approval issued by the Israeli Investment Center. If BackWeb fails to meet certain conditions as stipulated by law and the Approval Certification, it could be subject to corporate tax in Israel at the regular corporate rate and could be required to refund tax benefits already received at that time (inclusive of linkage adjustment to the Israeli CPI and interest).

The Company has completed its investments of its two investments programs. As of December 31, 2008, the tax benefit period had not commenced.

The tax-exempt profits that will be earned by the Company's "Approved Enterprise" can be distributed to shareholders without imposing tax liability on the Company upon the complete liquidation of the Company. BackWeb currently has no plans to distribute such tax-exempt income as dividend and intends to retain future earnings to finance the development of the business. If the retained tax-exempt income were distributed in a manner other than in the complete liquidation of BackWeb, it would be taxed at the corporate tax rate applicable to such profits.

As of December 31, 2008, BackWeb had approximately $176 million of Israeli net operating loss carry-forwards. The Israeli loss carry forwards have no expiration date. The Company expects that during the period these losses are utilized, its income would be substantially tax-exempt. Accordingly, there will be no tax benefit available from such losses and no deferred income taxes have been included in these financial statements.

11. Accounting for and Disclosure of Guarantees

Guarantor's Accounting for Guarantees. The Company from time-to-time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; (ii) certain agreements with the Company's officers, directors and employees and third parties, under which the Company may be required to indemnify such persons for liabilities arising out of their duties to the Company and (iii) agreements under which the Company indemnifies customers and partners for claims arising from intellectual property infringement.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make any payments for such obligations, and no liabilities have been recorded for these obligations on its balance sheet as of December 31, 2008 and 2007.

The Company warrants to its customers that its software products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally 90 days but may vary depending upon the country in which the software is sold. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no warranty claims. Due to thorough product testing, the short time between product shipments and the detection and correction of product failures, no history of warranty claims, and the fact that no significant warranty issues have been identified, the Company has not recorded a warranty accrual to date.

The Company has entered into certain real estate leases that require the Company to indemnify property owners against certain environmental and other liabilities and other claims.

Other Liabilities and Other Claims. The Company is responsible for certain costs of restoring leased premises to their original condition, and in accordance with the recognition and measurement provisions of SFAS 143, *"Accounting for Asset Retirement Obligations,"* the Company measured the fair value of these obligations and determined them to be immaterial.

12. Events after the balance sheet date (unaudited)

<u>Patent litigation related to our traditional business:</u>

On March 20, 2009, BackWeb announced that it filed a lawsuit in the United States District Court in San Francisco, California against Microsoft Corporation, alleging patent infringement and seeking damages, an injunction and a declaration by the Court that Microsoft's software update technologies infringe BackWeb's patents. BackWeb alleged Microsoft's Background Intelligent Transfer Service (BITS), Windows Update and other products infringe four U.S. patents owned by BackWeb covering methods for transmitting information between a remote network and a local computer and distributed client-based data caching systems. The Microsoft products at issue are used for, among other things, regularly updating the Microsoft Windows operating system, Internet Explorer browser, and Office applications. Additionally, the BITS product is used by other companies developing applications on the Windows operating system.

On April 15, 2009, BackWeb announced that it had amended the patent infringement lawsuit it filed on March 20, 2009 in the United States District Court in San Francisco, California, to include Sybase and its subsidiary iAnywhere as additional defendants in the action BackWeb initially filed against Microsoft. BackWeb is seeking damages, an injunction and a declaration by the Court that Sybase's/iAnywhere's software products infringe BackWeb's patents. BackWeb alleged the Sybase/iAnywhere Afaria product infringes three U.S. patents owned by BackWeb covering methods for transmitting information between a remote network and a local computer. The lawsuit against Microsoft alleged infringement of the same three patents, as well as a fourth BackWeb patent. The Sybase/iAnywhere Afaria product is used by companies for centrally managing devices, including managing and updating the data, content and software on the devices.

On June 1, 2009 and on September 18, 2009, Microsoft filed its "Answer and Counterclaims" and "Amended Answer and Counterclaims" with the court, respectively. In it's June 1, 2009 response it denied the allegations in BackWeb's complaint. In the September 14, 2009 response, Microsoft alleged BackWeb's infringement of a Microsoft patent, United States Patent No. 6,493,758 entitled "Offline Viewing Of Internet Content With A Mobile Device."

On June 25, 2009, Sybase filed its "Answer and Counterclaims" with the court. In it, Sybase alleges BackWeb's infringement of two Sybase patents, United States Patent No. 7,373,362 entitled "Coordinated Synchronization" and United States Patent No. 6,839,744 entitled "System, Method, and Computer Programming Product for Administering Channels, Content, and Data for Mobile Devices"

On July 22, 2009 BackWeb announced that it had amended the patent infringement lawsuit it filed on March 20, 2009 in the United States District Court in San Francisco, California, to include Symantec Corporation as an additional defendant in the action BackWeb initially filed against Microsoft and subsequently against Sybase Inc. and its subsidiary iAnywhere. BackWeb is seeking damages, an injunction and a declaration by the Court that Symantec's software products infringe BackWeb's patents. BackWeb alleges the Symantec Altiris product infringes three U.S. patents owned by BackWeb covering methods for transmitting information between a remote network and a local computer. The Symantec Altiris product is used by companies for centrally managing IT infrastructures.

One August 14, 2009, Symantec Corporation filed its "Answer, Affirmative Defenses, and Counterclaims" with the court.

One September 29, 2009, BackWeb announced that it has reached a settlement in its previously announced patent infringement litigation with Sybase, Inc. and its subsidiary iAnywhere Solutions, Inc. Under the agreement, Sybase acquired a license to the BackWeb patents in question and each company's claims against the other were resolved. Terms of the agreement remained confidential. The Sybase companies were dismissed from the suit.

On September 29, 2009, BackWeb also announced that on September 15th, United States District Judge Claudia Wilken of the Northern District Court of California issued orders concerning case scheduling. A trial date was set for April 4, 2011.

In these patent-related legal proceedings, BackWeb is being represented by San Francisco law firm Hosie Rice LLP. A copy of the complaints referenced above and the court order from the September 15, 2009 Case Management Conference is available on our web site in the news section.

Events related to the Initial Public Offering Securities Litigation, Case No. 01-CV-10000, a purported securities class action lawsuit :

In September 2009, BackWeb was informed by its counsel in this matter that: the parties in the lawsuit have reached a proposed global settlement of the litigation, which presiding Judge Scheindlin preliminarily approved on June 9, 2009; that the Judge Scheindlin held a fairness hearing for final approval of the settlement on September 10, 2009; and that Judge Scheindlin did not rule on the motion for final approval at the hearing and did not indicate when she would do so. On October 5, 2009, Judge Scheindlin issued an order of final approval for the settlement in the IPO securities litigation matters. On October 27, 2009 we were informed that a group of objectors had filed a petition requesting permission to appeal the Court's October 5, 2009. The matter remains on-going.

Under the terms of the proposed settlement, the company and the officer and director defendants (who were previously dismissed from the case pursuant to tolling agreements) would receive complete dismissals from the case, and the company's insurers would pay the settlement share allocated to the company (so the company would bear no financial responsibility under this settlement). For additional discussion on this matter, please see Item 4.

Employee Stock Option Grant

In March 2009, the company's board approved a grant of stock options to employees. In conjunction with the grant, the company approved a 2009 United States Equity Incentive Plan to replace the previously expired 1998 U.S. Share

Option Plan. The stock options granted were in accordance with the terms and conditions of the newly adopted 2009 United States Equity Incentive Plan and the existing 1996 Israeli Option Plan. The total number of options granted was 2,434,968 and the vesting schedule was monthly over the course of two years.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

Our current directors and designated executive officers, and ages as of April 15, 2008, are:

Name	Age	Position
Uday Bellary	54	Director
William Heye	48	Chief Executive Officer and Director
Amir Makleff	61	Director
Kara Anderson Reiter	45	Director
Yael Reznik Cramer	42	Director

UDAY BELLARY, age 54, has served as one of our directors since 2004. Mr. Bellary has been the Chief Financial Officer at Atrica, Inc., a telecommunications equipment manufacturer, since April 2005. Prior to that, Mr. Bellary was the Executive Vice President and Chief Financial Officer at VL, Inc., a provider of “Voice over IP” technology and services from September 2003 until April 2005. From February 2000 through September 2003, Mr. Bellary served as Senior Vice President, Finance & Administration and Chief Financial Officer at Metro Optix, Inc., a provider of optical networking equipment that was acquired in September 2003 by Xtera Communications. From September 1997 to October 1999, he served as Vice President of Finance and Chief Financial Officer at MMC Networks, Inc., a manufacturer of data network processors that was acquired in October 2000 by Applied Micro Circuits Corporation. Mr. Bellary also serves on the board of directors at Versant Corporation and several private companies. Mr. Bellary holds a B.S. degree in finance, accounting and economics from Karnatak University, India and a DMA degree in finance and managerial accounting from the University of Bombay, India. He is a Certified Public Accountant in the U.S. and a Chartered Accountant in India.

WILLIAM HEYE, age 48, has been one of our directors since July 2005. Mr. Heye became our Chief Executive Officer on October 11, 2004. Prior to that, he served as our Vice President, Business Development and Products from 2003 through 2004, as our Vice President, Professional Services from 2001 through 2003, as Director of Research and Development from 1998 through 2001, and as Director of Product Management and Marketing from 1996 through 1998. Prior to joining BackWeb, from 1992 to 1996 Mr. Heye was Director of Marketing & Sales at The Voyager Company, a media company, responsible for launching the company’s consumer film and CD-ROM products and developing sales and marketing programs. From 1985 to 1990, Mr. Heye held various technical and sales positions at IBM. Mr. Heye holds a B.S. degree in mechanical engineering and a B.A. degree in English from Texas A&M University, and an M.B.A. degree from the Harvard Business School.

AMIR MAKLEFF, age 61, has served as one of our directors since 2004. Mr. Makleff is a co-founder of BridgeWave Communications, a provider of gigabit wireless products and high frequency Micro-Electro-Mechanical Systems (MEMS) technology, and has served as its President and Chief Executive Officer since January 1999. From November 1995 to November 1998, Mr. Makleff served as Chief Operating Officer and Senior Vice President of Engineering of Netro Corporation, a fixed wireless networking infrastructure provider. From 1990 to 1995, Mr. Makleff served as General Manager and Vice President, Engineering of the Access Division of Telco System, a telecom equipment supplier. Prior to that, Mr. Makleff held senior engineering and marketing positions at Nortel, Amdahl Corporation and Telestream Corporation, of which he was co-founder. Mr. Makleff served for eight years in various senior research and development roles in the Israeli Ministry of Defense. Mr. Makleff holds B.S. and M.S. degrees from the Technion — Israel Institute of Technology.

KARA ANDERSEN REITER, age 45, has served as one of our directors since 2005. Ms. Reiter is Vice President and In House Counsel at PneumRx, Inc., a medical device company. Prior to joining PneumRx in 2004, Ms. Reiter was a partner at the law firm of Keker & Van Nest, LLP, where she had practiced since 1996. Ms. Reiter received an A.B degree in organizational behavior and management and French literature from Brown University and a J.D. degree from the UCLA School of Law.

YAEL REZNIK CRAMER, age 42, is Vice-President of Business Development for the BRM Group and is responsible for The BRM Group's new business opportunities and BRM Capital's financial operations, financial reporting, taxation, information systems and administration. Prior to joining BRM, Yael was CFO of STAR Ventures in Israel for over nine years, during which time she played an active and significant role in over 50 STAR portfolio company exits. Before joining STAR, Yael was Controller at Lannet Data Communications Ltd. (NASDAQ: LANTF) and an Audit Team Manager at Bavli Milner, one of Israel's leading accounting firms. Yael currently sits on the boards of Backweb and Schema. Yael is a Certified Public Accountant in Israel and holds a B.A degree in Accounting and Economics from the Hebrew University in Jerusalem and an MBA from Tel-Aviv University.

There are no family relationships between or among any of our directors or executive officers.

Audit Committee

We have a standing Audit Committee whose current members are Messrs. Bellary and Makleff and Ms. Andersen, with Mr. Bellary serving as the chair of the Audit Committee. The Audit Committee is responsible for assisting the Board in its oversight of our accounting and financial reporting processes, the audits of our financial statements, and our system of internal controls. Our Board of Directors has determined that Mr. Bellary qualifies as an "audit committee financial expert," as defined under Item 401(h) of Regulation S-K, by reason of his relevant business experience, which is set forth above, and that each member of the Audit Committee is independent as defined under the rules of The Nasdaq Stock Market and as required under Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, requires our executive officers and directors and persons who own more than 10 percent of a registered class of our equity securities to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or 5 with the Securities and Exchange Commission ("SEC"). Executive officers, directors and greater than 10 percent shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that, with respect to fiscal year 2007, all filing requirements applicable to our executive officers, directors and 10 percent shareholders were met.

Code of Ethics

We have adopted a Code of Ethics for all of our directors and employees, including our principal executive officer and principal financial and accounting officer. A copy of this Code of Ethics is available at our Website, www.backweb.com. Any substantive amendments to the code and any grant of waiver from a provision of the code requiring disclosure under applicable SEC or Nasdaq rules will be disclosed on such Website.

Stockholder Nominations of Directors

There have been no material changes to the procedures by which shareholders may recommend nominees to our board of directors since the date that we last provided disclosure with respect to such procedures.

Item 11. Executive Compensation

The following table sets forth the compensation earned for services rendered to us in all capacities for the fiscal years ended December 31, 2008, December 31, 2007 and December 31, 2006 by our Chief Executive Officer, who was our only executive officer serving in such capacity as of December 31, 2007 (our "Named Executive Officer"):

Summary Compensation Table

Name and Principal Position	Year	Salary	Option Awards (1)	Non-equity Incentive Plan Compensation (2)	Other Annual Compensation (3)	Total (4)
William Heye	2008	$ 200,000	$ -	$ 118,500	$ -	$318,500
William Heye	2007	$ 200,000	$ -	$ 30,000	$ -	$230,000
Chief Executive Officer	2006	$ 198,333	$ 78,790	$ 34,750	$ -	$311,873

(1) The amounts in this column represent the amounts recognized as compensation expense for financial statement reporting purposes in accordance with SFAS No. 123R in connection with the options granted to the named executive officer. The Company adopted SFAS No. 123R on January 1, 2006. Please see Note 2 of the Notes to the Consolidated Financial Statements for a discussion of all assumptions made in determining the grant date fair values of these options.

(2) Mr. Heye received non-recoverable Corporate Performance Bonus cash draws totaling $22,500 during 2008. In early 2008 he was also paid a Corporate Performance Bonus of $96,000 pursuant to the Compensation Committee's evaluation of the Company's actual 2007 performance against specified goals. In early 2009 he was paid for the remaining non-rcoverable Corporate Performance Bonus of $7,500 for 2008.

(3) The "Other Annual Compensation" consists of commission payments and vacation payout amounts.

(4) The dollar value in this column represents the sum of all compensation reflected in the preceding columns.

Grants of Plan-Based Awards in Fiscal 2008

There were no stock options or other equity-based or non-equity awards granted to Mr. Heye, who is the only Named Executive Officer, in fiscal 2008.

Outstanding Equity Awards at Fiscal Year End

The Named Executive Officer in the Summary Compensation Table, set forth above, did not exercise any of his options during the fiscal year ended December 31, 2008. The following table sets forth the number of securities underlying unexercised option grants held by the Named Executive Officer as of December 31, 2008, and the option exercise price and expiration date of each such grant.

Outstanding Equity Awards at December 31, 2008

	Number of Securities Underlying Unexercised Options			
Name	Exercisable	Unexercisable	Option Exercise Price	Option Expiration Date(1)
William Heye	37,500	-	$ 0.77	4/15/2009
	32,089	-	$ 0.76	10/22/2009
	15,911	-	$ 0.76	10/22/2009
	60,000	-	$ 1.15	10/25/2010
	150,000	-	$ 0.60	10/1/2011
	700,000	-	$ 0.39	11/4/2011

(1) These option vest as to 25% of the Ordinary Shares subject to the option on the first anniversary of the grant date and as to 1/48th of the Ordinary Shares subject to the option each month thereafter until the option is fully vested four years from the grant date.

Employment Agreements and Change of Control Arrangements

Mr. Heye's current base salary is $200,000, non-recoverable Corporate Performance Bonus is $30,000 and his bonus for 2009 will be determined according to the terms of BackWeb's 2009 variable compensation plan, which is in the process of being finalized. Mr. Heye's employment is at will and may be terminated at any time, with or without formal cause.

Compensation of Directors

Directors who are not employees of BackWeb are compensated for their services as follows:

- A retainer fee of $1,000, per fiscal quarter;
- A fee of $1,000 for each meeting of the Board of Directors attended; and
- A fee of $1,000 for each committee meeting attended, with the Chair of the Audit Committee being paid an additional $500 for each committee meeting.

In addition, non-employee directors receive a non-discretionary option grant under either our 1998 U.S. Stock Option Plan or 1996 Israel Stock Option Plan to acquire 50,000 Ordinary Shares upon their initial election or appointment to the Board of Directors and annual option grants of 15,000 Ordinary Shares at each Annual General Meeting of Shareholders thereafter during their term of service. Accordingly, immediately following our 2007 Annual General Meeting of Shareholders held in February 2008, each of Messrs. Barkat, Bellary and Makleff and Ms. Andersen received options to purchase 15,000 Ordinary Shares at an exercise price of $0.05 per share, which was the closing sale price of our Ordinary Shares on the Pink Sheets the day before the grant date. Grants are not to be made in cases where the initial term is shorter than six months. These grants vest over a period of four years, with one-quarter of the shares underlying the option becoming vested and exercisable after one year and monthly thereafter over the remaining period of thirty-six months, subject to continued service as one of our directors.

Reasonable expenses incurred by each director in connection with his or her duties as a director are also reimbursed. A Board member who is also an employee of BackWeb does not receive compensation for service as a director.

Compensation Committee Interlocks and Insider Participation

Ms. Andersen and Messrs. Bellary and Makleff are the members of the Compensation Committee of our Board of Directors. None of these directors has ever been one of our officers or employees nor during the past fiscal year had any other interlocking relationships as defined by the SEC. None of our executive officers currently serves or in the past has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board or compensation committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table shows the amount of our Ordinary Shares beneficially owned, as of April 15, 2008, by (i) persons known by us (based upon SEC filings) to own 5% or more of our Ordinary Shares, (ii) our Named Executive Officers, (iii) our directors, and (iv) our executive officers and directors as a group. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission.

The address for each stockholder listed below is c/o BackWeb Technologies Ltd., 10 Ha'amal Street, Park Afek, Rosh Ha'ayin 48092, Israel. Except as indicated by footnote, the persons named in the table have sole voting and investment power with respect to all Ordinary Shares shown as beneficially owned by them. The number of Ordinary Shares outstanding used in calculating the percentages in the table below includes the Ordinary Shares underlying options held by such person that are exercisable within 60 days of April 15, 2008, but excludes Ordinary Shares underlying options held by any other person. Percentage of beneficial ownership is based on 41,333,704 Ordinary Shares outstanding as of April 15, 2008.

Equity Compensation Plan Information

Our shareholders have approved all of our equity compensation plans.

The following table summarizes the number of our Ordinary Shares that may be issued under our equity compensation plans as of December 31, 2008.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders(1)	3,398,614	$ 0.68	4,712,919

Item13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

Other than the compensation arrangements described in Item 11 above, since January 1, 2007, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed $120,000 and in which any director, executive officer, holder of more than 5% of our Ordinary Shares or any member of his or her immediate family had or will have a direct or indirect material interest.

Approval of Related Party Transaction

Pursuant to the requirements of Israel's Companies Law and its written charter, the Audit Committee is required to review and approve any related party transactions, which include any transactions in which any of our directors, executive officers, holders of more than 5% of our Ordinary Shares or any member of his or her immediate family had or will have a direct or indirect material interest. Such review would typically occur during one of the Audit Committee's regularly scheduled meetings. We did not engage in any related party transactions in 2008 which would have required the review and approval of the Audit Committee.

Independent Directors

Each of our non-employee directors (Messrs. Bellary and Makleff and Ms. Andersen and Ms. Reznick-Cramer) qualifies as "independent" in accordance with the rules of The Nasdaq Stock Market. The Nasdaq independence definition includes a series of objective tests, including that a director may not be our employee and that the director has not engaged in various types of business dealings with us. In addition, as further required by the Nasdaq rules, the Board of Directors has made a subjective determination as to each independent director that no relationship exists which, in the opinion of the Board of Directors, would interfere with the exercise of such director's independent judgment in carrying out the responsibilities of a director.

Item 14. Principal Accountant Fees and Services

Principal Accountant Fees and Services

The following table summarizes the aggregate audit fees billed to us by our independent registered public accounting firms during 2008 and 2007:

	2008	2007
Audit fees	$ 20,000	$ 106,000
Audit-related fees	26,000	6,000
Tax fees	10,000	24,000
All other fees	4,000	16,000
	$ 60,000	$ 152,000

Audit fees include fees relating to the audit of our annual financial statements and review of financial statements included in our Quarterly Reports on Form 10-Q. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, and statutory audits.

The services performed by Deloitte Brightman Almagor in 2008 and by Grant Thornton, LLP in 2007 were pre-approved in accordance with the pre-approval procedures adopted by the Audit Committee. All requests for audit, audit-related, tax and other services must be submitted to the Audit Committee for pre-approval with an estimate of fees for the services. Pre-approval is generally provided at regularly scheduled meetings.

Item 15. Financial Statement Schedules

1. Schedule of Valuation and Qualifying Accounts at December 31, 2008

BACKWEB TECHNOLOGIES, LTD.
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

Allowance for doubtful accounts:	Balance at Beginning of Period	Provision for Doubtful Accounts	Write-off of Previously Provided Accounts	Balance at End of Period
Year ended December 31, 2008	$ 59	$ 11	$ -	$ 70
Year ended December 31, 2007	$ 329	$ (118)	$ (152)	$ 59
Year ended December 31, 2006	$ 279	$ 202	$ (152)	$ 329

Other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

2. *Exhibits*

The exhibits filed as part of this annual report are listed in the Exhibit Index immediately preceding the exhibits and are incorporated herein.

SIGNATURES

The Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BACKWEB TECHNOLOGIES LTD.

By: /s/ WILLIAM HEYE

William Heye,
Chief Executive Officer

Dated: November 30, 2009

This Report has been signed below by the following persons on behalf of the Company in the capacities and as of the dates indicated.

Signature	Title	Date
/s/ WILLIAM HEYE William Heye	Chief Executive Officer and a Director (Principal Executive Officer)	November 30, 2009
/s/ TOMER ASSIS Tomer Assis	Vice President of Finance (Principal Financial and Accounting Officer)	November 30, 2009
/s/ YAEL REZNIK CRAMER Yael Reznik Cramer	Director	November 30, 2009
/s/ UDAY BELLARY Uday Bellary	Director	November 30, 2009
/s/ AMIR MAKLEFF Amir Makleff	Director	November 30, 2009
/s/ KARA ANDERSEN REITER Kara Andersen Reiter	Director	November 30, 2009