UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission File Number: **0-12332**

SCAILEX CORPORATION LTD.

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

Israel
(Jurisdiction of incorporation or organization)

3 Azrieli Center, Triangular Tower, 43rd Floor, Tel Aviv 67023, Israel
(Address of principal executive offices)

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

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Ordinary Shares, NIS 0.12 nominal (par) value per share
(Title of Class)

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2005:

38,066,363 Ordinary Shares, NIS 0.12 nominal (par) value per share

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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

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

☒ Yes ☐ No

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

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

☒ Yes ☐ No

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INTRODUCTION

Unless indicated otherwise by the context, all references in this Annual Report to:

- *"we", "us", "our", "Scailex", or the "Company" are to Scailex Corporation Ltd. (formerly known as Scitex Corporation Ltd.) and its wholly owned and/or majority owned subsidiaries;*
- *"dollars" or "$" are to United States dollars;*
- *"NIS" or "Shekel" are to New Israel Shekels;*
- *the "Companies Law" or the "Israeli Companies Law" are to the Israeli Companies Law, 5759-1999, as amended;*
- *the "SEC" are to the United States Securities and Exchange Commission;*
- *"Discount" and "CEI" are to Discount Investment Corporation Ltd. and Clal Electronics Industries Ltd., respectively, our principal shareholders;*
- *"Clal" are to Clal Industries and Investments Ltd., the parent of CEI;*
- *"Scailex Vision" and "Scailex Vision International" are to Scailex Vision (Tel-Aviv) Ltd. (formerly known as Scitex Vision Ltd.), our majority owned subsidiary, and Scailex Vision International Ltd. (formerly known as Scitex Vision International Ltd.), Scailex Vision's wholly owned subsidiary, respectively; and*
- *"Jemtex" are to Jemtex InkJet Printing Ltd., our majority owned subsidiary.*
- *"Group Companies" are to RealtimeImage Ltd., XMPie Inc. and Dor Ventures, all of which reflect investments that are accounted in our financial statements under the cost method.*

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this Annual Report on Form 20-F, certain information contained herein, including, without limitation, information appearing under "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects", are 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 based on various assumptions (some of which are beyond our control) and may be identified by the use of forward-looking terminology, such as "may", "can be", "will", "expects", "anticipates", "intends", "believes", "projects", "continues", "plans", "seeks", "potential", and similar words and phrases. Actual results could differ materially from those contained in forward-looking statements due to a variety of factors, including, but not limited to:

- our absence of significant operations following the sale of the business of Scailex Vision and uncertainty as to our future business model and our ability to identify and evaluate suitable business opportunities;
- the fact that our U.S. shareholders may suffer adverse tax consequences when we will be classified as a passive foreign investment company or PFIC;
- risks relating to pursuing strategic alternatives;
- risks and uncertainties relating to the Company's plans for its financial assets following the sale of Scailex Vision;
- changes in domestic and foreign economic and market conditions;
- the impact of the Company's accounting policies;

- the fact that we may be deemed an "investment company" under the Investment Company Act of 1940 under certain circumstances (including as a result of the investments of assets following the sale of the operations of Scailex Vision), and/or the risk that we may be required to take certain actions with respect to the investment of our assets or the distribution of cash to shareholders in order to avoid being deemed an "investment company";

- risks and uncertainties resulting form the pending sale of approximately 50% of our outstanding share capital by our two principal shareholders to an unaffiliated third party and the potential impact on the Company and our operations and strategies; and

- those risks set forth under "Item 3D. Risk Factors" in this Annual Report as well as those discussed elsewhere in this Annual Report.

Except as may be required by law, we do not undertake, and specifically disclaim, any obligation to release publicly the results of any revisions which may be required to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such forward-looking statements.

USE OF TRADE NAMES

Scailex is our trademark. Jemtex and Gema II are trademarks of Jemtex.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated statements of operations data for the years ended December 31, 2003, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004 and 2005 are derived from our audited consolidated financial statements set forth elsewhere in this Annual Report, which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The selected consolidated statement of operations data for the years ended December 31, 2001 and 2002 and the selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003 are derived from audited consolidated financial statements not appearing in this Annual Report, which have been prepared in accordance with U.S. GAAP.

In November 2005, Scailex Vision, our majority owned subsidiary, sold its business to Hewlett-Packard Company, as described below under Item 10.C "Additional Information–Material Contracts." As a result of the sale, the results of operations of Scailex Vision are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses attributable to Scailex Vision. Similarly, assets and liabilities relating to Scailex Vision are presented in our balance sheet separately as assets and liabilities of discontinued operations. Our consolidated financial statements for prior periods have been reclassified to reflect these changes. *See Note 1b*2 *to our consolidated financial statements included in this Annual Report.*

In addition, as of December 31, 2005, our continuing operations are comprised of Scailex Corporation and Jemtex. Consequently, we did not record any revenues from such continuing operations in the years 2001 through 2005. Since we are exploring our strategic alternatives, including engaging in new areas of operations, the data presented below are not indicative of our future operating results or financial position.

The following selected financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this Annual Report.

BALANCE SHEET DATA

	December 31,				
	2005	2004	2003	2002	2001
	(U.S. dollars in thousands)				
Net working capital (continuing operations) ****	$ 222,267*	$ 134,026*	$ 34,837	$ (7,669)*	$ 29,189
Net working capital (discontinued operations) ****	$ 49,932	$ 6,415**	$ 125,217**	$ 103,973	$ 84,520
Cash, cash equivalents and short term investments (continuing operations)	$ 235,920*	$ 147,585*	$ 64,995	$ 34,690*	$ 42,696
Cash, cash equivalents and short term investments (discontinued operations)	$ 53,905	$ 13,000**	$ 34,318**	$ 22,944	$ 25,313
Total assets	$ 351,018	$ 274,153	$ 394,085	$ 373,456	$ 401,690***
Long term liabilities (continuing operations)	$ 715	$ 648	-	-	$ 18,367
Long term liabilities (discontinued operations)	$ 1,192	$ 16,423	$ 19,453	$ 13,459	$ 11,140
Share capital	$ 6,205	$ 6,205	$ 6,205	$ 6,205	$ 6,205
Shareholders' equity	$ 261,603	$ 154,274	$ 224,698	$ 221,179	$ 260,162***

*Includes a restricted cash deposit in a bank, the balance of which was $5,165,000, $5,000,000 and $20,203,000 as of December 31, 2005, 2004 and 2002, respectively, and is presented on the balance sheet as a restricted deposit.

** Includes a restricted cash deposit in a bank, the balance of which was $13,000,000 and $18,262,000 as of December 31, 2004 and 2003, respectively.

*** Adjusted retroactively to reflect a change in the method of accounting for an investment from the cost method to the equity method.

**** Net working capital is calculated as current assets minus current liabilities as presented in the audited financial reports.

STATEMENT OF OPERATIONS DATA

	Year Ended December 31,				
	2005	2004	2003	2002	2001*
	(U.S. dollars in thousands, except per share amounts)				
Revenues	--	--	--	--	--
Cost of revenues	--	--	--	--	--
Expenses					
Research and development costs - net	$ 2,549	$ 2,168	--	$ 27	$ 218
Marketing, general and administrative	3,679	4,859	$ 2,890	3,036	6,327
Amortization of intangible assets	1,215	1,215	--	--	--
Operating loss	(7,443)	(8,242)	(2,890)	(3,063)	(6,545)
Financial income (expenses) - net	4,293	2,723	48	(176)	(888)
Other income (loss) - net	917	648	498	(26,352)	(12,961)
Write-down of investment in an associated company	--	--	--	--	(149,704)
Loss before taxes on income	(2,233)	(4,871)	(2,344)	(29,591)	(170,098)
Tax benefit (Taxes on income)	94	1,121	--	1,415	(1,512)
Share in results of associated companies	2,876	(1,418)	(5,637)	(4,106)	(64,269)
Net income (loss) from continuing operations	737	(5,168)	(7,981)	(32,282)	(235,879)
Net income (loss) from discontinued operations	105,401	52,421	9,368	252	(17,141)
Net income (loss)	$ 106,138	$ 47,253	$ 1,387	$ (32,030)	$ (253,020)
Earnings (loss) per share - basic					
Continuing operations	$ 0.02	$ (0.13)	$ (0.19)	$ (0.75)	$ (5.48)
Discontinued operations	$ 2.77	$ 1.30	$ 0.22	$ 0.01	$ (0.40)
	$ 2.79	$ 1.17	$ 0.03	$ (0.74)	$ (5.88)
Earnings (loss) per share - diluted					
Continuing operations	$ 0.02	$ (0.13)	$ (0.19)	$ (0.75)	$ (5.48)
Discontinued operations	$ 2.67	$ 1.30	$ 0.22	$ 0.01	$ (0.40)
	$ 2.69	$ 1.17	$ 0.03	$ (0.74)	$ (5.48)
Weighted average number of shares outstanding (in thousands) - basic	38,066	40,336	43,018	43,018	43,018
- diluted	38,134	40,336	43,018	43,018	43,018
Dividends per share	--	$ 2.36	--	--	--

* Adjusted retroactively to reflect a change in the method of accounting for an investment from the cost method to the equity method.

B. CAPITALIZATION AND INDEBTEDNESS.

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS.

Not Applicable.

D. RISK FACTORS

The following important factors, together with others that appear with the forward-looking statements made by, or on behalf of, Scailex in this Annual Report, or in Scailex's other SEC filings and public statements, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements.

Risks Related to Our Business

- ***We have sold our principal operating businesses and currently conduct only limited business activities.***

  We sold the business of Scitex Digital Printing Inc., or SDP, one of our two principal operating subsidiaries, to Kodak in January 2004. In November 2005, Scailex Vision, our remaining principal operating subsidiary, sold its business to Hewlett-Packard Company, or Hewlett-Packard. Since then, we hold substantially all of our assets in cash and cash equivalents and the remainder is invested in several companies, including Jemtex, our majority owned subsidiary. Our plan of operation is to explore and consider strategic alternatives relating to our remaining holdings as well as to other investments and opportunities, including a possible merger or business combination with a domestic or foreign, private or public operating entity. Other than activities relating to attempting to locate such opportunities and activities relating to our holdings and the investment of our funds in short and long-term investments, we do not currently conduct any operations. Moreover, the pending sale of approximately 50% of our outstanding share capital by our two principal shareholders to an unaffiliated third party may have an impact on the Company and our future operations and strategies, which we currently cannot predict. See Item 7A.

- ***We may not be successful in identifying and evaluating suitable business opportunities or in consummating a business combination.***

  There can be no assurance that we will be successful in identifying and evaluating suitable business opportunities or in consummating a business combination. While we are actively exploring strategic transactions and opportunities, we have not targeted any particular industry or specific business within an industry in which to pursue such opportunities. Accordingly, we may enter into a business combination with a business entity having no significant operating history or other negative characteristics such as having a limited or no potential for immediate earnings, or otherwise pursue a business combination that will not necessarily provide us with significant financial benefits in the short term. In the event that we complete a business combination, the success of our operations will be dependent upon the management of the target company and numerous other factors beyond our control. There is no assurance that we will be able to negotiate a business combination on terms favorable to us, or at all.

- ***If we do consummate a major strategic transaction, such as a business combination, our shareholders may suffer a dilution of value of shares and we may need to raise additional* financing.**

  A business combination normally will involve the issuance of a significant number of additional Scailex shares. Depending upon the value of the assets and businesses acquired in such business combination, the per share value of our ordinary shares may increase or decrease, perhaps significantly. In addition, if we consummate a business combination, we may need to raise funds through a public or private financing. We may be unable to obtain additional financing on acceptable terms or at all.

- ***We may be deemed an "investment company" under the Investment Company Act of 1940, which could subject us to material adverse consequences.***

  Following the sale of the businesses of SDP and Scailex Vision and the investment of the cash proceeds of such transactions, we are not an "investment company" under the United States Investment Company Act of 1940, or the Investment Company Act, because we rely on an exemption from that act which generally exempts transient investment companies for a one year period, which in our case commenced when we sold the business of Scailex Vision. At the end of such one year period, if we have not entered into a business combination or developed an operating business, the likelihood of being deemed to be an investment company would increase over time and we may be required to seek exemptive or other relief from the SEC so as not to be regulated under the Investment Company Act. No assurance can be made that we will obtain such exemptive or other relief from the SEC, if and when we seek the same. If we were deemed to be an investment company, we would not be permitted to register under the Investment Company Act without obtaining exemptive relief from the SEC because we are incorporated outside of the United States and, prior to being permitted to register, we would not be permitted to publicly offer or promote our securities in the United States. As a result, we may be required to take certain actions with respect to the investment of our assets or the distribution of cash to shareholders in order to avoid being deemed an investment company, which actions may not be as favorable to us as if we were not potentially subject to regulation under the Investment Company Act. If we are deemed to be an investment company, we could be found to be in violation of the Investment Company Act, and a violation of that act could subject us to material adverse consequences. We seek to conduct our operations, including by way of investing our cash and cash equivalents, to the extent possible so as not to become subject to regulation under the Investment Company Act.

- ***We hold substantially all of our assets in cash and financial instruments and are exposed to decreases in the value of our financial investments***.

  As of December 31, 2005, we held, on a consolidated basis, approximately $319.5 million in cash and financial instruments, including a restricted cash deposit ($235.9 million presented as cash, cash equivalents and short term investments, $29.7 million presented as non current assets, $53.9 million of which is allocated to discontinued operations), which represent substantially all of our assets. Part of our cash on hand is held in different types of investment grade bonds. If the obligor of any of the bonds we hold defaults or undergoes a reorganization in bankruptcy, we may lose all or a portion of our investment in such obligor. We may also be subject to loss to the extent that the market value of these bonds decline. This will adversely affect our financial condition. *For information on the types of our investments as of December 31, 2005, see Item 11 –"Quantitative and Qualitative Disclosures About Market Risk–Presentation of Exchange Rate and Interest Rate Risk."*

- ***We have incurred substantial net losses in the past, and we may incur losses again in the future.***

  Although our net income (including from discontinued operations) for the years ended December 31, 2003, 2004 and 2005 was approximately $1.4 million, $47.3 million and $106.1 million, respectively, we incurred net losses (including from discontinued operations) in the years ended December 31, 2001 and December 31, 2002 of approximately $253.0 million (including $215.9 million associated with our holdings in Creo Inc., or Creo) and $32.0 million (including $22.3 million associated with our holdings in Creo), respectively. In respect of continuing operations, although our net income for the year ended December 31, 2005 was approximately $0.7 million, we incurred net losses in the years ended December 31, 2002, 2003 and 2004 of approximately $32.3 million, $8.0 million and $5.2 million, respectively. We may continue to incur losses in the future, which could materially adversely affect our business and financial condition, as well as the value and market price of our shares. Even if we maintain profitability, we cannot assure you that future net income will offset our cumulative losses.

- ***We are undergoing, and may in the future undergo, tax audits and may have to make material payments to tax authorities at the conclusion of these audits.***

  We conducted business globally and a substantial part of our operations was conducted in various countries during the 1990s. Accordingly, not all of the tax returns of our operations during the 1990s as well as for subsequent years are final and may be subject to further audit and assessment by the applicable tax authorities. For example, in order to resolve a tax audit of our U.S. subsidiaries for the years 1992 through 1996, we paid to the U.S. Internal Revenue Service (IRS) an aggregate sum of approximately $21.5 million until 2002, and in 2004 we paid an aggregate sum of approximately $11.6 million to the IRS and other U.S. state tax authorities. If we become subject to further tax audits or assessments, we may be required to pay additional taxes, as a result of which, our future results may be adversely affected. *For more information about these audits and other tax assessments, please see under "Item 5.B – Liquidity & Capital Resources – Tax Audits."*

- ***Some of our holdings are in companies with no proven business model or that may be unable to obtain future financing.***

  Some of the companies in which we have invested, including Jemtex, our majority-owned subsidiary, are emerging companies with no substantial operating history or proven business model and have extensive research and development and marketing costs and limited revenues, if any. In order to succeed, these companies may require additional capital to fund these costs, which may prove to be difficult to obtain. If these companies are unable to obtain sufficient financing from their current shareholders, which may also include additional investments by us in these companies, or from new financing sources, their continued operations may be at risk. In addition, even if such companies are able to finance their operations, there is no assurance that their products or technology will achieve market acceptance or that their business model will prove to be profitable. This could adversely affect our business.

- ***Scailex Vision is exposed to potential liabilities in connection with the sale ofthe business of Scailex Vision to Hewlett-Packard.***

  Scailex Vision, our majority owned subsidiary, has agreed to indemnify Hewlett-Packard for certain breaches of the asset purchase agreement entered between them, including in the case of breaches of representations and warranties made by Scailex Vision, up to a cap of approximately $24 million. A claim against Scailex Vision could result in substantial cost, which would have a negative impact on our financial condition. In addition, we havegenerated a significantamount of income from this transaction. Based on our and Scailex Vision's assessment, we believe that Scailex Vision is in compliance with all taxes due in relation with this transaction. The various tax authorities may not agree with Scailex Vision's view. Any such disagreement or a subsequent tax dispute could result in tax liabilities in amounts which we currently cannot estimate. *For more information, see under "Item 10C. Material Contracts – Sale of Scailex Vision's Business" below.*

Risks Related to Operations in Israel

- ***Political, economic and military instability in Israel or the Middle East may limit our ability to find a target for a merger or other business combination and adversely affect our results of operations.***

  Our corporate headquarters and the principal facilities of our Group Companies, and many of our and their suppliers are located in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between Israel and the Palestinians which has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and harm our business. Furthermore, several countries restrict business with Israel and Israeli companies and additional countries may restrict doing business with Israel and Israeli companies as a result of hostilities between Israel and the Palestinians.

  These political, economic and military conditions might deter potential targets from effecting a business combination with an Israeli company. In addition, the operations and financial results of our remaining Group Companies could be adversely affected if political, economic or military events curtailed or interrupted trade between Israel and its present trading partners or if major hostilities involving Israel should occur in the Middle East.

- ***A litigant may have difficulty enforcing U.S. judgments against us, our officers and directors, our Israeli subsidiaries and affiliates or asserting U.S. securities law claims in Israel.***

  Service of process upon us, our Israeli subsidiaries and affiliates, and our directors and officers, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and substantially all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of them may not be collectible within the United States. There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933 and the Securities Exchange Act of 1934 in original actions instituted in Israel. However, subject to specified time limitations, Israeli courts may enforce a U.S. final executory judgment in a civil matter, provided that:

  - adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard;
  - the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;

- the judgment was obtained after due process before a court of competent jurisdiction according to the rules of private international law prevailing in Israel;

- the judgment was not obtained by fraudulent means and does not conflict with any other valid judgment in the same matter between the same parties;

- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the U.S. court; and

- the U.S. court is not prohibited from enforcing judgments of Israeli courts.

- ***Provisions of Israeli law may delay, prevent or make more difficult an acquisition of Scailex.***

The Israeli Companies Law generally requires that a merger be approved by the board of directors and a majority of the shares voting on the proposed merger. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting, and which are not held by the other party to the merger (or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party or its general manager) have voted against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the surviving company. Finally, a merger may generally not be completed unless at least (1) 50 days have passed since the filing of a merger proposal signed by both parties with the Israeli Registrar of Companies and (2) 30 days have passed since the merger was approved by the shareholders of each of the parties to the merger. Also, in certain circumstances an acquisition of shares in a public company must be made by means of a tender offer. Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. These provisions of Israeli corporate and tax law may have the effect of delaying, preventing or make more difficult an acquisition of or merger with us, which may adversely affect our ability to engage in a business combination and could depress our share price.

- ***Israeli banking laws may impose restrictions on the total debt that we may borrow from Israeli banks.***

Pursuant to a directive published by the Israeli Supervisor of Banks, which became effective on March 31, 2004, we may be deemed part of a group of affiliated borrowers comprised of IDB Holding Corporation Ltd., the ultimate parent of Discount and Clal, our principal shareholders, and other companies which may be included in such group of borrowers pursuant to the directive. The directive generally provides that an entity will be subject to limitations on the amount of financing available to it from an Israeli bank if such entity is included within a group of borrowers to which the amount of debt financing that has been extended from such Israeli bank exceeds certain limits as specified in the directive. As we are currently part of the IDB affiliated group of companies which includes many companies that require, or may in the future require, extensive credit facilities from Israeli banks for the operation of their businesses, we cannot assure you that our banks will not exceed these limits (if applicable to us) in the future. Should our banks exceed these limits, they may limit our ability to draw funds, which may have a material adverse effect on our business, financial condition and results of operations.This status may change in light of the contemplated sale by Clal and Discount of their shareholdings to Israel Petrochemicals Enterprise Ltd. (see Item 7A).

Risks Related to the Market for Our Ordinary Shares

- ***Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company.***

  As more fully described in Item 10 – "Additional Information – Taxation"under the caption "Tax Consequences if we are a Passive Foreign Investment Company," there is a high likelihood that we will be properly classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes in 2006. Our classification as a PFIC could result in U.S. holders (as defined in Item 10) suffering adverse tax consequences. These consequences may include having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain income, and having potentially punitive interest charges apply to the proceeds of share sales. U.S. holders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares.

- ***Volatility of our share price could adversely affect us and our shareholders.***

  The market price for our ordinary shares has been and may continue to be volatile and could be subject to wide fluctuations in response to numerous factors, such as:

  - market conditions or trends;
  - political, economic and other developments in the State of Israel and world-wide;
  - actual or anticipated variations in our operating results;
  - material corporate transactions; and
  - entry into strategic partnerships or joint ventures by us.

  In addition, the stock market in general, and the market for Israeli companies in particular, has been highly volatile in the past four years. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. Shareholders may not be able to sell their ordinary shares following periods of volatility because of the market's adverse reaction to such volatility and we may not be able to raise capital through an offering of securities.

- ***Two shareholders may be able to control us.***

  Clal, through CEI, its wholly owned subsidiary, and Discount (directly and through DIC Loans Ltd., its wholly owned subsidiary) own an aggregate of approximately 49.4% of our outstanding ordinary shares. In addition, they are parties to a voting agreement entered into in 1980. Accordingly, Clal and Discount may have sufficient voting power, subject to special approvals required by Israeli law for transactions involving controlling shareholders, to:

  - elect all of our directors (subject to the provisions of the Companies Law with regard to outside directors);
  - control our management; and
  - approve or reject any merger, consolidation or sale of substantially all of our assets.

  This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price. In addition, the market price of our ordinary shares may be adversely affected by events relating to Clal and Discount that are unrelated to us. See also in Item 7A, regarding the contemplated sale by Clal and Discount of their shareholdings to Israel Petrochemicals Enterprise Ltd.

- ***Our ordinary shares are listed for trading in more than one market and this may result in price variations.***

  Our ordinary shares are listed for trading on NASDAQ National Market, or NASDAQ, and the Tel Aviv Stock Exchange, or TASE. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on NASDAQ and New Israeli Shekels on TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets often differ, resulting from the factors described above, as well as differences in exchange rates. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

CORPORATE HISTORY & DETAILS

Our legal and commercial name is Scailex Corporation Ltd. and our legal form is a company limited by shares. We were incorporated under the laws of the State of Israel on November 2, 1971, succeeding a predecessor corporation, Scientific Technology Ltd. that was founded on September 5, 1968. On December 29, 2005, we changed our name from "Scitex Corporation Ltd." to "Scailex Corporation Ltd." Our corporate headquarters and principal executive offices are located at 3 Azrieli Center, Triangular Tower, 43rd Floor, Tel Aviv, 67023, Israel. Our telephone number in Israel is (972) 3 - 6075855. Our website address is www.scailex.com. *Information contained on our website does not constitute a part of this Annual Report.*

We initially focused on imaging competencies in systems for the textile design market. In 1979, we launched the world's first computerized color prepress system. In the 1990s, we identified the evolving digital printing market and focused on commercializing innovative solutions for the graphic publishing industry in its transition from analog to digital printing, and made several key acquisitions of digital printing operations. We operated in this field principally through SDP, our indirect wholly owned subsidiary, and Scailex Vision, our majority owned subsidiary. In April 2000, we sold our digital preprint operations and our print-on-demand systems business to Creo. In January 2004 and November 2005, we sold the businesses of SDP and Scailex Vision, respectively, thereby marking our exit from the digital printing business (except through Jemtex).

MAJOR BUSINESS DEVELOPMENTS

In November 2005, we ended our involvement in the wide format segment of the industrial inkjet digital printing market through the sale of the business of Scailex Vision to Hewlett-Packard for approximately $236.6 million in cash, of which approximately $6.6 million was paid to Scailex Vision in April 2006 to account for a post-closing net working capital adjustment pursuant to the sale agreement. In February 2006, Scailex Vision distributed a net dividend of approximately $135 million to its shareholders, of which approximately $101 million was paid to us. *See Item 10C below*. Since the closing of this transaction, we hold substantially all of our assets in financial investments and the remainder is invested in several companies, including Jemtex, our majority owned subsidiary.

Our current plan of operation is to explore and consider strategic alternatives relating to our remaining holdings as well as to other investments and opportunities, including a possible merger or business combination with a domestic or foreign, private or public operating entity. Other than activities relating to attempting to locate such opportunities and activities relating to our holdings in several companies and the investment of our funds in short and long-term investments, we do not currently conduct any operations.

PRINCIPAL CAPITAL EXPENDITURE & DIVESTITURES

Since January 1, 2003, except for the self tender offer and the cash distribution described below, most of our principal capital expenditures and divestitures have been for the acquisition or sale of interests in other companies, as follows:

- In July 2005, IDX Systems Corporation, or IDX, acquired the assets of RealTimeImage Ltd. (formerly RTimage Ltd.), or RTI, in which we held a 14.9% stake, for an estimated purchase price of $15.5 million. The book value of our investment in RTI was recorded at $1.2 million on our balance sheet as of December 31, 2005, and such investment is accounted for under the cost method. In February 2006, we received a dividend of approximately $2.6 million from RTI.

- In January 2004 and November 2005, we sold the businesses of SDP and Scailex Vision, respectively. These transactions are described under "*Item 10C. Material Contracts"*below.

- In connection with the sale of SDP to Kodak, we approved a plan to distribute approximately $118 million to our shareholders. In June 2004, we completed a tender offer for our shares and purchased 4,952,050 shares for an aggregate amount of approximately $28 million ($5.67 per share). In July 2004, we distributed $2.36 per ordinary share, or approximately $90 million in the aggregate, to our shareholders of record as of June 30, 2004.

- We invested an aggregate of approximately $2.8 million in Objet Geometries Ltd. since January 1, 2002, including $0.5 million and $0.3 million that was invested in December 2003 and November 2004, respectively, in connection with Objet's rights offerings, and thereafter held an approximate 22.9% interest of Objet. In June 2005, we sold all of our holdings in Objet to several shareholders of Objet for $3.0 million in cash. Additional contingent consideration will be paid to Scailex if Objet undergoes specified "exit events" prior to the end of 2007.

- Since January 1, 2003, we invested an aggregate of approximately $7.1 million in Jemtex in consideration for the issuance to us of convertible debentures and preferred shares of Jemtex. We now hold an approximate 74.9% interest (85.4% assuming conversions of the debentures but not giving effect to the pending financing described in the next sentence) in Jemtex. In 2006 (through June 15, 2006), we invested an additional $1.5 million in Jemtex in respect of a pending round of financing by Jemtex.

- In the fourth quarter of 2002, we signed an agreement to combine the operations of Scailex Vision and Scailex Vision International, our then wholly owned subsidiary, and in January 2003 we completed this transaction, as a result of which Scailex Vision became a majority owned subsidiary of ours and the parent of Scailex Vision International. In July 2003 and May 2004, Scailex Vision concluded rights offerings in which we invested approximately $5.0 million and $4.2 million, respectively, by way of convertible loans, in accordance with our pro rata share of such offering. *See in Item 7B below under the captions "Combination of Scailex Vision and Scailex Vision International" and "Rights Offerings by Scailex Vision," respectively.* Said loans were converted to shares in February 2006.

  As previously reported, we were involved in several disputes with C.D.I. Technologies (1999) Ltd. (CDI) a minority shareholder of Scailex Vision, including claims against us, Scailex Vision and several other parties. In May 2005, we and our two largest shareholders, Clal and Discount, purchased all of CDI's interest in Scailex Vision, constituting 1.89% of Scailex Vision's issued share capital (1.35% on a fully diluted basis), for $1.6 million, plus additional contingent consideration to be paid if Scailex Vision undergoes an "exit event" within the next two years at a higher valuation than implied in the agreement. As a result of the sale of the business of Scailex Vision to Hewlett Packard, we paid an additional $0.3 million to CDI on account of such contingent consideration and we expect to pay an additional amount (as a result of Scailex Vision's future distributions). In connection with the purchase agreement, CDI agreed to dismiss all of the claims asserted by it against us and the other parties.

- In April 2000, we sold our digital preprint operations and our print-on-demand systems business to Creo, in return for 13.25 million Creo shares, and became the largest shareholder in Creo, initially with approximately 28.7% of the outstanding Creo shares. As part of the transaction, we issued to Creo an unsecured, non-interest bearing note in the principal amount of $18.8 million, which was fully repaid in April 2003. In November 2001, we sold 7.0 million shares of Creo for gross proceeds of approximately $78 million as part of a private placement to Canadian institutional investors. In June and August 2003, we sold 3.0 million shares of Creo for gross proceeds of approximately $24 million and 3.25 million shares of Creo for gross proceeds of approximately $31 million, respectively, as part of arranged sales to various financial institutions in Canada. We no longer hold any Creo shares.

B. BUSINESS OVERVIEW

Upon the sale of Scailex Vision's business in November 2005, we ceased substantially all of the operations of our business as conducted prior thereto. Since then, we have held substantially all of our assets in financial investments and the remainder is invested in several companies, including Jemtex, our majority owned subsidiary. Our plan of operation is to explore and consider strategic alternatives relating to our remaining holdings as well as to other investments and opportunities, including a possible merger or business combination with a domestic or foreign, private or public operating entity. While we are actively exploring strategic transactions and opportunities, we have not targeted any particular industry or specific business within an industry in which to pursue such opportunities.

JEMTEX INK JET PRINTING LTD. – CONTINUOUS INKJET INDUSTRIAL DIGITAL PRINTING

General

Jemtex, located in Lod, Israel, was established in 1995. It employed, as of December 31, 2005, approximately 30 people. We currently hold an approximate 74.9% interest in Jemtex. Jemtex is a developer of inkjet based digital systems, printheads and engines for the heavy-duty industrial printing markets, primarily for the corrugated packaging, and, to a lesser extent, the ceramic tiles, markets. The printing application for those markets are newly developed markets and accordingly a slow development of those markets is expected.

Product Overview

Jemtex's Continuous Ink Jet technology is designed to allow for customization, higher flexibility in design, file changes during print runs, smaller production runs, and faster turnaround time from print order to delivery of printed material. Jemtex has developed solutions for nozzle design, drop assignment and image processing algorithms for multi-nozzle alignment, calibration and on-line video process control. The design of its printheads and modular implementation are aimed to assure fast assembly and up time, as well as smooth operation with higher viscosity inks and colorant concentrations. Jemtex's current strategy is operating through strategic alliances.

Jemtex has introduced a new digital printing decoration system for ceramics named Gema II. The Gema II is designed to operate at productivity levels comparable to conventional printing while providing the advantages of digital printing. This system is still in its initial stages and may require additional enhancements or improvements.

Manufacturing & Sales

Jemtex outsources the manufacturing of part of the components for the systems it develops to its own specifications and also purchases off-the shelf components for its systems from third party vendors. Other components are built in Jemtex's premises and final manufacturing, full system integration and quality assurance testing of Jemtex's systems are conducted at its facilities in Lod, Israel. Jemtex has not made any commercial sales in the past two years (i.e., since we commenced to consolidate Jemtex's financial results in our financial statements).

Competition

Jemtex believes that the Gema II system will be competitively positioned vis-à-vis the KERAjet digital system (produced by Ferro Corporation), in terms of robustness, productivity and decoration capabilities.

OTHER GROUP COMPANIES

RealTimeImage Ltd.

RTI was formed in 1996. It was headquartered in San Bruno, California, with research and development operations in Or-Yehuda, Israel, and employed, before the completion of the July 2005 transaction described below, about 42 employees (it had no employees as of December 31, 2005). We currently hold an approximate 14.9% interest in RTI.

RTI was a leading innovator and developer of Internet-based imaging products and services for healthcare professionals until July 2005 and, until May 2004, also for the graphic arts market. As discussed in Item 4A above, in July 2005, RTI sold its healthcare business to IDX and currently does not conduct any operations.

XMPie Inc.

XMPie, which was formed in 2000, develops and markets software solutions for dynamic publishing in print and electronic media. The XMPie software platform is designed to allow organizations and marketing service providers, such as digital commercial printers and direct marketing agencies, to efficiently create – plan, design and produce – highly customized and personalized documents, which are becoming essential for direct marketing communication and any other highly targeted messaging discipline. XMPie is headquartered in New York, New York and, as of December 31, 2005, employed approximately 50 people. We currently hold an approximate 3.5% interest in XMPie.

Dor Ventures

Dor Ventures, headquartered in Brussels, Belgium, is a specialized venture capital fund investing in technology companies worldwide. As of June 15, 2006, we have invested an aggregate of approximately $3.6 million in one of the funds managed by Dor, and we are generally committed to invest up to additional $1.4 million in the future upon Dor's request. To date, we received approximately $1.3 million as distributions from the fund. We currently hold approximately 13.2% of Dor.

DISCONTINUED OPERATIONS – SCAILEX VISION

On November 1, 2005, we completed a transaction to sell the business of Scailex Vision, as described under "*Item 10C. Material Contracts – Sale of Scailex Vision's Business"* below. As a result of this transaction, the results of operations of Scailex Vision are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses attributable to Scailex Vision. Nevertheless, since the operations of Scailex Vision comprised one of our principal activities in the past years, the following is a brief description of Scailex Vision's business prior to November 1, 2005. Accordingly, the following description of Scailex Vision's business, to the extent it uses the current tense, does not purport to describe the current operations of Scailex Vision. For example, since November 2005, Scailex Vision's business is conducted under the name of HP Industrial Printing Ltd., a wholly owned subsidiary of Hewlett-Packard.

General

Scailex Vision Ltd. (formerly, Scitex Vision Ltd.), or Scailex Vision, is our majority owned subsidiary (approximately 78.6% interest on an issued and outstanding basis), based in Netanya, Israel. It was a developer, manufacturer and distributor of wide-format and super-wide format, color inkjet digital printing systems used for point-of-purchase displays, banners and indoor and outdoor advertising posters. It was also engaged in the design, development, manufacturing and marketing of advanced digital printing presses and specialized water-based inks for the packaging and textile markets based on its patented drop-on-demand inkjet technology. As of November 1, 2005, Scailex Vision employed approximately 570 employees (including employees of its sales, marketing and support subsidiaries and part-time and temporary employees).

Product Overview

Scailex Vision printers are dedicated to a wide array of applications including billboards, fleet marking, banners, street advertising, point-of-purchase displays and floor and window graphics, and applications for the packaging display market and, through strategic partners, for the textile market. Its printing systems are aimed at providing high-quality and cost-effective solutions to digital printing houses worldwide. Scailex Vision operated principally in the following fields: wide format systems, super-wide format systems, and flatbed printing systems for graphic arts, graphic display and textile printing applications.

Manufacturing

Scailex Vision outsourced the manufacturing of many of the components for its systems to its own specifications and purchases off-the shelf components for its systems from third party vendors. The most important third party vendors for its printing systems were the suppliers of the printheads used in such systems, and the subcontractors for assembly of its wide format systems.

Final integration and quality control testing of Scailex Vision's wide and super wide format systems was conducted at its facilities in Netanya, Israel, where it also assembled its wide and super-wide format systems and conducts full system integration and quality assurance testing.

Sales & Marketing

Scailex Vision had a large customer base with over 2,000 systems installed globally. It sold its products through its direct sales force, indirect distribution channels and third party joint sales arrangements. Equipment sales were typically made on terms requiring an advance payment, with the balance of the purchase price payable in stages, generally on delivery and on or shortly after installation.

Customer Support

Scailex Vision had a customer service and support team, consisting of over 100 engineers, technical and application specialists, and logistics and management personnel. These personnel were located in the United States, Europe and Asia as well as at the company's headquarters in Israel. The customer support team was responsible for providing installation services, post-sales support, and warranty services. Scailex Vision maintained a training facility at its headquarters in Israel for its customer support team and customers. In addition, its sales demonstration facilities in Brussels, Belgium and Atlanta, U.S.A., were also used for training purposes.

Scailex Vision offered an equipment warranty to its customers and distributors that, in most cases, cover defects in the systems for a period of six to 12 months following installation. At the end of the warranty period, the customer could enter into a service agreement with Scailex Vision, which includes equipment and software maintenance. If a customer did not enter into a service agreement, service was provided and charged on a per-call basis.

CUSTOMERS & SALES

As explained in Item 3A, we did not record any revenues from our current continuing operations in the past three years.

GOVERNMENT REGULATIONS

Trade & Export. Israel has the benefit of a free trade agreement with the United States which, generally, permits tariff-free access into the United States for products produced in Israel by Scailex's Israeli Group Companies. In addition, as a result of an agreement entered into by Israel with the European Union, or the EU, and countries remaining in the European Free Trade Association, or EFTA, the EU and EFTA have abolished customs duties on Israeli industrial products. However, there can be no assurance that these agreements will not be terminated, changed, amended or otherwise declared non-applicable to all or some of our Israeli subsidiaries, joint ventures and Group Companies, thereby materially harming our and their businesses.

Government Grants & Benefits. Some of our Israeli Group Companies receive grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor for research and development programs. Some of our Group Companies also receive or may in the future utilize tax benefits under Israeli law for capital investments that are designated as "Approved Enterprises." The participation in these programs is subject to compliance with certain conditions and imposes certain restrictions upon these companies. *For more information about the Office of the Chief Scientist, tax benefits for Approved Enterprises and export controls, see "Item 5B – Liquidity and Capital Resources – Grants from the Office of the Chief Scientist" and "Item 10E – Taxation – Israeli Taxation – Tax Benefits under the Law for the Encouragement of Capital Investments, 1959," respectively.*

Banking Regulations. Pursuant to a directive published by the Israeli Supervisor of Banks, which became effective on March 31, 2004, we may be deemed part of a group of affiliated borrowers comprised of IDB Holding Corporation Ltd., the ultimate parent of Discount and Clal, our principal shareholders, and other companies which may be included in such group of borrowers pursuant to the directive. The directive generally provides that an entity will be subject to limitations on the amount of financing available to it from an Israeli bank if such entity is included within a group of borrowers to which the amount of debt financing that has been extended from such Israeli bank amounts to 30% of such bank's capital, or is a member of one of the bank's six largest borrowers or groups of borrowers to which, collectively, the amount of debt financing that has been extended from the bank amounts to 150% of such bank's capital (gradually reduced to 135% between April 2005 and June 2006). As we are part of the IDB affiliated group of companies which includes many companies that require, or may in the future require, extensive credit facilities from Israeli banks for the operation of their businesses, we cannot assure you that our banks will not exceed these limits (if applicable to us) in the future. Should our banks exceed these limits, they may limit our ability to draw funds, which may have a material adverse effect on our financial condition. The directive also provides that a bank may request that the Israeli Supervisor of Banks exempt certain entities from the scope of the definition of a group of borrowers. Since we currently do not believe that the directive will impact us, we do not currently intend to request that our banks seek an exemption on our behalf from the Israel Supervisor of Banks. Should we decide to make such a request of our banks, there can be no assurance that our banks would agree to request an exemption from the Israel Supervisor of Banks on our behalf or that the Israel Supervisor of Banks would grant an exemption, if requested. See Item 7A, regarding the contemplated sale by Clal and Discount of their shareholdings to Israel Petrochemicals Enterprise Ltd.

Investment Company Act of 1940. Regulation under the Investment Company Act governs almost every aspect of a registered investment company's operations and can be very onerous for operating companies, especially those that conduct business through, or with, partially owned affiliates. The Investment Company Act, among other things, limits an investment company's capital structure, borrowing practices and transactions between an investment company and its affiliates, and prohibits the issuance of traditional options, warrants and incentive compensation arrangements, imposes requirements concerning the composition of an investment company's board of directors and requires shareholder approval of certain policy changes. Contracts made in violation of the Investment Company Act are void unless a court finds otherwise. An investment company organized outside of the United States is not permitted to publicly offer or promote its securities in the United States.

Following the sale of the businesses of SDP and Scailex Vision and the investment of the cash proceeds of such transactions, we are not an "investment company" under the Investment Company Act because we rely on an exemption from that act which generally exempts transient investment companies for a one year period, which in our case commenced when we sold the business of Scailex Vision. At the end of such one year period, if we have not entered into a business combination or developed an operating business, the likelihood of being deemed to be an investment company would increase over time and we may be required to seek exemptive or other relief from the SEC so as not to be regulated under the Investment Company Act. No assurance can be made that we will obtain such exemptive or other relief from the SEC, if and when we seek the same. If we were deemed to be an investment company, we would not be permitted to register under the Investment Company Act without obtaining exemptive relief from the SEC because we are incorporated outside of the United States and, prior to being permitted to register, we would not be permitted to publicly offer or promote our securities in the United States.

C. ORGANIZATIONAL STRUCTURE

Scailex is part of a group of which it is the parent company. The following table sets forth the name, jurisdiction and ownership and voting interest of our principal subsidiaries, as of the date hereof:

Name	Jurisdiction	Ownership and Voting Interest
Scailex Vision (Tel-Aviv) Ltd.	Israel	78.6%[(1)(2)]
Jemtex Ink Jet Ltd.	Israel	74.9%

(1) In November 2005, Scailex Vision sold its business to Hewlett-Packard and consequently has only minimal operations, primarily related to managing the company following the transaction. As a result, our holdings in Scailex Vision currently represent primarily our right to share, with the other shareholders and employees of Scailex Vision, in the distribution of any cash that Scailex Vision makes after payment of all of its commitments and liabilities.

(2) After giving effect to contemplated distributions to employees of Scailex Vision and outstanding options, equals to approximately 71.8% as if on a fully diluted basis.

D. PROPERTY, PLANT AND EQUIPMENT

In January 2004, we relocated to new corporate administrative offices in Tel Aviv, Israel, consisting of approximately 1,780 square feet of floor space pursuant to a Services Agreement between us and Discount. *For more information about the Services Agreement, please see "Item 7B. Related Party Transactions."* That lease was terminated in September 2004 and we lease the same premises from another lessor.

Jemtex leases nearly 15,000 square feet in Lod, Israel, for use as its administrative, manufacturing and research and development facility. The term of the lease expired on June 1, 2006 and currently continues with no specified expiration date, subject to either party's right to terminate the lease upon four months' advance notice.

We believe that the aforesaid offices and facilities are suitable and adequate for our operations as currently conducted and as currently foreseen. In the event that additional facilities are required, we believe that we could obtain such facilities at commercially reasonable rates.

Item 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions, which may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Accordingly, actual results may differ from these estimates or judgments under different assumptions or conditions. In this respect, we urge you to read the discussion under the caption "*Critical Accounting Policies*" below.

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in "Item 3–Key Information–Risk Factors."

You should read the following discussion with the consolidated financial statements and other financial information included elsewhere in this Annual Report.

OVERVIEW

Our historical operations, carried out by our then operating subsidiaries, focused on the industrial inkjet digital printing market. In recent years, we have undergone substantial changes and developments, including:

- the combination of the operations of Scailex Vision (formerly, Scitex Vision), a developer of "drop-on demand" inkjet technologies, in which we held 42.5% of the share capital, and Scailex Vision International (formerly, Scitex Vision International), our wholly owned subsidiary until the consummation of such transaction in January 2003, and subsequent investments by us in Scailex Vision in July 2003 and May 2004;

- the sale of the remainder of our shareholdings in Creo, a provider of solutions for the graphic arts industry, in the second half of 2003;

- key changes to the composition of our management team and of our board of directors;

- the sale of the business of SDP to Kodak in January 2004;

- the sale of the businesses of Scailex Vision to Hewlett Packard in November 2005;

- the investment of more than $7.1 million in Jemtex, which increased our interest in Jemtex from 49.8% to 74.9%. In 2006 (through June 15, 2006), we invested an additional $1.5 million in Jemtex in respect of a pending round of financing by Jemtex;

- in January 2004, we approved a plan to distribute approximately $118 million to our shareholders, which was effected through a $28 million repurchase of shares from our shareholders (a self tender offer that was completed in June 2004) and a $90 million cash distribution in July 2004;

- in February 2005, we entered into an agreement with the U.S. Internal Revenue Service, or IRS, to resolve a U.S. federal income tax audit of our U.S. subsidiaries for the years 1992 through 1996;

- in May 2005, we and our two largest shareholders, Clal and Discount, purchased all of CDI's interest in Scailex Vision for $1.9 million (including additional contingent consideration we paid to CDI following the closing). In the framework of the purchase agreement, CDI agreed to dismiss all of the claims asserted by it against us and other parties;

- in July 2005, IDX acquired the assets of RTI for an estimated purchase price of $15.5 million. In 2006, we received a dividend of approximately $2.6 million as a result of this sale; and

- in June 2005, we sold all of our holdings in Objet to several shareholders of Objet for $3.0 million in cash, which was paid in two installments, and additional contingent consideration if Objet undergoes specified "exit events" prior to the end of 2007.

In November 2005, we ended our involvement in the industrial inkjet digital printing market through the sale of the business of Scailex Vision to Hewlett-Packard for approximately $236.6 million in cash *(see Item 10C below)*. Since then, we hold substantially all of our assets in financial investments and the remainder is invested in several companies, including Jemtex, our majority owned development stage subsidiary. Our current plan of operation is to explore and consider strategic alternatives relating to our remaining holdings as well as to other investments and opportunities, including a possible merger or business combination with a domestic or foreign, private or public operating entity.

FINANCIAL HIGHLIGHTS

In 2001 and 2002, we recorded net losses in the respective amounts of approximately $253 million and $32 million, respectively, primarily as a result of write-downs and losses of $215.9 million (in 2001) and write-downs of $22.3 million (in 2002) associated with our holdings in Creo.

In 2003, we recorded net income of approximately $1.4 million, which was primarily derived from a net loss of $8 million from continuing operations that was offset by approximately $9.4 million of net income from discontinued operations.

In 2004, we recorded net income of approximately $47.3 million, which was primarily derived from net losses of $5.2 million from continuing operations (mainly out of operating expenses incurred by our headquarters and Jemtex) that was offset by net income from discontinued operations of $52.4 million (approximately $51.6 million of which as a result of the sale of the business of SDP to Kodak).

In 2005, we recorded net income of approximately $106.1 million, which was primarily derived from net income of $0.7 million from continuing operations (mainly from a capital gain from the sale of our interests in Objet and financial income from our investments that was offset by operating expenses incurred by our headquarters and Jemtex), and net income from discontinued operations of $105.4 million (of which $92.3 million relate to the capital gain from the sale of Scailex Vision's business, $4.3 million relate to the activities of Scailex Vision through the closing of the transaction in November 2005 and $8.8 million related to the sale of SDP's business).

Since we are exploring our strategic alternatives, including engaging in new areas of operations, the data presented below are not indicative of our future operating results or financial position.

A. OPERATING RESULTS

EXPLANATORY NOTES

- ***Consolidation of Jemtex****:* As a result of further investments in Jemtex, Jemtex became a majority owned subsidiary of ours and, commencing with the first quarter of 2004, we have been consolidating the results of Jemtex with ours; our investment in Jemtex was previously treated by us as an investment accounted for under the "equity" method. *See Note 3a to our consolidated financial statements included in this Annual Report.*

- ***Discontinued Operations (SDP)****:* In January 2004, we completed the sale of substantially all of the assets and business of SDP to Kodak. As a result of the sale, the results of operations of SDP are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses attributable to SDP. Similarly, assets and liabilities relating to SDP are presented in our balance sheet separately as assets and liabilities of discontinued operations. Our consolidated financial statements for prior periods have been reclassified to reflect these changes. *See Note 1b1to our consolidated financial statements included in this Annual Report.*

- ***Discontinued Operations (Scailex Vision)****:* In November 2005, we completed the sale of substantially all of the assets and business of Scailex Vision to HP. As a result of the sale, the results of operations of Scailex Vision are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses attributable to Scailex Vision. Similarly, assets and liabilities relating to Scailex Vision are presented in our balance sheet separately as assets and liabilities of discontinued operations. Our consolidated financial statements for prior periods have been reclassified to reflect these changes. *See Note 1b*2 *to our consolidated financial statements included in this Annual Report.*

- ***Definition of Segments****:* Prior to the sale of SDP's and Scailex Vision's businesses, we had been reporting in two segments: high speed digital printing (SDP) and wide format digital printing (Scailex Vision). In conjunction with the commencement of reporting the results of operations of SDP and Scailex Vision as discontinued operations and consolidating the results of Jemtex, we have modified the definition of our business segments and our results of operations are now reported in two different segments – Corporate (Scailex Corporation) and continuous inkjet industrial digital printing (Jemtex). *See Notes 1a and 13 to our consolidated financial statements included in this Annual Report.*

- ***No Revenues.*** As described above, as result of the sale of SDP's and Scailex Vision's businesses, our consolidated financial statements for prior periods have been reclassified to reflect the discontinuation of such operations. Since Jemtex, our remaining operating subsidiary, did not generate revenues in 2003 through 2005, no data regarding revenues or cost of revenues is presented below.

2005 FINANCIAL HIGHLIGHTS

Some of the key aspects of our operating results in 2005 are as follows:

- No revenues from continuing operations were recorded.

- Net income (including from discontinued operations) was $106.1 million, comprised primarily of income of $92.3 million from the sale of substantially all of the assets and business of Scailex Vision to Hewlett-Packard.

- Net income from continuing operations of $0.7 million compared to a net loss from continuing operations of $5.2 million in 2004, mainly due to a capital gain on the sale of our interest in Objet and an increase in financial income due to an increase in the value of our cash and cash equivalents.

- Significant improvement in our cash balance related to continued operations (comprised of cash, cash equivalents and short term investments) from approximately $147.6 million (including a restricted deposit of $5.0 million) at December 31, 2004 to approximately $235.9 million (including a restricted deposit of $5.2 million) at December 31, 2005 primarily due to the sale of Scailex Vision's business, which was partially offset by $53.9 million that was allocated to discontinued operations, $29.7 million that was classified as non-current assets, $35.9 million used for loan repayments by Scailex Vision throughout 2005 and payments of approximately $4.2 million on account of transaction expenses.

COMPARISON OF 2003, 2004 AND 2005 FINANCIAL RESULTS

Revenues; Cost of Revenues

As explained above, as a result of the reclassification of our financial results, we did not recognize any revenues in those years.

Operating Expenses

	Year ended December 31,*		
	2005	2004	2003
	(approximate $ in millions)		
Research and development, gross	$ 2.6	$ 2.3	-
Less Royalty-bearing participation	0.1	0.1	-
Research and development, net	2.5	2.2	-
Marketing	0.1	0.1	-
General and administrative	3.6	4.8	2.9
Total operating expenses	$ 6.2	$ 7.1	$ 2.9

* See Notes 12c and 12d to our consolidated financial statements included in this Annual Report.

Operating expenses. Operating expenses comprise costs and expenses associated with research and development, marketing, and general and administrative.

In 2005, operating expenses were $6.2 million, compared to $7.1 million in 2004. A portion of these expenses ($2.5 million and $2.2 million in 2005 and 2004, respectively) was related to research and development expenses of Jemtex. The balance of the expenses ($3.7 million and $4.9 million in 2005 and 2004, respectively) were related to general and administrative expenses and were mainly used for payment of salaries and related expenses, investor relations expenses and consultant fees.

In 2005, the operating expenses of Jemtex totaled $3.2 million, compared to $2.8 million in 2004. The majority of these expenses ($2.5 million and $2.2 million in 2005 and 2004, respectively) were related to research and development expenses. The balance of the expenses ($0.7 million and $0.6 million in 2005 and 2004, respectively) were related to general and administrative expenses and were mainly used for payment of salaries and related expenses.

In 2003, the operation expenses comprised of only general and administrative expenses relating to Scailex Corporation’s headquarters because the financial results (including operating expenses) of Jemtex were not consolidated with ours in 2003.

Research and development expenses. Research and development, or R&D, expenses consist primarily of costs associated with the design, technology development, product development, pre-manufacture and testing of new products and enhancements of existing products, salaries and related personnel costs, patent prosecution and maintenance costs, and other expenses related to product development and research programs. We expense all research and development costs as they are incurred.

All of the R&D expenses relate to Jemtex. In 2005, these expenses were relatively the same as in 2004 mainly because of similar level of activity in Jemtex.

Marketing expenses. Marketing expenses consist primarily of travel expenses and of promotional and investor relations activities. All of the marketing expenses relate to Jemtex’s operations.

General and administrative expenses. General and administrative, or G&A, expenses consist primarily of salaries and related costs for our executive and administrative staff, and insurance, legal and accounting expenses, both in Israel and abroad, as well as investor relations expenses.

G&A expenses in 2004 were higher compared to the G&A expenses in 2005 mainly due to the reduction in Jemtex's workforce in 2005. In 2004, the G&A expenses increased compared to 2003 mainly because we commenced the consolidation of Jemtex's results during that year.

Amortization Charges

The amortization expenses in 2005 and 2004 remained at the same level of $1.2 million. The amortization expenses during 2005 and 2004 resulted primarily from the periodic amortization charges resulting from investments in Jemtex.

Financial and Other Income and Expenses

Financial income (expenses), net, consists primarily of interest earned on bank overnight deposits and on marketable bonds (especially U.S. government and U.S. agency bonds), interest incurred on bank and other loans and exchange rate differences.

	Year ended December 31,		
	2005	2004	2003
	(approximate $ in millions)		
Interest income	$ 4.5	$ 2.9	$ 0.3
Loss on marketable securities	(0.1)	(0.1)	--
Interest on loan from associated company	--	--	(0.2)
Bank charges and other (including foreign exchange transaction losses, net)	(0.1)	(0.1)	-
Total financial income, net	$ 4.3	$ 2.7	$ 0.1

Net financial income increased from $2.7 million in 2004 to $4.3 million in 2005, due primarily to the increase in our cash balance due to the sale of the business of Scailex Vision. Furthermore, the overnight LIBOR rate which we receive on our cash deposits has increased in 2005 from 2.3% in the beginning of the year to 4.3% at the end of the year resulting in a relatively significant impact on the financial income. Net financial income increased from $0.1 million in 2003 to $2.7 million in 2004, due primarily to interest earned on the funds received from the sale of SDP in the beginning of 2004.

Other income, net, in 2005 totaled $0.9 million, compared to $0.7 million in 2004. In 2005, the income resulted primarily from a dividend received from an associated investee (Dor Ventures) and in 2004 the income resulted primarily from a forfeiture of a shareholder loan in Jemtex. In 2003, there were several sales that resulted in capital gains, primarily the sale of Creo shares.

Taxes

Israeli companies are generally subject to income tax at the corporate rate of 34% for 2005 (compared to 36% in 2003 and 35% for 2004). Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961, which came into effect on January 1, 2006, the corporate tax rate is scheduled to decrease as follows: 31% for the 2006 tax year, 29% for the 2007 tax year, 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter.

Capital gains derived after January 1, 2003, are subject to capital gains tax at a rate of 25% (other than with respect to gains deriving from the sale of listed securities). *See in "Item 5B – Corporate Tax Rate" below for more information.*

As of the end of 2005, our deferred income tax assets were reduced from $146 million at December 31, 2004 to $141 million, mainly due to the sale of our interests in Objet and the utilization of carry-forward losses. We have created a valuation allowance on almost all of our deferred tax assets, since we believe that it is not more likely than not that these deferred tax assets will be utilized.

A number of factors may impact future taxable income, including those discussed under "Risk Factors" in Item 3D, as well as any tax planning strategies. To the extent that estimates of future taxable income are reduced or not realized, the amount of the deferred tax asset considered realizable could be adversely affected.

Equity Investments

Our share in the results of associated companies was income of $2.9 million in 2005 that derived mainly from the capital gain generated from the sale of our interests in Objet. In 2004, our share in losses of associated companies was $1.4 million compared with $5.6 million in 2003. The decrease was due to the fact that in 2004 Objet was the sole investment accounted for under the equity method (the book value of our investment in Objet was recorded at close to zero on our balance sheet as of March 31, 2005), compared to 2003 in which Jemtex was also accounted for under the equity method.

IMPACT OF RELATED PARTY TRANSACTIONS

We have entered into a number of agreements with certain companies with whom our principal shareholders, Clal and/or Discount, are affiliated.

In December 2002, we entered into a Share Exchange Agreement with Scailex Vision, in which Clal and Discount each held approximately 14% of the share capital, and Scailex Vision International, pursuant to which we combined the operations of these companies. Among other factors considered in deciding to approve the transaction, our board of directors received a written opinion from its financial advisor in connection with the transaction, as to the fairness, from a financial point of view, of the consideration to be paid by us in connection with the transaction. In July 2003 and May 2004 we, CEI and Discount invested in Scailex Vision by participating in rights offerings conducted by Scailex Vision. In addition, we entered into additional agreements with Scailex Vision, Clal and Discount which are incidental to the sale of Scailex Vision's business to Hewlett-Packard.

Please see "Item 7B – Related Party Transactions" below for specific details as to these transactions and certain other related party transactions entered into by us.

We believe that the terms of these related party transactions are not different in any material respect than the terms we could receive from unaffiliated third parties. The pricing and/or value of such transactions were arrived based on arms'-length negotiations between the parties and, in certain cases, based upon, among other things, opinions of third party financial advisors. Our management reviewed the pricing of such transactions and confirmed that they were not materially different than could have been obtained from unaffiliated third parties.

Under the Companies Law and recently issued NASDAQ rules, certain transactions and arrangements with interested parties require approval by our board of directors and our audit committee and, in some cases, also require approval by our shareholders. In this respect, see the discussion in "Item 6C – Approval of Specified Related Party Transactions under Israeli Law" below.

IMPACT OF INFLATION AND EXCHANGE RISKS

New Israeli Shekel. Historically, the New Israeli Shekel, the Israeli currency, has been devalued in relation to the U.S. dollar and other major currencies principally to reflect the extent to which inflation in Israel exceeds average inflation rates in Western economies. Such devaluations in any particular fiscal period are never completely synchronized with the rate of inflation and therefore may lag behind or exceed the underlying inflation rate. The table below sets forth the annual rate of inflation, the annual rate of devaluation (or revaluation) of the NIS against the U.S. dollar and the gap between the two for the periods indicated:

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Inflation (Deflation)	2.4%	1.2%	(1.9)%	6.5%	1.4%
Devaluation (Revaluation)	6.8%	(1.6)%	(7.6)%	7.3%	9.3%
Inflation (devaluation) gap	(4.4)%	2.8%	5.7%	(0.8)%	(7.9)%

Costs not denominated in, or linked to, dollars are translated to dollars, when recorded, at prevailing exchange rates for the purposes of our financial statements. To the extent such costs are linked to the Israeli Consumer Price Index, such costs may increase if the rate of inflation in Israel exceeds the rate of devaluation of the shekel against the dollar or if the timing of such devaluations were to lag considerably behind inflation. Conversely, such costs may, in dollar terms, decrease if the rate of inflation is lower than the rate of devaluation of the shekel against the dollar. Accordingly, our Israeli operations experienced an increase in dollar costs in 2003 and 2004, and a decrease in 2001, 2002 and 2005. The representative dollar exchange rate for converting the shekel to dollars, as reported by the Bank of Israel, was NIS 4.603 on December 31, 2005 (NIS 4.308 on December 31, 2004).

Other currencies. Until the Creo transaction in April 2000, we had substantial operations outside the United States and Israel, and accordingly maintained substantial non-dollar balances of assets, including substantial accounts receivable balances related to sales made in non-dollar currencies, mostly European currencies and Japanese yen. Our general policy was to hedge against the exchange rate exposure arising from the existence of such non-dollar business activities. Subsequent to the Creo transaction, SDP and Scailex Vision established operations of their own outside the United States and Israel, primarily in Europe, but the volume of activity in non-dollar currencies was significantly reduced compared to previous years and, following the sale of Scailex Vision's operations in November 2005, was eliminated altogether.

See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations included in this Item 5 and elsewhere in this Annual Report are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements often requires us to make estimates, judgments and assumptions, which may affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures as of the date of the financial statements and during the reported period. On a regular basis, we evaluate and may revise our estimates. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent. Some of those judgments can be complex, and consequently, actual results may differ from those estimates. For any given individual estimate, judgment or assumption made by our management, there may be alternative estimates, judgments or assumptions, which are also reasonable. We believe that the estimates, assumptions and judgments described below have the greatest potential impact on our financial statements and consider these to be our critical accounting policies:

Deferred tax valuation allowance. Deferred taxes are determined utilizing the asset and liability method, based on the estimated future tax effect resulting from differences between the amounts presented in our financial statements and those taken into account for tax purposes, in accordance with the related tax laws, and from tax losses carryforward. Valuation allowances are included in respect of deferred tax assets when it is more likely than not that all or a portion of such assets will not be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Due to the uncertainty as to utilization of the tax losses carryforward, a valuation allowance was provided to reduce our deferred tax assets, because we expect that for the foreseeable future it is not more likely than not that all of the deferred tax assets will be realized. Conversely, the carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. A number of factors may impact future taxable income, including those discussed under "Risk Factors" in Item 3D, as well as any tax planning strategies. To the extent that estimates of future taxable income are reduced or not realized, we could be required to establish additional valuation allowances and the amount of the deferred tax asset considered realizable could be adversely affected by a material amount. If it were determined that we would be able to realize a deferred tax asset in excess of its net recorded amount, an adjustment to deferred tax assets would increase our income.

Treatment of income tax. Our tax returns as well as those of our subsidiaries are subject to examination by tax authorities in various jurisdictions. In general, our management considers tax provisions based on its reasonable estimate of the outcome of the examination. Our management believes that the estimates reflected in the financial statements reflect our tax liabilities. However, our actual tax liabilities may ultimately differ from those estimates if taxing authorities successfully challenge our tax treatment or if we were to prevail in matters for which provisions have been established. Accordingly, our effective tax rate in a given financial statement period may materially change.

Impairment of goodwill, intangible assets and other long-lived assets. Under current accounting standards, we make judgments about the useful lives and fair value of goodwill, other intangible assets and other long-lived assets, including assumptions about estimated future cash flows and other factors to determine the fair value of the respective assets. On January 1, 2002, we adopted FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and FAS 142, "Goodwill and Other Intangible Assets." FAS 144 requires that long-lived assets be reviewed for impairment and, if necessary, written down to the estimated fair values, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. FAS 142 generally provides that goodwill and intangible assets (1) with indefinite lives will no longer be amortized and (2) deemed to have an indefinite life will be tested for impairment at least annually. Judgments and assumptions about future cash flows and remaining lives are complex and often subjective and can be affected by a variety of external and internal factors. If these estimates or related assumptions change in the future, we may be required to record impairment charges related to these assets.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

SFAS No. 123. In December 2004, the FASB issued SFAS No. 123 (Revised 2004) "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) addresses all forms of share-based payment ("SBP") awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS No. 123(R) supersedes our current accounting for SBP awards under APB No. 25 and requires us to recognize compensation expense for all SBP awards based on fair value. In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB No. 107") relating to the adoption of SFAS No. 123(R). Beginning in the first quarter of 2006, the Company will adopt the provisions of SFAS No. 123(R) under the modified prospective transition method. Under the new standard, our estimate of compensation expense will require a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), future forfeitures and related tax effects. The Company recognize SBP compensation expense based on FASB Interpretation 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an interpretation of APB Opinions No. 15 and 25", which provides for accelerated expensing and will continue to do so after the adoption of SFAS No. 123(R). SFAS 123R requires the Company to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Currently, the Company accounts for forfeitures as they accrue as permitted under previous accounting standard. The Company does not expect the statement to have a material effect on its consolidated financial position, results of operations or cash flows. In addition, the Company estimates that the cumulative effect of adopting SFAS No. 123R as of its adoption date (January 1, 2006), based on the awards outstanding as of December 31, 2005, will not be material. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur after December 31, 2005 and prior to the Company's adoption of SFAS No. 123R.

SFAS No. 154. In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 supercedes of Accounting Principles Board Opinion No. 20 and SFAS No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005. The Company will be adopting this pronouncement beginning in the fiscal year 2006 and does not currently believe that it will have a material impact on its consolidated financial position, results of operations or cash flows.

FAS 155. In February 2006, the FASB issued FAS 155, accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided that no interim period financial statements have bee issued for the financial year. Management is currently evaluating the impact of this statement, if any, on the Company's financial statements or its results of operations.

FAS 115-1 and FAS 124-1. In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1 and 124-1"), which clarifies when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 are effective for all reporting periods beginning after December 15, 2005. The Company does not believe adoption of FSP FAS 115-1 and FAS 124-1 will have a material effect on its consolidated financial position, results of operations or cash flows.

B. LIQUIDITY &CAPITAL RESOURCES

OVERVIEW

On December 31, 2005, our net working capital from continuing operations was $222.3 million, compared to $134.0 million on December 31, 2004. The net working capital increased primarily as a result of an increase of approximately $88.0 million in cash and short term investments that resulted from the proceeds we received in connection with the sale of Scailex Vision's business.

We have financed our operations through cash generated from operations, including the proceeds from the sale of SDP's business in January 2004 which generated, in the aggregate, approximately $262 million in cash. Cash, cash equivalents, short-term investments and a restricted deposit at December 31, 2005 were $235.9 million compared to $147.6 million at December 31, 2004. The increase in cash, cash equivalents and short-term investments is attributable primarily to the proceeds received from the sale of Scailex Vision's business, which was off-set by repayments of loans drawn by Scailex Vision.

Cash Flows

We had negative net cash used in operations in 2005. The net cash flow used in operations in 2005 was approximately $27 million, compared to approximately $10.3 million in 2004 (and $6.2 million in 2003). The negative cash flows from operations were due primarily to the sale of Scailex Vision's business.

Our investment activities currently consist primarily of investments and redemptions of short-term bank deposits and U.S. government securities. In 2005, $179.8 million was generated from investment activities (excluding $4.8 million of reduction in restricted deposit) compared to $183.2 million that was generated from investment activities (excluding $10.0 million of restricted deposit) in 2004 and $50.9 million in 2003. The cash generated from investment activities in 2005 is related primarily to the proceeds received from the sale of Scailex Vision's business while the cash generated from investment activities in 2004 was related primarily to the proceeds received from the sale of SDP's business. The cash generated form these sales in 2004 and 2005 was offset by cash used for investments in marketable securities, which were significantly higher in 2004 than in 2005. The increase in cash generated from investment activities in 2004 compared to 2003 is related primarily to cash generated from the sale of SDP's business and the follow-on investments and redemptions of short-term bank deposits and U.S. government securities. Major uses of cash for investing activities during 2005 included investments in U.S. government securities.

Net cash used in financing activities in 2005 was approximately $43.2 million, consisting mainly of repayments of loans drawn by Scailex Vision. Net cash used in financing activities in 2004 was approximately $133.7 million, consisting mainly of $117.9 million used in the cash distribution and tender offer and a further $15.8 million used for repayments of long and short term loans. Net cash used in financing activities in 2003 was approximately $9.7 million, consisting mainly of the repayment of the $18.8 million note we issued to Creo, which was offset by Scailex Vision's borrowings under its credit facilities.

In sum, the net cash flow (cash and cash equivalents) increase in 2005 amounted to $114.5 million.

The ability of our subsidiaries to transfer funds to us in the form of cash dividends is generally subject to restrictions imposed by the corporation laws of the respective jurisdiction in which they are incorporated. For example, our Israeli subsidiaries and Group Companies may not pay dividends unless they meet specified criteria or, in certain cases, only with the approval of the court. We do not believe that such restrictions or any other restrictions imposed by law on our subsidiaries have had or are expected to have any material adverse impact on our ability to meet our cash obligations.

Capital Expenditures

Capital expenditures in fixed assets of continuing operations in 2003, 2004 and 2005 were approximately $0, $0.01 million and $0.02 million, respectively. Our capital expenditures by way of equity and convertible debt investments in our Group Companies (other than our consolidated subsidiaries) in 2003, 2004 and 2005 were approximately $3.1 million, $0.6 million and $0.3 million, respectively. There are commitments for investment in Dor Ventures in total amount of approximately $1.4 million as of June 15, 2006.

Credit Facilities

As of November 1, 2005, Scailex Vision's borrowings under its revolving lines of credit and long-term loans for working capital and investments purposes from banks in Israel amounted to approximately $27.9 million. These amounts were repaid in full following the closing of the sale of Scailex Vision's business.

In 2000, Scailex Vision borrowed from one of its suppliers a long-term convertible loan of $5 million. As of June 1, 2006, the principal amount outstanding is $2.75 million. This loan does not bear any interest.

Tax Audits

Not all of the tax returns of our operations are final and, from time to time, we are subject to further audit and assessment by the applicable tax authorities, including the following:

- In Israel, we have received, or are considered to have received, final tax assessments through the 2000 tax year and Scailex Vision is being audited for the years 2001 through 2005, including with respect to the sale of its business to Hewlett-Packard.

- In the United States, in partial settlement of an audit by the Internal Revenue Service (IRS) of our U.S. subsidiaries for the years 1992 through 1996, we consented to a "partial assessment" by the IRS for approximately $10.6 million of federal taxes on certain agreed upon issues. In February 2004, we reached a settlement with the IRS, whereby we agreed to an assessment of $5.9 million of additional federal income taxes for these years (rather than $29.6 million as initially proposed by the IRS, excluding interest accrued thereon). We had previously established balance sheet reserves on account of this audit which turned out to be sufficient. Accordingly, we paid as a final additional cash cost of the IRS audit (taking into consideration the full federal tax assessment, state taxes and interest thereon, and after application of a $21.5 million advance payment), an amount of approximately $11.6 million. In December 2004, as a result of the conclusion of the said IRS audit, we filed amended federal tax returns for the years 1994, 1995 and 1997, requesting a refund of $7.8 million of federal taxes. Since we estimate that there is a high likelihood that we will receive the refund, we recorded a federal income tax receivable of $7.8 million as part of discontinued operations on 2005. SDP currently is being audited for the year 2003.

- In mid-2001, Scailex Vision International filed an application for an advance ruling by Hong Kong's Inland Revenue Department (IRD). In general, this application sought the IRD's agreement that Scailex Vision International's sales outside of Hong Kong will be exempt from tax in Hong Kong and that sales within Hong Kong will be subject to a lower tax rate. During 2003, the IRD declined the application. Thereafter, Scailex Vision International sold the local subsidiary and ceased the relevant activity in Hong Kong. Scailex Vision International believes that it has appropriate provisions relating to this matter.

While we believe that we established sufficient reserves for these matters, additional payments may be required at the conclusion of these matters. It is not possible to predict at this time whether and when any eventual payments will be made.

Cash Outlook for 2006

In 2006, we do not expect that our majority owned subsidiary, Jemtex, will generate sufficient cash for our operations. Our investment activities, which may include continued investment in Jemtex and investments in our Group Companies, contingent payments for past acquisitions and investments in capital assets, may be higher than the amount of cash generated from our financial income. However, our management believes that existing cash and short-term investments will be sufficient to meet operating requirements in the year 2006

EFFECTIVE CORPORATE TAX RATE

Israeli companies are generally subject to corporate tax on their taxable income at the rate of 34% for the 2005 tax year (compared to 35% for the 2004 tax year and 36% for the 2003 tax year). Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961, which came into effect on January 1, 2006, the corporate tax rate is scheduled to decrease as follows: 31% for the 2006 tax year, 29% for the 2007 tax year, 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains derived after January 1, 2003 (other than with respect to gains deriving from the sale of listed securities). However, the manufacturing facilities in Israel of Jemtex have been granted Approved Enterprise status under the Law for the Encouragement of Capital Investments, 1959. Consequently, these facilities are eligible for tax benefits. The tax benefit is afforded for seven years from the year the relevant facility first earns taxable income, but no later than 12 years from the first year of operating or 14 years from the year in which the approval was granted. Subject to compliance with applicable requirements, the income derived from these Approved Enterprise facilities will be fully tax-exempt during the first two years of the seven-year tax benefit, and will be subject to a reduced tax rate of a maximum of 25% during the remaining five years, but in any event not later than 2006 regarding Approved Enterprise facilities that are already approved and effective. The actual tax rate will depend upon the percentage of non-Israeli holders of the share capital of these companies.

See below under "Item 10E – Taxation" and in Note 12 to our consolidated financial statements for more information on our income taxes.

The above benefits are conditioned upon our fulfillment of conditions stipulated by the Law for the Encouragement of Capital Investments, the regulations promulgated thereunder and the instruments of approval for the specific investments in Approved Enterprises. If we fail to comply with these conditions, our benefits may be canceled and we may be required to refund the amount of the benefits received, in whole or in part.

MARKET RISK

For information on our market risk and the use of financial instruments for hedging purposes, see below under "Item 11 – Quantitative and Qualitative Disclosures About Market Risk."

GRANTS FROM THE OFFICE OF THE CHIEF SCIENTIST

The Government of Israel encourages research and development projects through the Office of Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the Office of the Chief Scientist, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, and the regulations promulgated thereunder, commonly referred to as the R&D Law. This governmental support is conditioned upon the participant's ability to comply with certain applicable requirements and conditions specified in the Chief Scientist's program and with the provisions of the R&D Law. In June 2005, an amendment to the R&D Law came into effect, which intends to make the law more compatible with the global business environment by, among other things, relaxing restrictions on the transfer of manufacturing rights outside Israel and on the transfer of Chief Scientist-funded know-how outside of Israel, as described below

Generally, grants from the Office of the Chief Scientist constitute up to usually 50% of qualifying research and development expenditures for particular approved projects. Grants received are generally repaid through a mandatory royalty based on revenues from products (and ancillary services) incorporating know-how developed, in whole or in part, with the grants. Royalty obligations vary between 100% and 150% of the dollar-linked amount of the grant. Royalties on grants recorded for programs beginning on or after January 1, 1999 bear interest linked to the LIBOR. The Israeli government is currently in the process of formulating a proposed amendment to the royalty regulations promulgated under the Research and Development Law. The amendment is expected to include changes to the royalty rates, which would vary from company to company based on the amount of its revenues and approval date of its program, up to a rate of 6%, and, as of 2006, to increase the rate of interest accruing on grants by 1% per year. The amendment is expected to have retroactive effect from January 1, 2006, although there is no assurance as to whether and when it will be adopted.

The R&D Law and the terms of the Office of the Chief Scientist grants generally prohibit participants from manufacturing products or transferring technologies developed using these grants outside of Israel without special approvals. Even if approval to manufacture the products outside of Israel is obtained, the participant would generally be required to pay an increased total amount of royalties, which may be up to 300% of the grant amount plus interest, depending on the portion of the total manufacturing volume that is performed outside of Israel. The amendment to the R&D Law further permits the Chief Scientist, among other things, to approve the transfer of manufacturing rights outside Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. Effective April 1, 2003, the R&D Law also allows for the approval of grants in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the research committee is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the Chief Scientist whether to approve a program and the amount and other terms of benefits to be granted. For example, the increased royalty rate and repayment amount will be required in such cases.

The R&D Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the research committee. Such approval is not required for the export of any products resulting from such research or development. The R&D Law further provides that the know-how developed under an approved research and development program may not be transferred to any third parties outside Israel, except in certain circumstances and subject to the Chief Scientist's prior approval. The Chief Scientist may approve the transfer of Chief Scientist-funded know-how outside Israel, generally in the following cases: (a) the grant recipient pays to the Chief Scientist a portion of the sale price paid in consideration for such Chief Scientist-funded know-how (according to certain formulas), or (b) the grant recipient receives know-how from a third party in exchange for its Chief Scientist-funded know-how, or (c) such transfer of Chief Scientist-funded know-how arises in connection with certain types of cooperation in research and development activities.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and interested parties to notify the Office of the Chief Scientist of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the Office of the Chief Scientist to comply with the R&D Law. In addition, the rules of the Office of the Chief Scientist may require prior approval of the Office of the Chief Scientist or additional information or representations in respect of certain of such events. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Since Scailex currently participates in these programs solely through some of its Group Companies, we do not believe that any non-Israeli who becomes a holder of 5% or more of our outstanding shares is required to comply with the aforesaid notification and undertaking requirements.

We recorded grant participation from the Office of the Chief Scientist totaling approximately $0.18 million in 2004 and $0.06 million in 2005 on account of Jemtex's operations. Pursuant to the terms of these grants, Jemtex is obligated to pay royalties in the range of 3% to 5% of revenues derived from sales of products funded with these grants. As of December 31, 2005, our overall contingent liability to the Office of the Chief Scientist in respect of grants received by Jemtex was approximately $3.2 million. The continued decrease in level of grants since 2002 is due to the respective reduction in the business and development activities of Jemtex.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Following the sale of Scailex Vision's business in November 2005, research and development activities are being conducted only through Jemtex.

Our research and development activities primarily consisted of approximately 11 employees.

As part of the SDP transaction in January 2004 and the Scailex Vision transaction in November 2005, Kodak and Hewlett-Packard acquired all the intellectual property of these subsidiaries relating to the digital printing business. A number of issued patents and pending applications are still held by our other Group Companies.

D. TREND INFORMATION

Our plan of operation is to explore and consider strategic alternatives relating to our remaining holdings as well as to other investments and opportunities, including a possible merger or business combination with a domestic or foreign, private or public operating entity. There is no assurance that any of these alternatives will be pursued or, if one is pursued, the timing thereof or terms on which it would occur. Since this may result in the engagement of new areas of operations, our financial data reported in this Annual Report is not necessarily indicative of our future operating results or financial position.

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes therein, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The table below summarizes, as of December 31, 2005, our following contractual obligations to third parties for the periods indicated:

	Payments Due by Period (in $ millions)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt	N/A				
Operating leases (facilities and vehicles)	0.08	0.07	0.01	-	-
Total contractual cash obligations	0.08	0.07	0.01	-	-

As to our royalty obligations and outstanding guarantees as at December 31, 2005, see Note 8 to our consolidated financial statements included in this Annual Report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management:

Name	Age	Director Since	Position
Arie Mientkavich	63	2006	Chairman of the Board of Directors*
Raanan Cohen (1) (2) (3)	38	2002	President and Chief Executive Officer; Director
Yahel Shachar	44	--	Chief Financial Officer & Corporate Secretary
Avraham Asheri (2) (4) (5)	68	2000	Director; Chairman of the Audit Committee*
Ophira Rosolio-Aharonson (2) (4)	56	2000	Director*
Yoav Biran (4) (6)	67	2005	Director*
Avraham Fischer (7) (8) (10)	49	2003	Director*
Shay Livnat (8) (9)	47	2003	Director*
Shimon Alon	56	2003	Director*
Gerald Dogon (2) (4) (6) (7) (10)	66	2003	Director*
Nachum Shamir	52	2004	Director

* Designated as “independent director” in accordance with NASDAQ Marketplace Rules.

(1) Nominee of Discount and its wholly owned subsidiary.

(2) Member of the Financial Investments Committee of the Board of Directors.

(3) Seconded to us by Discount pursuant to the Services Agreement described under “Item 7B – Services Agreements” below. Mr. Cohen is the son of Mr. Eliahu Cohen, a member of the board of directors of Clal, Discount and IDB Holding Corporation Ltd. (“IDB Holding”), and Chief Executive Officer and a director of IDB Development Corporation Ltd. (“IDB Development”).

(4) Member of the Audit Committee of the Board of Directors.

(5) Initially proposed for election as a director by Discount.

(6) An “Outside Director” pursuant to the Companies Law.

(7) Member of the Remuneration Committee of the Board of Directors.

(8) Nominee of Clal through CEI, its wholly owned subsidiary.

(9) Mr. Livnat is the son of Avraham Livnat, an affiliate of IDB Holding, and the brother of Zvi Livnat, a co-CEO of Clal and a director of several companies within the IDB group, including IDB Holding, IDB Development and Discount.

(10) Member of the Nominating Committee of the Board of Directors.

Arie Mientkavich was appointed Chairman of our board of directors in June 2006. He has been the Deputy Chairman of Gazit-Globe Ltd. since May 2005. From November 1997 to January 2006, he served as an active Chairman of Israel Discount Bank Ltd. and its major subsidiaries. Prior to joining Israel Discount Bank, Mr. Mientkavich was the active Chairman of the Israeli Securities Authority from 1987 to 1997 and the General Counsel of the Israeli Ministry of Finance from 1979 to 1987. Mr. Mientkavich holds bachelors degrees in political sciences and in law from the Hebrew University, Jerusalem, Israel.

Raanan Cohen was appointed as Interim President and Chief Executive Officer of Scailex in January 2004. He has also served as Vice President of Discount since August 2001, having previously served as Executive Assistant to the Chief Executive Officer of Discount from 1999. Prior to joining Discount, he was an associate with McKinsey & Company, Inc. in London from 1997. Mr. Cohen is a lawyer, admitted to the Israeli Bar, and from 1994 to 1995 he served as an attorney with S. Horowitz & Co., an Israeli law firm. He is a director of a number of companies in the Discount group, including Cellcom Israel Ltd. and Property & Building Corporation Ltd. Mr. Cohen holds bachelors degrees in law and in economics from Tel Aviv University and a masters degree in management from J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois.

Yahel Shachar joined Scailex in December 2001 and was appointed Chief Financial Officer and Corporate Secretary in February 2002. Before he joined Scailex, Mr. Shachar served as Chief Operating Officer at BVR Technologies Ltd. from 1998 to 2001. From 1995 to 1998, he was an attorney with Goldfarb, Levy, Eran & Co., an Israeli law firm. Mr. Shachar holds an LL.M. degree from Georgetown University (specializing in corporate, tax and securities law) in Washington, D.C., and an LL.B. degree from the Tel Aviv University, and is a member of the Israeli and New York bar associations.

Avraham Asheri is an economics advisor. He served as President and Chief Executive Officer of Israel Discount Bank Ltd. from 1991 until 1998, having previously held the position of Executive Vice President and a member of the bank's Management Committee from 1983. Prior to joining Israel Discount Bank, during a period of 23 years Mr. Asheri held various offices at the Ministries of Industry and Finance, including Director General of the Ministry of Industry and Trade, Managing Director of the Investment Center in Israel and Trade Commissioner of Israel to the United States. He is a member of the boards of directors of several companies, including Elron Electronic Industries Ltd., Elbit Systems Ltd., Africa-Israel Investments Ltd. and Discount Mortgage Bank Ltd. Mr. Asheri holds a bachelors degree in economics and political science from the Hebrew University, Jerusalem, Israel.

Ophira Rosolio-Aharonson is an executive director at several private and publicly traded high-tech companies, a strategic business consultant and a partner and advisor to several venture capital firms in Israel and in the U.S. She was a co-founder of Seagull Technology, Inc. and served as CEO of Terra Computers, Inc. in the U.S. from 1992 to 1999. Prior to that she served as a senior executive, holding various managerial positions at Clal Computers & Technology. She is a member of the board of directors of Cimatron Ltd. and OptiSign Ltd. Ms. Rosolio-Aharonson has a bachelors degree in applied mathematics and physics and completed courses required for a masters degree in bio-medical engineering from the Technion – Israel Institute of Technology in Haifa, and is a graduate of the executive business and management program of Tel Aviv University.

Yoav Biran was Director General of the Israel Ministry of Foreign Affairs from 2002 until 2004. Prior thereto, from 1998 to 2002, he served as Senior Deputy Director General of the Ministry of Foreign Affairs with special responsibility for the Middle East and the coordination of the peace process and, from 1999 to 2001, he also acted as a Deputy National Security Advisor (Foreign Policy) in the Israel Prime Minister's Office. From 1988 to 1993, Mr. Biran was Israel's Ambassador to the United Kingdom. He joined the Israel Ministry of Foreign Affairs in 1963 and served in a number of increasingly senior positions, both in Israel and abroad, until his appointment as Ambassador in 1988. He holds bachelors degrees in International Relations and History and studied for a masters degree in International Relations from the Hebrew University, Jerusalem, Israel.

Avraham Fischer is the Executive Vice President of IDB Holding, the deputy Chairman of IDB Development and a co-Chief Executive Officer of Clal. In addition, he is a partner of Fischer, Behar, Chen, Well, Orion & Co., an Israeli law firm. Mr. Fischer is the co-founder and co-Chairman of Ganden Tourism and Aviation Ltd., a company holding investments in Israeli companies operating primarily in the field of tourism and aviation, and is the co-founder and Vice-Chairman of Ganden Holdings Ltd., a company holding investments in companies operating primarily in the fields of real estate, communications and technologies. He serves as a director of Clal, Discount, ECI Telecom Ltd., American Israeli Paper Mills Ltd., Elron Electronic Industries Ltd., Vyyo Inc. and several other companies. Mr. Fischer is a co- Chairman of Matan – Your Way to Give, a non-profit organization. Mr. Fischer holds an LL.B. degree from the Tel Aviv University, and is a member of the Israeli bar association.

Shay Livnat is the Chief Executive Officer of Zoe Holdings Ltd., a company he founded in 1988, which is primarily engaged in investments in telecom and high-tech companies. He is a co-Chairman of UPS Israel (United Parcel Service Israel) and UTI (Isuzu GM trucks) Ltd. and serves as a director of Taavura Holdings Ltd., IDB Development, Clal and other companies in the IDB group. From 1988 to 1998, Mr. Livnat served as CEO of Tashtit Group. He holds a bachelor degree in electrical engineering from Fairleigh Dickinson University, New Jersey, USA.

Shimon Alon is the Chairman of the Board of Directors of Attunity Ltd. He served, until June 2003, as Chief Executive Officer of Precise Software Solutions Ltd., a provider of application performance management, having held such position since September 1997, and was also President of Precise from September 1997 until December 2000. He also served as a director of Precise from December 1998. Following the acquisition of Precise by Veritas Software Corp. in June 2003, Mr. Alon served as an executive advisor to Veritas until January 2004. From October 1982 to August 1996, he worked at Scailex and its subsidiaries in various executive management, sales, marketing and customer support capacities, including Senior Executive Vice President of Scailex and President of its Graphic Art Group from November 1995 to August 1996, President and Chief Executive Officer of Scitex America Corp. from May 1995 to July 1996, and Managing Director of Scitex Europe S.A. from February 1993 to May 1995. He holds a degree from the Executive Management Program at the Harvard Business School in Cambridge, Massachusetts.

Gerald Dogon was Chief Financial Officer of DSP Communications, Inc. from August 1994 through October 1998, during which period he also served DSP as Executive Vice President from July 1996 through October 1998 and as Senior Vice President from August 1994 through July 1996. Mr. Dogon also served as a director of DSP from November 1997 to January 1999. From December 1987 to August 1994, he held various senior financial positions with several Israeli companies, including Nilit Ltd., Mul-T-Lock Ltd., Israel General Bank Ltd. and Indigo Ltd. Prior thereto, Mr. Dogon was employed for 16 years by Scailex, where he served as Executive Vice President and Chief Financial Officer from October 1986 to August 1987, Corporate Vice President – Finance from September 1971 to October 1986, and Corporate Secretary from December 1972 to May 1987. He is a director of several private companies and served as a director of Nogatech, Inc. from 1999 to 2000, of Mul-T-Lock Ltd. from 1997 to 1999, and of Contahal Ltd. from 1993 to 1998, and acted as chairman of the audit committee at both Nogatech and Contahal. Mr. Dogon holds a bachelors degree in economics and commerce from the University of Cape Town, South Africa.

Nachum Shamir is the Chief Executive Officer and a director of Given Imaging Ltd. since April 2006. Prior thereto, he served as the President and Chief Executive Officer of Kodak Versamark, Inc. (whose operations were previously those of SDP) and as Vice President of Eastman Kodak Company since January 2004. From June 2003 to January 2004, Mr. Shamir served as the President and Chief Executive Officer of Scailex. From January 2001 to January 2004, he served as the President and Chief Executive Officer of SDP, having previously served as its Chief Operating Officer since July 2000. Prior thereto, Mr. Shamir was Managing Director and General Manager of Scitex Digital Printing (Asia Pacific) Pte Ltd., from the incorporation of this Singapore-based company in 1994. His prior position was with the Hong Kong based Scitex Asia Pacific (H.K.) Ltd. (now Creo Asia Pacific (H.K.) Ltd.) from 1993. Mr. Shamir holds a bachelors degree in science from the Hebrew University of Jerusalem and a masters degree in public administration from Harvard University.

Additional Information

In November 2005, Mr. Dov Ofer, who served as the President and Chief Executive Officer of Scailex Vision since January 2002, joined Hewlett-Packard as part of the sale of Scailex Vision's business.

Mr. Yoav Biran was elected as one of our outside directors at our 2005 Annual General Meeting which was held on December 29, 2005. He succeeded Ariella Zochovitzky, who had been our outside director since 2002.

Mr. Arie Mientkavich was appointed Chairman of our Board of Directors, effective June 1, 2006, replacing Mr. Ami Erel, who had been our Chairman since June 2003.

There are no family relationships between any of the directors or members of senior management named above.

See "Item 7A. Major Shareholders – 1980 Voting Agreement" for details of an agreement among major shareholders relating to the election of directors. See Item 8A under the caption "Legal Proceedings" for additional information regarding a lawsuit that concerns certain of our directors and executive officers.

B. COMPENSATION

General

The following table sets forth with respect to all directors and senior management of Scailex as a group all cash and cash-equivalent forms of remuneration paid by Scailex during the fiscal year ended December 31, 2004 and 2005:

	Salaries, fees, directors' fees, commissions and bonuses	Other benefits**
All directors and senior management as a group (consisting of 11 persons in 2005)*	$ 662,877	$ 31,836
All directors and senior management as a group (consisting of 11 persons in 2004)*	$ 419,791	$ 31,794

* Excludes compensation of one person who is part of our discontinued operations (Scailex Vision).

** These sums were set aside by us to provide pension, retirement and severance benefits to members of our senior management.

In accordance with the approval of our shareholders on December 27, 2000, our outside directors receive annual directors' fees and participation fees equivalent to the maximum fees that were generally permitted for each outside director under regulations issued pursuant to the Companies Law (which equate to approximately $10,200 per annum and a participation fee of approximately $400 per board or committee meeting), although new regulations were approved in 2003, which would, in certain circumstances, permit us to pay higher fees. Directors' fees and participation fees of a similar amount are paid to all our other directors, other than directors who are office holders of our principal shareholders. Except as aforesaid, we did not compensate any of our other directors in 2005 (excluding compensation for directors who are also our officers).

As of December 31, 2005, one of our officers held options to purchase our ordinary shares. See Item 6E below.

There are no arrangements or understandings between us and any of our directors for benefits upon termination of service.

CEO Compensation

See the description under "DIC Services Agreement" in Item 7B below for details relating to the compensation terms of Mr. Raanan Cohen, our President and Chief Executive Officer. In addition, in connection with the sale of the business of Scailex Vision to Hewlett-Packard in November 2005, our shareholders approved the grant of a special cash bonus in the amount of $168,600 to Mr. Cohen. In addition to the bonus paid by Scailex, each of Discount and Clal agreed to pay Mr. Cohen a bonus in an amount of $15,700. These amounts reflect the respective proportional holdings of Scailex, Clal and Discount in Scailex Vision. The overall bonus amount paid to Mr. Cohen was $200,000.

C. BOARD PRACTICES

INTRODUCTION

According to the Israeli Companies Law and our articles of association, the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. As part of its powers, our board of directors may cause us to borrow or secure payment of any sum or sums of money for our purposes, at times and upon terms and conditions as it determines, including the grant of security interests in all or any part of our property.

ELECTION OF DIRECTORS

Our directors are elected at annual meetings of our shareholders. Except for our outside directors (as described below), our directors hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed, which is required to be held at least once during every calendar year and not more than fifteen months after the last preceding meeting. Directors may be removed earlier from office by resolution passed at a general meeting of our shareholders. Our board of directors may temporarily fill vacancies in the board until the next annual meeting of shareholders.

Under an amendment to the Israeli Companies Law, our board of directors was required to determine, by April 19, 2006, the minimum number of directors who must have "accounting and financial expertise" (as such term is defined in regulations promulgated under the Companies Law). Our board determined that the board should consist of at least two directors who have "accounting and financial expertise." We have determined that Messrs. Asheri and Dogon have the requisite "accounting and financial expertise."

ALTERNATE DIRECTORS

Our articles of association provide that a director may appoint another person to serve as an alternate director. An outside director may not appoint an alternate director, except in very limited circumstances. To qualify as an alternate director, a person must be qualified to serve as a director but cannot be a director or the alternate director of another director. An alternate director shall have all the rights and obligations of the director who appointed him or her. The alternate director may not act for such director at any meeting at which the director appointing him or her is present. Unless the time or scope of any appointment is limited by the appointing director, the appointment is effective for all purposes until the appointing director ceases to be a director or terminates the appointment. Notwithstanding the foregoing, a director may serve as an alternate director on any committee of our board of directors of which he or she is not already a member. At present, there are no appointments of alternate directors.

OUTSIDE DIRECTORS

Under the Companies Law, Israeli companies whose shares are listed for trading on a stock exchange or have been offered as securities to the public in or outside of Israel are required to appoint at least two "outside directors." Our outside directors are Yoav Biran and Gerald Dogon.

The Companies Law provides that a person may not be appointed as an outside director of a company if the person or the person's relative, partner, employer or any entity under the person's control has, as of the date of the person's appointment to serve as an outside director, or had, during the two years preceding that date any affiliation with:

- the company;
- any entity controlling the company; or
- any entity controlled by the company or by its controlling entity.

The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder, excluding service as an outside director of a company that is offering its shares to the public for the first time. The Companies Law defines the term "office holder" of a company to include a director, the chief executive officer, the chief business manager, a vice president and any officer that reports directly to the chief executive officer.

Pursuant to an amendment to the Companies Law, effective as of January 19, 2006, (1) an outside director must have either "accounting and financial expertise" or "professional qualifications" (as such terms are defined in regulations promulgated under the Companies Law) and (2) at least one of the outside directors must have "accounting and financial expertise." While these requirements will apply to us only upon the next election of one or more outside directors, we believe that Mr. Dogon has the requisite "accounting and financial expertise" and that Mr. Biran has the requisite "professional qualifications."

No person can serve as an outside director if the person's position or other business creates, or may create a conflict of interests with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. Until the lapse of two years from termination of office, a company may not engage an outside director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

Outside directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- at least one-third of the shares of non-controlling shareholders voted at the meeting vote in favor of the election; or
- the total number of shares voted against the election of the outside director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an Outside director is three years and may be extended for an additional three years. The term of office of Mr. Dogon and Mr. Biran commenced in December 2003 and December 2005, respectively.

Outside directors may be removed from office only by the same percentage of shareholders as is required for their election, or by a court, and then only if the outside directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company's board of directors empowered with powers of the board of directors is required to include at least one outside director except for the audit committee, which is required to include all outside directors.

INDEPENDENT DIRECTORS

The NASDAQ Marketplace Rules currently require us to have at least two independent directors on our Board of Directors. Under new NASDAQ Marketplace Rules promulgated pursuant to the Sarbanes-Oxley Act of 2002, effective as of July 31, 2005, a majority of our board of directors must qualify as independent directors within the meaning of the NASDAQ Marketplace Rules and our Audit Committee must have at least three members and be comprised only of independent directors each of whom satisfies the respective "independence" requirements of the SEC and NASDAQ.

Of the ten (10) members of our board of directors, our board of directors has determined that (1) all, except for Mr. Cohen, our chief executive officer, and Mr. Shamir, our former chief executive officer, qualify as "independent directors" within the meaning of the NASDAQ Marketplace Rules and (2) Mr. Asheri, Mr. Biran, Mr. Dogon and Ms. Rosolio-Aharonson, being all of the members of out Audit Committee (see below), also qualify as "independent directors" under SEC rules.

COMMITTEES OF THE BOARD

Subject to the provisions of the Companies Law, our board of directors may delegate its powers to committees consisting of board members. Our board of directors has established the following committees:

Audit Committee. Under the Companies Law, our board of directors is required to appoint an audit committee, which must be comprised of at least three directors, including all of the outside directors, but may not include:

- the chairman of the board,
- a controlling shareholder or any relative thereof, or
- any director who is employed by the company or provides services to the company on a regular basis.

Under the Companies Law, the role of the audit committee is:

- to examine irregularities in the management of the company's business, including in consultation with the internal auditor and/or the company's independent accountants, and to recommend remedial measures to the board, and
- to review, and, where appropriate, approve certain related party transactions specified under the Companies Law, which it may not approve unless at the time of approval the two outside directors are serving as members of the audit committee and at least one of whom was present at the meeting in which an approval was granted, as more fully described below.

Since our ordinary shares are listed on NASDAQ, we are also subject to NASDAQ rules which currently provide that a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. In addition, pursuant to SEC rules, effective as of July 31, 2005, the members of the Audit Committee are generally required to be independent within the meaning of the SEC rules. Our Audit Committee comprises Mr. Asheri (chairman of the Audit Committee), Messrs. Dogon and Biran (our Outside Directors) and Ms. Rosolio-Aharonson, all of whom are independent within the meaning of applicable NASDAQ and SEC rules. In addition, we have adopted a charter as required by the NASDAQ rules.

Our Audit Committee assists the board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our outside auditors. Our Audit Committee also has the authority and responsibility to oversee our outside auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our outside auditors and to pre-approve audit engagement fees and all permitted non-audit services and fees.

In May 2004, our Board of Directors resolved to designate the Audit Committee as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the Audit Committee is responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar violations by us or any of our agents.

Remuneration Committee. Our board of directors has also appointed a remuneration committee, which is currently comprised of Avraham Fischer and Gerald Dogon, all of whom are independent within the meaning of applicable NASDAQ rules. The role of the remuneration committee is to review the salaries and incentive compensation of our executive officers and to make recommendations on such matters for approval by the board of directors. The members of the remuneration committee also administer our share incentive and stock option plans, subject to additional board approval where required pursuant to the Companies Law.

Financial Investments Committee. Our board of directors has also appointed a financial investments committee, which is currently comprised of Avraham Asheri, Raanan Cohen, Gerald Dogon and Ophira Rosolio-Aharonson. The role of the financial investments committee is to review and manage our financial investments and cash management in accordance with the principles approved by the board of directors.

Nominating Committee. In March 2005, our board of directors established a nominating committee, which is currently comprised of Avi Fischer and Gerald Dogon, all of whom are independent within the meaning of applicable NASDAQ rules. The role of the nominating committee is to recommend to our board nominees for election as directors at the annual meetings of shareholders and to identify candidates to fill any vacancies on the board.

INTERNAL AUDITOR

Under the Companies Law, our board of directors is also required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our activities comply with the law and orderly business procedure. The internal auditor may not be an interested party or officer holder, or a relative of any interested party or office holder, and may not be a member of our independent accounting firm. The Companies Law defines the term "interested party" to include a person who holds 5% or more of the company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager, or any person who serves as a director or as the general manager. Mr. Joseph Ginossar of Fahn, Kanne & Co., an Israeli accounting firm, serves as our internal auditor.

APPROVAL OF SPECIFIED RELATED PARTY TRANSACTIONS UNDER ISRAELI LAW

Fiduciary Duties of Office Holders. The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and the performance of his other duties or his personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and

- disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

***Disclosure of Personal Interests of an Office Holder*.** The Companies Law requires that an office holder disclose to the company any personal interest that he or she may have, and all related material information known to him or her, in connection with any existing or proposed transaction by the company. The disclosure is required to be made promptly and in any event no later than the board of directors meeting at which the transaction is first discussed. A personal interest of an office holder includes an interest of a company in which the office holder is, directly or indirectly, a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. In the case of an extraordinary transaction, the office holder's duty to disclose applies also to a personal interest of a relative of the office holder. An extraordinary transaction is a transaction not in the ordinary course of business, not on market terms, or likely to have a material impact on the company's profitability, assets or liabilities.

Under the Companies Law, once the office holder complies with the above disclosure requirement, the board of directors is authorized to approve the transaction, unless the articles of association provide otherwise. Nevertheless, a transaction that is adverse to the company's interest may not be approved.

If the transaction is an extraordinary transaction, then it also must be approved by the company's audit committee and board of directors, and, under certain circumstances, by the shareholders of the company. When an extraordinary transaction is considered by the audit committee and board of directors, the interested director may not be present or vote, unless a majority of the members of the board of directors or the audit committee, as the case may be, has a personal interest in the matter. If a majority of the members of the board of directors have a personal interest therein, shareholder approval is also required.

Under the Companies Law, all arrangements as to compensation of directors in public companies such as ours generally require the approvals of the audit committee, the board of directors and the shareholders, in that order.

INSURANCE & INDEMNIFICATION OF DIRECTORS AND SENIOR MANAGEMENT

Insurance. Under the Companies Law, a company may, if its articles of association so provide and subject to the provisions set forth in the law, enter into a contract to insure the liability of an office holder for acts or omissions committed in his or her capacity as an office holder of the company for:

- the breach of his or her duty of care to the company or to another person;
- the breach of his or her duty of loyalty to the company, provided that he or she acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the company; and
- a financial obligation imposed upon him or her in favor of another person.

Our articles were amended in December 2000 to contain provisions in line with the aforesaid provisions and, having obtained the approvals required under the Companies Law and our articles, we have procured the permitted insurance for our office holders. In December 2003, the Company's shareholders set the maximum annual premium for such insurance at $1,000,000.

Indemnification. Subject to certain qualifications, the Companies Law also permits us, provided that our articles of association allow us to do so, to indemnify an office holder for acts or omissions committed in his or her capacity as an office holder of the company, retroactively (after the liability has been incurred) or in advance, for:

- a financial liability imposed on him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court; provided that our undertaking to indemnify is limited to events that our board of directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or criterion that our board of directors determines to be reasonable under the circumstances;

- reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and

- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or charged to him or her by a court, resulting from the following: proceedings we institute against him or her or instituted on our behalf or by another person; a criminal indictment from which he or she was acquitted; or a criminal indictment in which he or she was convicted for a criminal offense that does not require proof of intent.

In addition, our articles of association provide that:

- we may indemnify an office holder following a determination to this effect made by us after the occurrence of the event in respect of which the office holder will be indemnified; and

- we may undertake in advance to indemnify an office holder, provided that the undertaking is limited to types of occurrences, which, in the opinion of our board of directors, are, at the time of giving the undertaking, foreseeable and to an amount the board of directors has determined is reasonable in the circumstances.

In April 2004, the Company's audit committee, board of directors and shareholders, in that order, also resolved to indemnify the Company's office holders, including any future director or officer of the Company who may be considered a "controlling shareholder" (as such term is defined under the Companies Law), by providing them with a Letter of Indemnification to be substantially in the form approved by the shareholders. In December 2005, the Company's audit committee, board of directors and shareholders, in that order, approved certain revisions to such letter *(See Exhibit 4(c)(3) in Item 19 for the form of the Letter of Indemnification to office holders.)*

***Limitations on Exculpation, Insurance and Indemnification*.** The Companies Law provides that a company may not exculpate or indemnify an office holder, or enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his or her duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

- a breach by the office holder of his or her duty of care if the breach was committed intentionally or recklessly. unless it was committed only negligently;

- any act or omission committed with the intent to derive an illegal personal benefit; or

- any fine imposed against the office holder.

In addition, under the Companies Law, exculpation of, an undertaking to indemnify or indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, in specified circumstances, such as if the beneficiary is a director, by our shareholders.

Our articles also provide that, subject to the provisions of applicable law, we may procure insurance for or indemnify any person who is not an office holder, including without limitation, any of our employees, agents, consultants or contractors.

D. EMPLOYEES

The following table details certain data on the workforce of Scailex and its consolidated subsidiaries for the periods indicated*:

	As at December 31,		
	2005	2004	2003
Approximate numbers of employees by geographic location			
United States	1	1	0
Israel	31	39	5
Total workforce	32	40	5
Approximate numbers of employees by category of activity			
Research and development	11	15	-
Customer support	1	1	-
Operations and logistics	9	13	-
General and administrative	11	11	5
Total workforce	32	40	5

* Excludes the employees of SDP and Scailex Vision for these years that were transferred to Kodak and Hewlett-Packard, respectively, in connection with the sale of SDP's business in January 2004 and the sale of Scailex Vision's business in November 2005.

The increase in the number of our employees from 2003 to 2004 resulted mainly due to the beginning of our consolidating the results of Jemtex. The decrease in the number of our employees from 2004 to 2005 resulted mainly due to a slower activity in Jemtex in 2005.

We consider our relations with our employees to be good and we have never experienced a strike or work stoppage.

Our employees are not generally represented by labor unions. Nevertheless, with respect to our employees in Israel, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and Israel's Coordination Bureau of Economic Organizations (including the Manufacturers' Association) are applicable to such employees by Israeli governmental order. These provisions principally concern cost-of-living wage increases, paid vacation and holidays, length of the workday, wage tariffs, termination, severance payments and other conditions of employment. However, we generally provide our employees with benefits and conditions beyond the required minimums, including contributing to funds to provide severance.

E. SHARE OWNERSHIP

SECURITY OWNERSHIP OF OUR DIRECTORS AND EXECUTIVE OFFICERS

None of our directors own any of our shares or hold any stock options for the purchase of our shares. Although several of our directors are directors or officers of our major shareholders or their affiliates, such individuals disclaim beneficial ownership of any of the shares held by these major shareholders.

None of our executive officers own any of our shares or hold any stock options for the purchase of our shares, except for our CFO, Yahel Shachar, who beneficially owns 80,000 shares, all of which are in the form of stock options, which are exercisable within 60 days of the date of this Annual Report. The exercise price of all the stock options held by Mr. Shachar is $3.70 per share and they expire in September 2014.

STOCK OPTION PLANS

From time to time, we grant our employees and directors options to purchase our shares pursuant to our share option plans:

- ***1991 Plans.*** In September 1991, our shareholders approved two plans, the Israel Key Employee Share Incentive Plan 1991, primarily designed for employees of Scailex and its subsidiaries located in Israel, and the International Key Employee Stock Option Plan 1991 (as amended, 1995), primarily designed for employees of Scailex's non-Israeli subsidiaries. Terms of the options granted under the plans, such as length of term, exercise price, vesting and exercisability, were determined by our board of directors. These plans expired in September 2001, except with respect to outstanding options granted under such plans. Accordingly, no further options can be granted under these plans. Outstanding options under the 1991 plans expire at various dates from December 2006 through December 2008.

- ***2001 and 2003 Plans.*** In December 2001, our shareholders approved the adoption of the 2001 Stock Option Plan, primarily designed for key employees of Scailex and its subsidiaries. The aggregate number of shares that were initially authorized and reserved for issuance under the 2001 plan was 750,000 shares. In December 2003, our shareholders approved the adoption of the 2003 Share Option Plan for our employees, directors and consultants who are Israeli residents. When the shareholders adopted the 2003 plan, they also adopted an amendment to the 2001 plan, as a result of which the number of shares reserved for issuance under the 2001 plan was increased from 750,000 to 1,900,000 with all such reserved shares being available for issuance under either the 2001 plan or the 2003 plan. Terms of the options granted under the plans, such as length of term, exercise price, vesting and exercisability, are determined by our board of directors. There have been no option grants under the 2001 plan. Currently, all outstanding options under the 2003 plan expire in September 2014.

The following table details certain information with respect to the foregoing plans:

	1991 Share Option Plans*	2001 and 2003 Share Option Plans**
Number of shares available for future option awards	0	1,732,000
Number of options outstanding	73,754	168,000
Weighted average exercise price of options outstanding	$ 9.84	$ 3.70

* The data presented in this column are as of June 14, 2006.

** The data presented in this column are as of the date of this Annual Report.

The foregoing description is qualified in its entirety by reference to the Israel Key Employee Share Incentive Plan 1991, the International Key Employee Stock Option Plan 1991 (as amended, 1995), the 2001 Stock Option Plan (as amended, 2003), and to the 2003 Share Option Plan which are filed as exhibits in Item 19 of this Annual Report, all of which are hereby incorporated by reference.

Subsidiaries Stock Option Plans. Jemtex adopted a share option plan, primarily designed for employees of Jemtex. The plan permits the grant of options for the purchase of shares in Jemtex. As of June 1, 2006, Jemtex granted options under its plan to employees, directors and officers, exercisable, in the aggregate, for approximately 1.9% of its share capital (on a fully-diluted basis).

REPURCHASE PROGRAM

In May 1998, our board of directors approved a program for our repurchase of up to two million of our ordinary shares, to be held for the benefit of employees within the framework of our stock option plans. These ordinary shares are held by a trustee for reissuance to employees upon the exercise of existing stock options. Under the approved program, we may not purchase ordinary shares from our major shareholders. A balance of 448,975 ordinary shares are held by the trustee pursuant to the program, purchased with funds provided by us. No ordinary shares have been repurchased under this program since August 5, 1999.

ITEM 7. MAJOR SHAREHOLDERS & RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Unless otherwise stated, all data in this Item 7 is as of June 15, 2006, at which date there were 38,066,363 of our ordinary shares outstanding, excluding:

- the 448,975 ordinary shares purchased by the trustee pursuant to the repurchase program described in Item 6E above; and
- the 4,952,050 ordinary shares purchased by us in the self tender offer described in Item 4A above which are deemed issued but considered treasury shares (or "dormant shares" as such term is defined under the Israeli Companies Law) that carry no rights, including voting rights and the right to receive dividends, while owned by us. These shares will be available for us to sell in the future without further shareholder action (except as required by applicable law).

In all instances, the percentage of ownership is equal to the voting rights of our ordinary shares and all ordinary shares have identical voting rights. In particular, the ordinary shares held by our principal shareholders do not carry different voting rights.

To our knowledge, except as described below, we are not directly or indirectly owned or controlled (i) by any corporation, (ii) by any foreign government or (iii) by any other natural or legal person, nor are there any arrangements, the operation of which may at a subsequent date result in a change in control of Scailex.

The following table sets forth the number of our ordinary shares owned by any person who is known to us to own beneficially more than 5% of our ordinary shares or otherwise affiliated with Discount and/or Clal:

Name and Address	Number of Shares Owned*	Percent of Shares Outstanding*
Clal Electronics Industries Ltd. ("CEI") [1]	18,800,255[2]	49.39%[2]
Discount Investment Corporation Ltd. ("Discount")	18,800,255[2]	49.39%[2]
Suny Electronics Ltd. ("Suny") [3]	6,945,372	18.24%
Mivtach Shamir Holdings Ltd. ("Mivtach Shamir") [4]	2,090,200	5.49%
Clal Insurance Enterprise Holdings Company Ltd. [5]	63,415	**

* The number of shares owned by a shareholder or a group includes shares, if any, that such shareholder or group has the right to receive upon the exercise of options which are exercisable within 60 days as of June 6, 2005.

** Less than 1%.

(1) CEI is a wholly owned subsidiary of Clal. Clal may be deemed to share with its wholly owned subsidiary, CEI, an Israeli company, the power to vote and dispose of our outstanding ordinary shares held by CEI.

(2) Consists of 9,458,838 ordinary shares owned by CEI and 9,341,417 ordinary shares owned by Discount, representing approximately 24.85% and 24.54% of our outstanding shares, respectively. Each of Clal and Discount may be deemed to share the power to vote the shares held by the other by virtue of the Voting Agreement between them, as described below.

(3) Based upon a Schedule 13D/A filed by Suny with the SEC on May 31, 2006. Consists of 4,725,935 shares held directly by Suny, 2,127,536 shares held directly by Tao Tsuot Ltd., or Tao, 32,218 shares held directly by Ben Dov Holdings Ltd, 42,910 shares held directly by Harmony (Ben Dov) Ltd, and 16,773 shares held directly by Mr. Ilan Ben Dov. Ben Dov Holdings Ltd., a company 100% owned by Mr. Ben Dov, holds 68% of the shares of Suny. Mr. Ben Dov holds 81.30% of the shares of Tao. Accordingly, Mr. Ben Dov may be deemed to have the sole voting and dispositive power as to the Scailex shares held by himself, Tao, Suny and Ben Dov Holdings.

(4) Based on Schedule 13G filed by Mivtach Shamir with the SEC on March 10, 2005. The 2,092,200 shares are held by a wholly owned subsidiary of Mivtach Shamir. Mr. Shamir, Chairman of Mivtach Shamir and owner of 40.02% of its shares, has entered into a shareholders agreement with Ashtrum Industries Ltd., which owns 16.97% of Mivtach Shamir's shares, and may be deemed to beneficially own the 2,092,200 Scailex shares held by Mivtach Shamir.

(5) Based on a report received by Scailex on June 26, 2006. Clal Insurance is a majority owned subsidiary of IDB Development.

Clal, CEI, Discount, IDB Development and IDB Holding

Both Clal and CEI are Israeli companies, holding investments in Israeli companies that operate primarily in the fields of high-tech and electronics. Clal also operates in the fields of cement, textiles, paper and cartons, biotechnology and management of venture capital funds. Discount is an Israeli company holding investments, predominantly in companies located in Israel or that are Israel-related that operate mainly in the fields of communications, advanced technology, industry, real estate and commerce.

Clal and Discount are both controlled by IDB Development Corporation Ltd. ("IDB Development"), a majority owned subsidiary of IDB Holding Corporation Ltd. ("IDB Holding"). Both IDB Development and IDB Holding are Israeli companies. IDB Development holds investments in various entities, operating primarily in the fields of insurance, real estate, high-tech and electronics. IDB Holding is a holding company that, through IDB Development, holds investments in various entities, operating primarily in the fields of insurance, real estate, high-tech and electronics.

Each of IDB Development's, IDB Holding's, Discount's and Clal's respective shares are listed on the TASE.

Based upon reports received by Scailex, as of June 18, 2006, IDB Holding is controlled by a group comprised of:

- Ganden Investments I.D.B. Ltd. ("Ganden"), a private Israeli company controlled by Ganden Holdings Ltd. ("Ganden Holdings"), a private Israeli company which in turn is controlled by Nochi Dankner (who is also the Chairman of IDB Holding, IDB Development, Clal and Discount and a director of Clal Insurance) and his sister Shelly Bergman, that holds 31.02% of the equity and approximately 31.03% of the voting power of IDB Holding. Avraham Fischer, a director of Scailex (and who also serves as executive vice president of IDB Holding, deputy chairman of IDB Development, a director of Discount and a director and co-chief executive officer of Clal), holds 9.67% of the shares of Ganden Holdings;

- Manor Investments – IDB Ltd. ("Manor"), a private Israeli company controlled by Ruth Manor (whose husband, Isaac Manor, and their son, Dori Manor, are directors of IDB Holding, IDB Development, Clal and Discount, and Isaac Manor is also a director of Clal Insurance), that holds 10.34% of the equity and voting power of IDB Holding; and

- Avraham Livnat Investments (2002) Ltd. ("Livnat"), a private Israeli company controlled by Avraham Livnat (one of whose sons, Zvi Livnat, is a director and executive vice president of IDB Holding, deputy Chairman of IDB Development, co-chief executive officer of Clal and a director of Discount, and another son, Shay Livnat, is one of our directors and a director of IDB Development, Clal and Clal Insurance), that holds 10.34% of the equity and voting power of IDB Holding.

Ganden, Manor and Livnat, in respect of the above aggregate 51.7% of the equity and voting power of IDB Holding owned by them, have entered into a shareholders agreement relating to, among other things, their joint control of IDB Holding, the term of which is until May 19, 2023. In addition, there are the following holdings, as of June 18, 2006, which are not included in the said shareholders agreement: (a) Ganden Holdings, the parent company of Ganden, holds 11.38% of the equity and approximately 11.39% of the voting power of IDB Holding; (b) Ganden holds a further approximately 6.71% of the equity and voting power of IDB Holding; (c) Manor Holdings B.A. Ltd., the parent company of Manor, holds approximately 0.03% of the equity and voting power of IDB Holding; (d) Avraham Livnat Ltd., the parent company of Livnat, holds approximately 0.04% of the equity and voting power of IDB Holding; and (e) Shelly Bergman owns, through a private company which is wholly owned by her, approximately 7.23% of the equity and voting power of IDB Holding.

Based on the foregoing, IDB Holding and IDB Development (by reason of their control of Clal and Discount), Ganden, Manor and Livnat (by reason of their control of IDB Holding) and Nochi Dankner, Shelly Bergman, Ruth Manor, and Avraham Livnat (by reason of their control of Ganden, Manor and Livnat, respectively) may be deemed to share with CEI and Discount the power to vote and dispose of Scailex's shares beneficially owned by CEI and Discount (including Discount's wholly owned subsidiary) amounting, in the aggregate, as of June 18, 2006, to 49.39% of such shares.

1980 Voting Agreement

On December 1, 1980, Clal (whose holdings of our shares are held by CEI), Discount and PEC Israel Economic Corporation, a company that is currently a wholly owned subsidiary of Discount but not currently holding any of our shares, entered into a Voting Agreement. Under this agreement, they agreed to vote our shares in concert with respect to the election of our directors and with respect to any ordinary resolution submitted to our shareholders. The agreement also grants rights of first refusal if one of the parties wishes to sell its shares of Scailex to a third party. The agreement was for an initial term of ten years, subject to renewal for additional periods of ten years each unless and until prior notice was given by one party of its intention not to renew. The agreement was automatically renewed and is currently in effect until November 30, 2010.

The foregoing description is qualified in its entirety by reference to the Voting Agreement, dated December 1, 1980, by and among Discount, PEC and Clal which is filed as Exhibit 10.h to our Registration Statement on Form F-1 (filed May 26, 1983) and which is hereby incorporated by reference.

Significant changes in percentage ownership by major shareholders during last three years

Based upon public filings by Suny with the SEC, in July 2004, Suny became the beneficial owner of 2,043,997 ordinary shares, representing 5.37% of our outstanding ordinary shares at the time. Since July 2004, Suny and/or its affiliates purchased, from time to time, additional ordinary shares in the open market, and, as of May 31, 2006, beneficially owns 18.24% of our outstanding ordinary shares.

In late May 2006, our principal shareholders, Clal and Discount, informed us that they entered into an agreement for the sale of their entire shareholdings in the Company to Israel Petrochemicals Enterprise Ltd., an Israeli holding company whose shares are traded on the TASE. Under the agreement, Clal and Discount agreed to sell to Israel Petrochemicals all of the 18,800,255 Scailex shares held by them, for an aggregate purchase price of $165 million, or $8.78 per share, subject to certain purchase price adjustments. The closing of the transaction, which is expected to occur by the end of August 2006, is subject to customary closing conditions, including the approval of the Israeli Restrictive Trade Commissioner.

Record Holders

Based on a review of the information provided to us primarily by our transfer agent, as of June 6, 2006, we had 314 shareholders of record, of whom 276 were registered with addresses in the United States, representing approximately 42.3% of our outstanding ordinary shares. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 42.1% of our outstanding ordinary shares as of said date).

Duties of Shareholders

Disclosure by Controlling Shareholders. Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company.

Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, generally require the approval of the audit committee, the board of directors and the shareholders, in that order. The shareholder approval must include at least one-third of the shares of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of non-interested shareholders voted against the transaction do not represent more than one percent of the voting rights in the company.

General Duties of Shareholders. In addition, under the Companies Law, each shareholder has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his or her power in the company, such as in shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Companies Law does not define the substance of this duty of fairness.

B. RELATED PARTY TRANSACTIONS

Clal Insurance

We purchase insurance policies in Israel from a number of insurance companies in respect of some of which Clal Insurance Company Ltd., an affiliate of CEI and Discount, acted as leader. In certain instances, we were a beneficiary of insurance policies purchased from Clal Insurance Company by a subsidiary of Creo Inc., in which we no longer hold an equity interest. During 2005, we paid premiums on such insurance in insignificant amounts. The extent to which Clal Insurance Company, or other insurance companies with whom it is affiliated, participated, varied from policy to policy. All insurance was effected at normal business rates.

Services Agreements

Clal Services Agreement. In November 2001, we entered into a Services Agreement with Clal in connection with the transfer of our corporate offices to facilities leased to Clal at the Azrieli Center, Tel Aviv and the seconding of personnel. Pursuant to the Clal Services Agreement, Clal provided us with office space for our personnel, together with other services, such as accounting, security, information management services (MIS) and cleaning. In addition, Clal seconded certain executives to serve in various management positions with us. In addition, with effect from January 1, 2003, two other Scailex employees became employees of Clal and were seconded back to us for 100% of their work hours. Pursuant to the Clal Services Agreement, other employees of Clal and Scailex may be seconded to each other (on a full time or part time basis) on an as-needed basis, as agreed from time to time between the parties.

The Clal Services Agreement provided that certain services may be provided by subsidiaries of Clal or directly from third party suppliers, and Clal may assign its rights and obligations under the Clal Services Agreement, in whole or in part, to its affiliates. Generally, the services rendered (other than the seconding of employees) were to be provided by Clal at the actual cost incurred by Clal for the services and do not include any overhead expense, or general and administrative cost. However, if the actual cost incurred by Clal may not be determined with respect to any service, the cost to us will generally be calculated either (i) on the basis of the proportion of office space occupied by us at Azrieli Center (including, proportionally, by employees seconded to us by Clal and excluding, proportionally, employees seconded to Clal by us), for rental of the facilities and common parts, cleaning, security, local taxes, electricity and all other expenses associated with facility maintenance; or (ii) on the basis of the number of our employees located at Azrieli Center (including, proportionally, those seconded to us by Clal and excluding, proportionally, those seconded to Clal by us) for other, generally unspecified, services. Certain services, such as accounting and MIS services, are at a fixed rate. *See Note 8b to our consolidated financial statements included in this Annual Report.*

The audit committees of both Scailex and Clal agreed to periodically review and adjust the services rendered and amounts paid pursuant to the Clal Services Agreement. However, the aggregate changes in respect of (i) the amount payable for seconded employees may not exceed an additional $300,000 per annum and (ii) the amount payable for other services provided to us may not exceed an additional $20,000 per quarter, in each case, in excess of the amount envisaged at the commencement of the Clal Services Agreement.

In light of the Discount Services Agreement (described below), which became effective in January 2004, we and Clal have agreed to suspend substantially all the services provided by Clal to us pursuant to the Clal Services Agreement, including the termination of (1) the use by us of the office space provided by Clal, including related ancillary services (such as cleaning, security and MIS), and (2) the seconding of personnel by Clal to us, which is no longer required. The other provisions of the Clal Services Agreement continue in full force and effect, and Clal may continue to provide certain other services to us pursuant to the Clal Services Agreement.

The Clal Services Agreement was submitted to and approved by our audit committee, our board of directors and our shareholders, in that order. Similarly, the suspension of certain services under the Services Agreement was also submitted to and approved by our audit committee, our board of directors and our shareholders, in that order.

The foregoing description of the Clal Services Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Clal Services Agreement and the amendment thereto filed by us as Exhibit 4(d)(1) in Item 19.

Discount Services Agreement. We entered into a Services Agreement with Discount in connection with the transfer of our corporate offices to facilities leased by Discount at the Azrieli Center, Tel Aviv, and the seconding of one of Discount's senior officers to serve as our President and/or Chief Executive Officer. The Agreement became effective as of January 15, 2004.

Pursuant to the Discount Services Agreement, Discount provides us with office space at the Azrieli Center for our personnel, together with ancillary services, such as cleaning, security and MIS, similar to that previously provided by Clal pursuant to the Clal Services Agreement. In addition, with effect from January 5, 2004, Discount seconded Mr. Raanan Cohen, Vice President of Discount (or another senior officer of Discount if agreed upon by us and Discount) to serve as Interim President and Chief Executive Officer of Scailex, dedicating approximately 40% of his work hours to us. We are required to provide to such person an indemnity letter in connection with personal liabilities that may arise from serving in such capacity similar to the letter provided by us to our other executive officers. Mr. Raanan Cohen currently is also a director of Scailex.

Certain services may be provided by Discount through its subsidiaries or directly from third party suppliers. Discount may assign its rights and obligations under the Discount Services Agreement, in whole or in part, to its affiliates. Generally, the services rendered will be provided by Discount at the actual cost incurred by Discount for the services and will not include any overhead expense, or general and administrative cost. However, if the actual cost incurred by Discount may not be determined with respect to any service, the cost to us will generally be calculated either (i) on the basis of the proportion of the office space occupied by us at Azrieli Center (including a relative part of common areas) for cleaning, security, local taxes, electricity and all other expenses associated with facility maintenance or (ii) on the basis of the number of our employees located at Azrieli Center for other, generally unspecified, services, according to the nature of the service. Certain services, such as MIS, will be charged to us at a fixed rate.

Our audit committee will periodically review the services rendered and amounts paid under the Discount Services Agreement. The specific approval of our audit committees is required for any material increases in the amounts paid under the Discount Services Agreement. However, in no event shall the aggregate increase in the office space occupied by us at Azrieli Center exceed 175% of the office space occupied by us at the commencement of the agreement. Initially, the aggregate cost of the services (including the leased office space, but excluding the seconding of Mr. Cohen) was approximately $17,000 per fiscal quarter. However, since September 2004, we no longer lease the office space from Discount. As for the services of Mr. Cohen as our President and CEO, we are required to pay Discount the sum of NIS 500,000 (equivalent to approximately $112,000 based on the current exchange rate) per annum. This sum is based upon the actual cost incurred by Discount with respect to the services of Mr. Cohen. In the event of a change in the cost of such services to Discount or, having regard to our needs, if the parties agree upon a change in the percentage of the work hours to be dedicated to us by Mr. Cohen (or such other senior officer of Discount who may serve as President and/or Chief Executive Officer of Scailex), the consideration payable for these services shall be increased or decreased accordingly, subject to the approval of our Audit Committee, provided that in no event may the sum payable in respect of such services exceed NIS 750,000 (equivalent to approximately $170,000 based on the current exchange rate) per annum. Discount has waived its right to receive payments in respect of Mr. Cohen's fees for the period commencing on January 1, 2006 and thereafter.

If either of the parties wish to cease to provide or receive any or all of the services (including the office space), it may do so by giving prior written notice of at least three months to the other party, unless otherwise agreed by the parties. In such circumstances, Discount is required to provide us reasonable cooperation and assistance in order to enable us to implement such service by ourselves, but in no event will such assistance be for more than 30 days from the date of termination.

The Discount Services Agreement was submitted to and approved by our audit committee, our board of directors and our shareholders, in that order.

The foregoing description of the Discount Services Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Discount Services Agreement filed by us as Exhibit 4(d)(3) in Item 19.

Combination of Scailex Vision and Scailex Vision International

In January 2003, we completed a transaction to combine the operations of Scailex Vision International (our then wholly owned subsidiary) and Scailex Vision (in which we held approximately 42.5% of the outstanding share capital) through a share exchange. Pursuant to the Share Exchange Agreement, (1) we sold all of our shares in Scailex Vision International to Scailex Vision (so that Scailex Vision International became a wholly owned subsidiary of Scailex Vision), and (2) Scailex Vision issued to us shares representing approximately 67% of Scailex Vision's outstanding share capital, and agreed to reserve up to approximately 5.9% of its share capital, on a fully diluted and as converted basis, for the issuance of stock options to Scailex Vision International's employees (collectively, the "Consideration"). The Consideration is subject to adjustments in our favor, if, at any time prior to the earlier to occur of (1) January 1, 2010 and (2) the closing of an initial public offering of Scailex Vision's equity securities (with minimum requirements as to Scailex Vision's valuation at, and the proceeds of, such offering), any of a number of specified adverse events occur in respect of Scailex Vision. As required by the Share Exchange Agreement, we transferred $15 million to Scailex Vision International as an investment therein. Immediately following this transaction, we held, in the aggregate, approximately 75.5% of Scailex Vision's outstanding share capital.

Each of Scailex Vision International (for the benefit of Scailex Vision) and Scailex Vision (for our benefit) made customary representations and warranties in the Share Exchange Agreement with respect to each party's respective business operations. We also made limited representations and warranties for the benefit of Scailex Vision. The representations and warranties made by the parties survived for a limited period of one year (until January 2004), except for certain representations that survive until the earlier of the (i) expiration date of the applicable statute of limitations and (ii) closing of an initial public offering of Scailex Vision's equity securities. In the event of damages incurred as result of breach of the representations and warranties made by us or Scailex Vision International or failure to perform covenants or agreements, we are required to indemnify Scailex Vision. Similarly, in the event of damages incurred as result of breach of the representations and warranties made by Scailex Vision or failure to perform covenants or agreements, Scailex Vision is required to indemnify us. The indemnification will be paid out solely in shares of Scailex Vision and is capped, in the aggregate, at $7 million (if we are required to indemnify Scailex Vision) or $6 million (if Scailex Vision is required to indemnify us).

This transaction was a "related party transaction" because CEI and Discount, who are our principal shareholders, may have had a personal interest in the transaction by virtue of their shareholdings in Scailex Vision (prior to the transaction, each of CEI and Discount held approximately 14% of Scailex Vision's share capital). Accordingly, as required by the Companies Law, the transaction was approved by our audit committee, board of directors and a special majority of our shareholders, in that order. In addition, the financial advisor in connection with the transaction delivered to our board of directors a written opinion as to the fairness, from a financial point of view, of the consideration to be paid by us in connection with the transaction.

The foregoing description of the Share Exchange Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreement filed by us as Exhibit 4(d)(2) to Item 19.

Rights Offerings by Scailex Vision

In July 2003 and May 2004, Scailex Vision concluded rights offerings to its shareholders in which we invested approximately $5.0 million and $4.2 million, respectively, in accordance with our pro rata share of such offering. Clal and Discount, our two principal shareholders who are also shareholders of Scailex Vision, invested their pro rata share of the rights offerings in an aggregate of approximately $0.9 million each.

The investments were made in the form of convertible loans, which have a five year maturity and bear interest at the annual rate of the greater of (i) LIBOR + 1% and (ii) the Israeli consumer price index. The principal amount of the loans, including interest accrued thereon, may be converted into shares of Scailex Vision at a specified conversion price (subject to adjustments for specified events). In addition, we and the other lenders received warrants to purchase additional shares of Scailex Vision with 25% coverage of the principal amount of the loans, exercisable for a period of five years at an exercise price equal to the conversion price of the loans, as applicable. Other key terms of the loans include the subordination of the loans to senior bank loans and the grant of registration rights with respect to the securities underlying the loans and warrants.

Prior to the July 2003 rights offering, Scailex Vision's share capital was divided into ordinary shares and several series of preferred shares. In conjunction with the rights offering, Scailex Vision reclassified its share capital by way of converting all preferred shares into ordinary shares and currently has only one class of shares, the ordinary shares, outstanding.

In February 2006, prior to the distribution of $135 million to Scailex Vision's shareholders and employees, we and the other lenders converted the loans and exercised all of the warrants. We now hold an approximate 78.6% interest in Scailex Vision whereas Clal and Discount each hold an approximate 7.3% interest.

Sale of Scailex Vision's Business

In connection with the sale of Scailex Vision's business to Hewlett-Packard, we entered into non-material agreements with Scailex Vision regarding the management thereof following the sale, as well as with Clal and Discount. *See Item 10C. Material Contracts – Sale of Scailex Vision" below*.

Other

During 2005, we maintained business relationships and entered into various other transactions in the ordinary course of business with a number of other companies affiliated with our major shareholders, all on terms which management believes were no less favorable to us than would be obtained in transactions with unaffiliated third parties.

C. INTERESTS OF EXPERT AND COUNSEL.

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

FINANCIAL STATEMENTS

Our consolidated financial statements are set forth in Item 18.

LEGAL PROCEEDINGS

We are from time to time named as a defendant in certain routine litigation incidental to our business. Except as described above, we are currently not party to any legal proceedings which would reasonably be expected to have a material adverse effect on our financial position. *For a description of other pending legal proceedings, see Note 8b to our consolidated financial statements included in this Annual Report.*

DIVIDEND POLICY

Except as described below, we did not distribute any dividends (in cash or otherwise), bonus shares or declared any split, recapitalization or make any rights offerings to the holders of our shares since the third quarter of 1996. We continually review our dividend policy and the payment, or non-payment, of a dividend should not be considered indicative as to the payment of future dividends. *For general information on the applicable tax rate on dividends, please see in "Item10E. Tax" below.*

On July 12, 2004, we distributed $2.36 per ordinary share, or approximately $90 million in the aggregate, to our shareholders of record as of June 30, 2004.

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2005.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are listed and traded on the NASDAQ National Market, or NASDAQ, and the Tel Aviv Stock Exchange, or the TASE, both under the symbol "SCIX". The shares commenced trading on the TASE on January 7, 2001 and on NASDAQ on May 20, 1980.

All share prices on NASDAQ are reported in U.S. dollars and all share prices on the TASE are reported in NIS. As of December 31, 2005, the exchange rate was equal to NIS 4.603 per $1.00 (NIS 4.308 on December 31, 2004).

The following table sets forth, for the periods indicated, the high and low closing sales prices per ordinary share on NASDAQ and on the TASE as reported in published financial sources:

Annual High and Low	NASDAQ National Market		The Tel Aviv Stock Exchange	
	High	Low	High	Low
2001	$ 9.75	$ 2.75	NIS 41.40	NIS 12.06
2002	$ 5.50	$ 1.26	NIS 25.08	NIS 6.04
2003	$ 5.16	$ 1.22	NIS 24.15	NIS 6.10
2004*	$ 6.21	$ 3.87	NIS 28.00	NIS 17.32
2005	$ 7.06	$ 5.10	NIS 30.85	NIS 22.32
Quarterly High and Low				
2004				
First Quarter	$ 5.67	$ 5.08	NIS 26.38	NIS 23.05
Second Quarter	$ 6.21	$ 5.54	NIS 28.00	NIS 25.21
Third Quarter*	$ 4.22	$ 3.87	NIS 19.42	NIS 17.32
Fourth Quarter	$ 5.21	$ 3.91	NIS 22.32	NIS 17.55
2005				
First Quarter	$ 7.06	$ 5.10	NIS 30.51	NIS 22.23
Second Quarter	$ 6.96	$ 5.77	NIS 29.97	NIS 26.33
Third Quarter	$ 6.95	$ 5.94	NIS 30.85	NIS 26.90
Fourth Quarter	$ 6.18	$ 5.66	NIS 28.66	NIS 26.60
Most Recent Six Months				
December 2005	$ 6.02	$ 5.79	NIS 27.64	NIS 26.60
January 2006	$ 5.98	$ 5.73	NIS 28.32	NIS 26.41
February 2006	$ 5.84	$ 5.54	NIS 27.45	NIS 26.57
March 2006	$ 6.11	$ 5.71	NIS 28.77	NIS 27.32
April 2006	$ 6.20	$ 5.88	NIS 28.30	NIS 27.65
May 2006	$ 7.10	$ 6.12	NIS 31.94	NIS 28.12

* On June 22, 2004, we announced a distribution of $2.36 per ordinary shares and, effective July 1, 2004, the ordinary shares were traded "ex-dividend," as a result of which NASDAQ and the TASE adjusted (downwards) the opening price of our shares in the respective markets.

On June 27, 2006, the last reported sale price of our ordinary shares on NASDAQ was $6.90 per share and on TASE was NIS 30.09 per share.

B. PLAN OF DISTRIBUTION.

Not Applicable.

C. MARKETS.

Our ordinary shares trade on NASDAQ and, with effect from January 7, 2001, the TASE. The shares trade on both markets under the symbol "SCIX".

D. SELLING SHAREHOLDERS.

Not Applicable.

E. DILUTION.

Not Applicable.

F. EXPENSES OF THE ISSUE.

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not Applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set out below is a description of certain provisions of our Memorandum of Association and Articles of Association, and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Memorandum and Articles which are incorporated by reference as exhibits to this Annual Report and to Israeli law.

We were first registered under Israeli law on November 2, 1971 as a private company, succeeding a predecessor corporation, Scientific Technology Ltd., which was founded on September 5, 1968. In May 1980 we became a public company. In December 2005, we changed our name from "Scitex Corporation Ltd." to "Scailex Corporation Ltd." We are registered with the Registrar of Companies in Israel under number 52-003180-0.

OBJECTS AND PURPOSES

Pursuant to Section 2(I)(a) of our Memorandum of Association, the principal object for which we are established is to engage in the activity or business of, *inter alia*, developing, manufacturing, producing, vending, purchasing, licensing, leasing, importing, exporting, or otherwise dealing in any products and moveable property of every kind and description, and to engage in selling, promoting, leasing, licensing, importing, exporting, or otherwise dealing in, any services. We may also acquire, create, form, operate, encourage or otherwise promote or manage any kind of enterprise.

DIRECTORS

The Companies Law requires that transactions between a company and its office holders (which term includes directors) or that benefit its office holders, including arrangements as to the compensation of office holders, be approved as provided for in the Companies Law and the company's articles of association. *(For further information as to such approval provisions, see "Item 6. Directors, Senior Management and Employees – Board Practices – Approval of Specified Related Party Transactions under Israeli Law".)*

Under our Articles, in general, the management of our business is vested in the Board of Directors, which may exercise all such powers, including the power to borrow or secure the payment of any sum or sums of money for the purposes of the Company, in such manner, at such times and upon such terms and conditions in all respects, as it thinks fit.

There is no requirement under our Articles or Israeli law for directors to retire on attaining a specific age. The Articles do not require directors to hold our ordinary shares to qualify for election.

SHARES

Our registered capital is divided into 48,000,000 ordinary shares of nominal (par) value NIS 0.12 each. There are no other classes of shares. All of our outstanding shares are fully paid and non-assessable. The shares do not entitle their holders to preemptive rights.

Subject to the rights of holders of shares with special rights (which may be issued in the future), holders of paid up ordinary shares are entitled to participate in the payment of dividends and, in the event of our winding-up, in the distribution of assets available for distribution, in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid or such distribution is being made. Our Articles do not specify any time limit after which dividend entitlement lapses.

Each ordinary share is entitled to one vote on all matters to be voted on by shareholders, including the election of directors. Our ordinary shares do not have cumulative voting rights. As a result, the holders of our ordinary shares that represent a simple majority of the voting power represented at a shareholders meeting and voting at the meeting have the power to elect all of the directors put forward for election, subject to specific requirements under the Companies Law with respect to the election of "Outside Directors". *(For further information as to these requirements, see "Item 6C. Board Practices – Outside Directors".)*

The Companies Law requires that extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, be approved as provided for in the Companies Law, which may necessitate the approval of at least one-third of the shares of non-interested shareholders voting on the matter. *(For further information as to such provisions, see "Item 7A. Major Shareholders – Duties of Shareholders".)*

VARIATION OF RIGHTS

Shares with preferential rights relating, among other things, to dividends, voting and repayment of share capital can be created by adoption of a "special resolution", which requires approval by at least 75% of the voting power represented at the meeting in person or by proxy and voting thereon. In addition, through a special resolution, we can subdivide issued and outstanding ordinary shares. Modification or abrogation of the rights of any class of shares requires the written consent of the holders of 75% of the issued shares of such a class or adoption of a special resolution by affected shareholders voting separately as a class.

GENERAL MEETINGS

Our Articles provide that an annual general meeting must be held at least once in every calendar year at such time within a period of not more than 15 months after the holding of the last preceding annual general meeting, and at such place, as may be determined by the Board of Directors. Our Board of Directors may, in its discretion, convene additional shareholder meetings and, pursuant to the Companies Law, must convene a meeting upon the demand of two directors or one-quarter of the directors in office or upon the demand of the holder or holders of five percent of our issued share capital and one percent of our voting rights or upon the demand of the holder or holders of five percent of our voting rights.

Under the Companies Law, shareholder meetings generally require prior notice of not less than 21 days. The function of the annual general meeting is to receive and consider the directors' report, profit and loss account and balance sheet, to elect directors and appoint auditors and fix their fees, and to transact any other business which under the Articles or by law are to be transacted at our annual general meeting.

The quorum required for either an ordinary (regular) or an extraordinary (special) meeting of shareholders consists of at least two shareholders present in person or by proxy and holding or representing between them at least one-third of our voting power. If a meeting is convened at the request of shareholders and no quorum is present, it shall be dissolved. If a meeting is otherwise called and no quorum is present, the meeting is adjourned to the same day one week later at the same time and place, or to such other day time and place as our Chairman may determine with the consent of a majority of the voting power represented at the meeting and voting on the question of an adjournment. Consistent with an exemption we received from NASDAQ in respect of NASDAQ Marketplace Rule 4350(f), which requires that the quorum for meetings of shareholders consists of at least one-third of our voting power, our Articles provide that, at adjourned meetings, any two or more shareholders present in person or by proxy shall constitute a quorum. We believe this provision in our Articles regarding the quorum at adjourned meetings complies with Israeli law and practice.

Generally, under the Companies Law and our Articles, shareholder resolutions are deemed adopted if approved by the holders of a simple majority of the voting rights represented at a meeting unless a different majority is required by law or pursuant to our Articles. The Companies Law provides that resolutions on certain matters, such as amending a company's articles of association, assuming the authority of the board of directors in certain circumstances, appointing auditors, appointing external directors, approving certain transactions, increasing or decreasing the registered share capital and approving a merger with another company must be made by the shareholders at a general meeting. A company may determine in its articles of association certain additional matters in respect of which resolutions by the shareholders in a general meeting will be required.

A company such as Scailex, incorporated prior to February 1, 2000, is subject to various rules with respect to the transition from being governed by the Israeli Companies Ordinance [New Version], 5743 – 1983, to being governed by the Companies Law. These rules provide, among other things, that any amendment to the Memorandum or Articles will generally require a resolution adopted by the holders of 75% or more of the voting power represented and voting at a general meeting, and that the approval of a merger will require a resolution adopted by the holders of 75% or more of the voting power represented and voting at a general meeting, unless and until we amend our Articles in such manner to provide for a different majority.

Subject to the Companies Law, a resolution in writing signed by the holders of all of our ordinary shares entitled to vote at a meeting of shareholders or to which all such shareholders have given their written consent will be sufficient to adopt the resolution in lieu of a meeting.

LIMITATION ON RIGHTS TO OWN SHARES

Our Memorandum of Association, our Articles and Israeli law do not restrict in any way the ownership or voting of ordinary shares by non-residents or persons who are not citizens of Israel, except with respect to subjects of nations which are in a state of war with Israel. Fully paid ordinary shares may be freely transferred pursuant to our Articles unless the transfer is restricted or prohibited by another instrument.

DIVIDEND AND LIQUIDATION RIGHTS

Dividends on our ordinary shares may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher. Our board of directors is authorized to declare dividends, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to their respective holdings. This liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

CHANGE OF CONTROL

There are no specific provisions of our Memorandum or Articles that would have an effect of delaying, deferring or preventing a change in control of Scailex or that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries). However, certain provisions of the Companies Law may have such effect.

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to the merger have the transaction approved by its board of directors and a vote of the majority of its shares. For purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting and which are not held by the other party to the merger (or by any person who holds 25% or more of the voting power or the right to appoint 25% or more of the directors of the other party) vote against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposals for approval of the merger have been filed with the Israeli Registrar of Companies by each merging company and (ii) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholder approval, (2) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company’s outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company’s outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquiror may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

NOTIFICATION OF SHAREHOLDING

There are no specific provisions of our Memorandum or Articles governing the ownership threshold above which shareholder ownership must be disclosed.

CHANGES IN CAPITAL

Our Articles require that changes in capitalization must be adopted by special resolution, approved by the holders of 75% or more of the voting power represented and voting at a general meeting. Subject thereto, the conditions imposed by our Memorandum and Articles governing changes in the capital, are no more stringent than is required by Israeli law.

C. MATERIAL CONTRACTS

SALE OF SCAILEX VISION'S BUSINESS

We currently own approximately 78.6% of Scailex Vision's share capital, and each of our principal shareholders, Clal and Discount, holds approximately 7.3% of Scailex Vision's share capital, each on an issued and outstanding basis (see Item 4C above).

On August 11, 2005, Scailex Vision entered into an Asset Purchase Agreement with Hewlett-Packard, whereby Hewlett-Packard agreed to acquire substantially all of the assets and business of Scailex Vision for $230 million (subject to net working capital adjustments) in cash and to assume substantially all of Scailex Vision's liabilities related to the ongoing business. The sale was completed on November 1, 2005. At closing, $23 million of the proceeds was retained in escrow for 24 months to cover possible indemnification claims, $1 million was retained to cover tax liabilities of the year 2005, and an additional $27 million was utilized to repay Scailex Vision's retained liabilities, mainly to Israeli banks. In April 2006, Hewlett-Packard paid Scailex Vision an additional approximately $6.6 million to account for the net working capital adjustment in the purchase price, i.e., in addition to the $230 million. Hewlett-Packard also transferred to Scailex Vision funds in an aggregate amount of $1.1 million that were retained by Scailex Vision's subsidiaries following the closing.

Scailex Vision made representations and warranties in the purchase agreement for the benefit of Hewlett-Packard, which generally survive for a period of two years following the closing of the transaction or, for certain matters, the expiration of the applicable statute of limitations. Scailex Vision agreed to indemnify Hewlett-Packard against damages or losses arising from any breach of the representations and warranties, subject to certain limitations (including customary de minimis exceptions and caps) detailed in the purchase agreement. Scailex Vision also agreed to indemnify Hewlett-Packard against any damages or losses arising from any breach of a covenant or agreement made by it in the purchase agreement or from any liability of Scailex Vision that Scailex Vision retained under the terms of the purchase agreement. Scailex Vision is generally obligated to satisfy these indemnification obligations only out of amounts deposited in the escrow discussed above. Scailex Vision also agreed to certain ongoing covenants, including non-compete and non-solicitation restrictions on its operations.

In connection with the transaction, we entered into incidental agreements with Hewlett-Packard, as follows:

- We, Discount and Clal entered into an agreement, whereby, among other things, each of us agreed not to solicit certain employees of Scailex Vision for a period of 18 months following the closing and not to compete with Hewlett-Packard in the business of Scailex Vision for a period of 24 months following the closing; and

- We entered into a Trademark License and Domain Name Assignment Agreement, whereby, among other things, we granted to Hewlett-Packard a license to our rights to the "Scitex" tradename and agreed, subject to shareholder approval, to change our corporate name. Our shareholders approved the change in our name in December 2005 and, accordingly, we changed our name from Scitex Corporation Ltd. to our present name.

The foregoing description of the Asset Purchase Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreement filed by us as Exhibit 4(a)(5) in Item 19.

SALE OF SDP'S BUSINESS

On November 24, 2003, we entered into an Asset Purchase Agreement with Eastman Kodak Company (Kodak), whereby Kodak agreed to acquire substantially all of the assets and business of Scitex Digital Printing, Inc. (SDP), a wholly-owned US subsidiary of Scailex, for $250 million in cash and to assume substantially all of SDP's liabilities related to the ongoing business. In addition, as part of the transaction, we retained $12 million of SDP's cash balance at closing, producing total cash consideration for the transaction of $262 million.

We completed the sale on January 5, 2004. At closing, $15 million of the proceeds of the sale, which amount was released 20 business days after closing, was placed in a custody account to cover unknown federal tax liens. Furthermore, $10 million of the proceeds of the sale was placed in a custody account to cover possible indemnification claims, $5 million of which was released to Scailex's account in January 2005 and the remaining $5 million of which was released in January 2006. We made representations and warranties in the purchase agreement for the benefit of Kodak, which generally survive for a period of two years following the closing of the transaction (i.e., until January 2006) or, for certain matters, the expiration of the applicable statute of limitations. We also agreed to a certain non-compete restriction on our operations. We agreed to indemnify Kodak against damages or losses arising from any breach of the representations and warranties, subject to certain limitations (including customary deductibles, de minimis exceptions and caps) detailed in the purchase agreement. We also agreed to indemnify Kodak against any damages or losses arising from any breach of a covenant or agreement made by us in the purchase agreement or from any liability of SDP that we retained under the terms of the purchase agreement. We are obligated to satisfy these indemnification obligations to the extent not satisfied out of amounts in the custody account discussed above.

The foregoing description of the Asset Purchase Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreement incorporated herein by reference as Exhibit 4(a)(2) in Item 19.

COMBINATION OF SCAILEX VISION AND SCAILEX VISION INTERNATIONAL

On December 22, 2002, we entered into a Share Exchange Agreement with Scailex Vision Ltd. and Aprion Digital Ltd. *For a discussion of this agreement, see Item 7B – Related Party Transaction under the caption "Combination of Scailex Vision and Scailex Vision International."*

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

E. TAXATION

The following is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, federal, state or local taxes.

U.S. TAX CONSIDERATIONS

Subject to the limitations described herein, the following discussion describes certain material U.S. federal income tax considerations applicable to a U.S. holder (as defined below) regarding the acquisition, ownership and disposition of our ordinary shares. A U.S. holder means a holder of our ordinary shares who is:

- an individual citizen or resident of the United States;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- in general, a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

Unless otherwise specifically indicated, this discussion does not consider the United States tax consequences to a person that is not a U.S. holder (a "non-U.S. holder") and considers only U.S. holders that will own our ordinary shares as capital assets. This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, referred to as the Code, current and proposed Treasury regulations promulgated under the Code, administrative pronouncements and judicial decisions, all as in effect today and all of which are subject to change, possibly with a retroactive effect, which change could materially affect the U.S. federal income tax considerations described herein. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to U.S. holders that are subject to special treatment, including, without limitation, U.S. holders who:

- are broker-dealers or insurance companies;
- are tax-exempt organizations or retirement plans;
- are financial institutions or financial services entities;
- hold ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
- have acquired their shares upon the exercise of employee stock options or otherwise as compensation;
- hold their shares through partnerships or other pass-through entities;
- own directly, indirectly or by attribution at least 10% of our voting power; or

- have a functional currency that is not the U.S. dollar.

In addition, this discussion does not address any aspect of state, local or non-U.S. tax laws or the possible application of United States federal gift or estate tax.

U.S. holders should review the summary below under "Israeli Taxation" for a discussion of Israeli tax consequences and certain other tax consequences pursuant to the income tax treaty between the governments of Israel and the U.S., which may be applicable to them.

U.S. holders should consult their own tax advisors with respect to the specific U.S. federal, state and local income tax consequences and any applicable non-U.S. tax consequences to them of purchasing, holding or disposing of the ordinary shares. U.S. holders are also urged to consult their own tax advisors concerning whether they will be eligible for benefits under the income tax treaty between the governments of Israel and the U.S.

U.S. HOLDERS OF ORDINARY SHARES

TAXATION OF DIVIDENDS PAID ON ORDINARY SHARES

Subject to the discussion below under "Tax Consequences if We are a Passive Foreign Investment Company," a U.S. holder generally will be required to include in gross income as ordinary dividend income the amount of any distribution paid on our ordinary shares, including the amount of any Israeli taxes withheld in respect of such distribution, on the date the distribution is received, to the extent the distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Distributions in excess of our earnings and profits will first be treated as a tax-free return of capital and will reduce the U.S. holder's basis in our ordinary shares and, to the extent in excess of the basis, will be treated as gain from the sale or exchange of our ordinary shares. At this time, however, the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, and therefore, U.S. holders will generally be required to treat all distributions as taxable dividends. Distributions of our current or accumulated earnings and profits will not qualify for the dividends-received deduction applicable in certain cases to U.S. corporations.

Distributions of our current or accumulated earnings and profits paid in foreign currency to a U.S. holder, and the amount of any Israeli withholding tax thereon, will be included in the gross income of a U.S. holder in an amount equal to the U.S. dollar value of such foreign currency calculated by reference to the exchange rate in effect on the day the distribution is received by the U.S. holder, regardless of whether such foreign currency is converted into U.S. dollars. If a U.S. holder converts dividends paid in foreign currency into U.S. dollars on the day such dividends are received, the U.S. holder generally should not be required to recognize foreign currency gain or loss with respect to such conversion. If the foreign currency received in the distribution is not converted into U.S. dollars on the date of receipt, the U.S. holder will have a basis in the Israeli currency equal to the U.S. dollar value on the date of receipt and any foreign currency gain or loss recognized upon a subsequent conversion or other disposition of such foreign currency generally will be treated as U.S. source ordinary income or loss.

Subject to certain conditions and limitations, any Israeli withholding tax imposed with respect to a distribution of our current or accumulated earnings and profits generally will be eligible for credit against the recipient U.S. holder's U.S. federal income tax liability or, at the U.S. holder's election, may be claimed as a deduction against income in determining such tax liability. Distributions of our current or accumulated earnings and profits to U.S. holders will be treated as foreign source income and generally will be categorized as "passive income" or, in the case of certain holders, "financial services income" for purposes of computing the U.S. foreign tax credit allowable to U.S. holders. However, for taxable years beginning after December 31, 2006, dividends distributed by the Company to U.S. holders would generally constitute "passive category income" but could, in the case of certain U.S. holders, constitute "general category income". U.S. holders are advised that any Israeli tax paid under circumstances in which an exemption from such tax was available will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. The calculation of allowable foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions for foreign taxes paid involve the application of complex rules that depend on a U.S. holder's particular circumstances. Accordingly, U.S. holders should consult their own tax advisors regarding their eligibility for foreign tax credits or deductions.

TAXATION OF THE DISPOSITION OF ORDINARY SHARES

Subject to the discussion below under "Tax Consequences if We are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder generally will recognize capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized on the sale, exchange or other disposition and the U.S. holder's adjusted tax basis, determined in U.S. dollars, in the ordinary shares. Capital gain from the sale, exchange or other disposition of ordinary shares held for one year or less will be short-term capital gain or, if held for more than one year, long-term capital gain. In the case of individual U.S. holders, long-term capital gains generally are subject to U.S. federal income tax at preferential rates (generally, a maximum rate of 15%) and short-term capital gains generally are subject to tax at ordinary income rates.

Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. However, under certain circumstances and subject to the limitations specified in the income tax treaty between the governments of Israel and the U.S., such gain or loss recognized by a U.S. holder who qualifies as a resident of the U.S. (within the meaning of such treaty) and who is entitled to claim the benefits afforded to such resident under such treaty may be treated as foreign-source for U.S. foreign tax credit purposes. U.S. holders should consult their own tax advisors regarding the application of the U.S. foreign tax credit limitations to gain or loss recognized on the sale, exchange or other disposition of our ordinary shares.

The deductibility of a capital loss recognized on the sale, exchange or other disposition of ordinary shares is subject to significant limitations. U.S. holders should consult their own tax advisors in this regard.

A U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into U.S. dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) generally will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Tax Rates. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (effective for tax years after December 31, 2002 through December 31, 2008 which has been extended to December 31, 2010 by the Tax Increase Prevention and Reconciliation Act of 2005), reduces the individual tax rates on both capital gains and certain dividend income ("qualified dividend income"). The top individual rate on adjusted capital gains is generally reduced from 20% to 15% (5% for taxpayers in the lower brackets) and on "qualified dividend income" from 38.6% to 15%. The reduced rates on long-term capital gains and "qualified dividend income" apply to (i) sales and exchanges (and payments received) on or after May 6, 2003 and (ii) "qualified dividend income" received after December 31, 2002, respectively.

Qualified dividend income generally includes dividends paid by non-U.S. corporations if, among other things, certain minimum holding periods are met and either (i) the shares with respect to which the dividend has been paid are readily tradable on an established securities market in the U.S. or (ii) the non-U.S. corporation paying such a dividend is eligible for the benefits of a comprehensive U.S. income tax treaty (such as the income tax treaty between the governments of Israel and the U.S.) which provides for the exchange of information. We currently believe that if we were to pay any dividends with respect to our ordinary shares, the dividends would constitute qualified dividend income for U.S. federal income tax purposes; provided, however, that we are not treated as a "passive foreign investment company" for U.S. federal income tax purposes (see discussion below under "Tax Consequences if We are a Passive Foreign Investment Company"). The top U.S. federal income tax rate applicable to income received by U.S. holders who are corporations for U.S. federal income tax purposes is 35%. U.S. holders should consult their own tax advisor regarding the specific U.S. tax rates applicable to any distribution made by us with respect to our ordinary shares or gain realized on the sale, exchange or other disposition of our ordinary shares, based on their particular circumstances.

TAX CONSEQUENCES IF WE ARE A PASSIVE FOREIGN INVESTMENT COMPANY

We will be a passive foreign investment company, or PFIC, if 75% or more of our gross income in a taxable year, including the pro rata share of the gross income of any company, U.S. or foreign, in which we are considered to own, directly or indirectly, 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged over the year and ordinarily determined based on fair market value and including the pro rata share of the assets of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value, are held for the production of, or produce, passive income.

Following the sale of Scailex Vision's business in November 2005, it is likely that we will become a PFIC in 2006. U.S. holders who hold ordinary shares during a period when we are a PFIC will be subject to the rules described below, even if we cease to be a PFIC, subject to specified exceptions for U.S. holders who made a qualified electing fund (a "QEF") election.

If we were a PFIC, and a U.S. holder did not make an election to treat us as a QEF as described below, excess distributions by us to a U.S. holder would be taxed in a special way. Excess distributions are amounts received by a U.S. holder on shares in a PFIC in any taxable year that exceed 125% of the average distributions received by the U.S. holder from the PFIC in the shorter of:

- the three previous taxable years; or
- the U.S. holder's holding period for ordinary shares before the present taxable year.

Excess distributions must be allocated ratably to each day that a U.S. holder has held shares in a PFIC. A U.S. holder would then be required to include amounts allocated to the current taxable year in its gross income as ordinary income for that year. Further, a U.S. holder would be required to pay tax on amounts allocated to each prior taxable year at the highest rate in effect for that year on ordinary income and the tax would be subject to an interest charge at the rate applicable to deficiencies for income tax.

The entire amount of gain that is realized by a U.S. holder upon the sale or other disposition of our ordinary shares will also be treated as an excess distribution and will be subject to tax as described above.

A U.S. holder's tax basis in our ordinary shares that were inherited from a deceased person who was a U.S. holder would not receive a step-up to fair market value as of the date of the deceased's death but would instead be equal to the deceased's basis, if lower.

The special PFIC rules described above will not apply to a U.S. holder if the U.S. holder makes an election to treat us as a QEF in the first taxable year in which the U.S. holder owns ordinary shares or in which we are a PFIC, whichever is later, and if we comply with specified reporting requirements. Instead, a shareholder of a QEF is required for each taxable year in which we are a PFIC to include in income a pro rata share of the ordinary earnings of the QEF as ordinary income and 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. If deferred, the taxes will be subject to an interest charge. We will supply U.S. holders with the information needed to report income and gain under a QEF election if we are classified as a PFIC. There can be no assurance, however, that we will be able to make a determination of our PFIC status and inform our U.S. holders of such determination until after the due date for the filing of such holders' tax returns has passed. U.S. holders should consult their tax advisors about the availability and procedure for filing a retroactive QEF election or amended return.

The QEF election is made on a shareholder-by-shareholder basis. Once made, the election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC and can be revoked only with the consent of the Internal Revenue Service, or IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the required election statement and the PFIC annual information statement, to a timely filed U.S. federal income tax return for the year of the election. The election statement also must be filed with the IRS Service Center in Philadelphia, Pennsylvania. In addition, an electing U.S. holder must act each year to maintain a QEF election by attaching a Form 8621 to the U.S. holder's timely filed tax return and comply with any other requirements as specified by the IRS.

A U.S. holder of PFIC shares which are publicly traded could elect 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 shares and the U.S. holder's adjusted tax basis in the PFIC shares. 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. If the mark-to-market election were made, then the rules presented above would not apply for periods covered by the election.

If a QEF election or mark-to-market election is not made for the first taxable year in which the U.S. holder holds our ordinary shares or in which we are a PFIC, whichever is later, then special rules will apply and U.S. holders should consult their tax advisors regarding the application of those rules.

We intend to waive a certain benefit that we are entitled to under the U.S.-Israel income tax treaty that would otherwise exempt us from the application of the U.S. accumulated earnings tax (the "AET"). Under the AET, we will generally be subject to a 15% tax on certain accumulated earnings if we accumulate earnings and profits "beyond the reasonable needs of the business" (as defined in the Code). By electing to exercise this waiver, we should be subject to special look-through rules under the Code for determining our PFIC status. Although no assurance can be given after applying these special look-through rules, we do not believe that we were a PFIC in 2005, nor do we believe that we should have tax liability under the AET in 2005.

U.S. holders are urged to consult their tax advisors about the PFIC rules, including eligibility for and the manner and advisability of making, the QEF elections or the mark-to-market election.

NON-U.S. HOLDERS OF ORDINARY SHARES

Except as described in "Information Reporting and Backup Withholding" below, a non-U.S. holder of ordinary shares generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

- the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States;
- in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment;
- in the case of an individual, the item is attributable to a fixed place of business in the United States;
- the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or
- the non-U.S. holder is subject to tax under the provisions of U.S. tax law applicable to U.S. expatriates.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividend payments with respect to ordinary shares and proceeds from the sale or other disposition of ordinary shares may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN) in connection with payments received in the U.S. or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information.

ISRAELI TAX CONSIDERATIONS

The following summary describes the current tax structure applicable to companies incorporated in Israel, with special reference to its effect on us. It also discusses Israeli tax consequences material to persons purchasing our ordinary shares. To the extent that the summary is based on new tax legislation yet to be judicially or administratively interpreted, we cannot be sure that the views expressed will accord with any future interpretation by the Israeli tax authorities or courts. The summary is not intended, and should not be construed, as legal or professional advice and does not exhaust all possible tax considerations. Accordingly, you should consult your tax advisor as to the particular tax consequences of an investment in our ordinary shares.

GENERAL CORPORATE TAX STRUCTURE

Generally, Israeli companies are subject to corporate tax on their taxable income at the rate of 34% for the 2005 tax year. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the "Tax Ordinance"), which came into effect on January 1, 2006, the corporate tax rate is scheduled to decrease as follows: 31% for the 2006 tax year, 29% for the 2007 tax year, 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities), derived after January 1, 2003. However, the effective tax rate payable by a company that derives income from an approved enterprise (as defined below) may be considerably less, as further discussed below.

STAMP DUTY

The Israeli Stamp Duty on Documents Law, 1961, or the Stamp Duty Law, provides that any document (or part thereof) that is signed in Israel or that is signed outside of Israel and refers to an asset or other thing in Israel or to an action that is executed or will be executed in Israel is subject to a stamp duty, generally at a rate of between 0.4% and 1% of the value of the subject matter of such document. De facto, it has been common practice in Israel not to pay such stamp duty unless a document is filed with a governmental authority. An amendment to the Stamp Duty Law that came into effect on June 1, 2003, determines, among other things, that stamp duty on most agreements shall be paid by the parties that signed such agreement, jointly or severally, or by the party that undertook under such agreement to pay the stamp duty. As a result of the aforementioned amendment to the Stamp Duty Law, the Israeli tax authorities have approached many companies in Israel, including us, and requested disclosure of all agreements signed by such companies after June 1, 2003, with the aim of collecting stamp duty on such agreements.

Based on our assessment and advice from our Israeli counsel, we believe that we may only be required to pay stamp duty on documents signed on or after August 2004. However, we cannot assure you that the tax authorities or the courts will accept this view. Although at this stage it is not yet possible to evaluate the effect, if any, on us of the amendment to the Stamp Duty Law, the amendment could materially adversely affect our results of operations. Under an order published in December 2005, the said requirement to pay stamp duty is cancelled with respect to documents signed on or after January 1, 2006.

TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF CAPITAL INVESTMENTS, 1959

The Law for the Encouragement of Capital Investments, 1959, as amended, or the Investment Law, provides that upon application to the Investment Center of the Israeli Ministry of Industry, Trade and Labor, a proposed capital investment in eligible facilities may be designated as an "Approved Enterprise." See the discussion below regarding a recent amendment to the Investments Law.

Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, such as the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable income derived from the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits under the law are not generally available with respect to income derived from products manufactured outside of Israel.

Taxable income of a company derived from an Approved Enterprise, including income generated by a company from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise's ordinary course of business, is subject to corporate tax at the maximum rate of 25%, rather than the usual corporate tax rate, for the "Benefit Period". The Benefit Period is seven years (and under certain circumstances, as further detailed below, ten years), commencing with the year in which the Approved Enterprise first generates taxable income, and is limited to 12 years from commencement of production or 14 years from the date of approval, whichever is earlier.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a "foreign investors' company". A "foreign investors' company" is a company that more than 25% of its shares of capital stock and combined share and loan capital is owned by non-Israeli residents. A company that qualifies as a foreign investors' company and has an Approved Enterprise program is eligible for tax benefits for a ten-year benefit period and to a reduced tax rate of 10% to 25% depending on the level of foreign investment in each year.

A company owning an Approved Enterprise may elect to forego certain government grants extended to Approved Enterprises in return for an alternative package of benefits. Under the alternative package, the company's undistributed income derived from an Approved Enterprise will be exempt from tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and the company will be eligible for the tax benefits under the law for the remainder of the Benefit Period.

The benefits available to an Approved Enterprise are conditioned on compliance with the conditions stipulated in the law and related regulations and the criteria set forth in the specific certificate of approval. In the event that a company violates these conditions, in whole or in part, it may be required to refund the amount of tax benefits, in whole or in part, plus an amount linked to the Israeli consumer price index and interest.

Under the Investments Law, income arising from our Approved Enterprises facilities is tax-free under the alternative package of benefits described above for a period of two years beginning with the first year in which the company generated taxable income, and thereafter, entitled to reduced tax rates based on the level of foreign ownership for specified periods. Jemtex has received the approval of the Investment Center for its facility in Lod, Israel under the alternative package of benefits. These benefits generally provide Jemtex with an exemption from income taxes on income from such facility for a period of two years followed by reduced tax rates of 25% for an additional period of five years from the first year in which it generated taxable income, up to the earlier of 12 years from the time the facility was first made operational, or 14 years from the Investment Center's approval.

All dividends are considered to be attributable to the entire enterprise and their effective tax rate is the result of a weighted combination of the applicable tax rates. In the event that we do pay a cash dividend from income that is derived from our Approved Enterprises pursuant to the alternative package of benefits, which income would normally be tax-exempt, we would be required to pay tax on the amount intended to be distributed as dividends at the rate which would have been applicable had we not elected the alternative package of benefits, which rate is ordinarily in the range of 10%-25%, and to withhold at source on behalf of the dividend recipient an additional 15% of the amount distributed as dividends.

The law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

Amendment to the Investments Law

On April 1, 2005, an amendment to the Investments Law came into effect. Pursuant to the amendment, a company's facility will be granted the status of "Approved Enterprise" only if it is proven to be an industrial facility (as defined in the Investments Law) that contributes to the economic independence of the Israeli economy and is a competitive facility that contributes to the Israeli gross domestic product. The amendment provides that the Israeli Tax Authority and not the Investments Center will be responsible for an Approved Enterprise under the alternative package of benefits, referred to as a Benefiting Facility. A company wishing to receive the tax benefits afforded to a Benefiting Facility is required to select the tax year from which the period of benefits under the Investment Law are to commence by simply notifying the Israeli Tax Authority within 12 months of the end of that year. In order to be recognized as owning a Benefiting Facility, a company is required to meet a number of conditions set forth in the amendment, including making a minimal investment in manufacturing assets for the Benefiting Facility and having completed a cooling-off period of no less than two to four years from the company's previous year of commencement of benefits under the Investments Law.

Pursuant to the amendment, a company with a Benefiting Facility is entitled, in each tax year, to accelerated depreciation for the manufacturing assets used by the Benefiting Facility and to certain tax benefits, provided that no more than 12 to 14 years have passed since the beginning of the year of commencement of benefits under the Investments Law. The tax benefits granted to a Benefiting Factory, as applicable to us, are determined according to one of the following new tax routes:

- Similar to the currently available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Benefiting Facility within Israel, and a reduced corporate tax rate of 10 to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of from seven to ten years, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Benefiting Facility during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%). The company is required to withhold tax at the source at a rate of 15% from any dividends distributed from income derived from the Benefiting Facility.

- A special tax route enabling companies owning facilities in certain geographic locations in developing areas in Israel to pay corporate tax at the rate of 11.5% on income of the Benefiting Facility. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents.

Generally, a company that is Abundant in Foreign Investment (as defined in the Investments Law) is entitled to an extension of the benefits period by an additional five years, depending on the rate of its income that is derived in foreign currency.

The amendment changes the definition of "foreign investment" in the Investments Law so that instead of an investment of foreign currency in the company, the definition now requires a minimum investment of NIS 5 million by foreign investors. Furthermore, such definition now also includes the purchase of shares of a company from another shareholder, provided that the company's outstanding and paid-up share capital exceeds NIS 5 million. Such changes to the aforementioned definition will take effect retroactively from 2003.

The amendment will apply to Approved Enterprise programs in which the year of commencement of benefits under the Investments Law is 2004 or later, unless such programs received approval from the Investment Center on or prior to December 31, 2004 in which case the provisions of the amendment will not apply.

As a result of the amendment, tax-exempt income that will be generated under the provisions of the new Law, will subject the Company to taxes upon distribution or liquidation and the Company may be required to record deferred tax liability with respect to such tax-exempt income.

TAX BENEFITS FOR RESEARCH AND DEVELOPMENT

Israeli tax law allows, under specified circumstances, a tax deduction for expenditures, including capital expenditures, for the year in which they are incurred. These expenses must relate to scientific research and development projects, and must be approved by the relevant Israeli government ministry determined by the field of research, and the research and development must be for the promotion of the company and carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses must be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

SPECIAL PROVISIONS RELATING TO TAXATION UNDER INFLATIONARY CONDITIONS

The Income Tax Law (Inflationary Adjustments), 1985 represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing inflation. The features of the law that are material to us are summarized below:

- A special tax adjustment for the preservation of equity whereby certain corporate assets are classified broadly into fixed (inflation immune) assets and non-fixed (soft) assets. Where a company's equity, as defined in the law, exceeds the depreciated cost of its fixed assets, as defined in the law, the company may take a deduction from taxable income that reflects the effect of multiplication of the annual rate of inflation on such excess, up to a ceiling of 70% of taxable income in any single tax year, with the unused portion carried forward, linked to the increase in the consumer price index. If the depreciated cost of fixed assets exceeds a company's equity, then the excess multiplied by the annual rate of inflation is added to taxable income;

- Subject to certain limitations set forth in the law, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the Israeli consumer price index; and

- Capital gains on specific traded securities are normally subject to reduced tax rates for individuals and are taxable at corporate tax rates for companies. As of January 1, 2006, the relevant provisions governing taxation of companies on capital gains deriving from the sale of traded securities are included in the Tax Ordinance and the Adjustments Law no longer includes provisions in this regard.

CAPITAL GAINS TAX

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets in Israel, including shares in Israeli companies (and our ordinary shares), by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between the inflationary surplus and the real gain. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price that is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Generally, up until the 2006 tax year, capital gains tax was imposed on individual Israeli residents at a rate of 15% on real gains derived on or after January 1, 2003, from the sale of shares in, among others, companies dually traded on both the TASE and NASDAQ, such as Scailex, or on a recognized stock exchange or a regulated market outside of Israel. This tax rate was contingent upon the shareholder not claiming a deduction for financing expenses, and did not apply to: (i) the sale of shares to a relative (as defined in the Israeli Income Tax Ordinance); (ii) the sale of shares by dealers in securities; (iii) the sale of shares by shareholders that report in accordance with the Inflationary Adjustment Law (that were taxed at corporate tax rates for corporations and at marginal tax rates for individuals); or (iv) the sale of shares by shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). As of January 1, 2006, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock exchange or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "principal shareholder" at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate will be 25%.

Israeli companies are subject to a corporate tax rate on capital gains derived from the sale of shares, unless such companies were not subject to the Adjustments Law (or certain regulations) at the time of publication of the aforementioned amendment to the Tax Ordinance, in which case the applicable tax rate is 25%. However, the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering of the company (that may be subject to a different tax arrangement).

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a taxpayer may elect the actual adjusted cost of the shares as the tax basis provided he can provide sufficient proof of such adjusted cost.

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, provided such gains do not derive from a permanent establishment of such shareholders in Israel, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange outside of Israel, provided, however, that such capital gains are not derived from a permanent establishment in Israel, that such shareholders are not subject to the Inflationary Adjustment Law and that such shareholders did not acquire their shares prior to an initial public offering. In addition, non-Israeli companies will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli company, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli company, whether directly or indirectly.

In some instances, where our shareholders may be liable to Israeli tax on the sale of our ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

U.S.-Israel Income Tax Treaty

Pursuant to the income tax treaty between the governments of the United States and Israel, referred to as the U.S.-Israel tax treaty, the sale of shares by a person who qualifies as a resident of the United States within the meaning of the treaty and who is entitled to claim the benefits afforded to a resident by the treaty will not be subject to Israeli capital gains tax. This exemption does not apply if (i) the person holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the applicable sale, or (ii) the capital gains from such sale can be allocated to a permanent establishment of such shareholder in Israel. However, under the circumstances and subject to the limitations specified in the U.S.-Israel tax treaty, the person would be permitted to claim a credit for the capital gains tax paid in Israel against the U.S. income tax imposed with respect to the applicable sale, subject to the limitations in U.S. laws applicable to foreign tax credits.

TAXATION OF DIVIDENDS

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares, or stock dividends, we would be required to withhold income tax at the following rates: (i) for dividends distributed prior to January 1, 2006 – 25%; (ii) for dividends distributed on or after January 1, 2006 – 20%. If the income out of which the dividend is being paid is attributable to an Approved Enterprise under the Investments Law, the rate is 15%. A different rate may be provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel tax treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a U.S. resident is 25%; provided, however, that dividends generated by an Approved Enterprise are taxed at the rate of 15%. Furthermore, dividends not generated by an Approved Enterprise paid to a U.S. company holding at least 10% of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year, are taxed at a rate of 12.5% in certain circumstances. However, since the maximum tax rate of 25% under the U.S.-Israel tax treaty is higher than the current maximum Israeli withholding tax rate on dividends effective as of January 1, 2006 (20%), the applicable rate of withholding is 20%.

For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares by United States residents, see "Capital Gains Tax" above.

F. DIVIDENDS AND PAYING AGENTS.

Not Applicable.

G. STATEMENT BY EXPERTS.

Not Applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to "foreign private issuers" and, in accordance therewith, are obligated to file reports, including annual reports on Form 20-F, and other information with the SEC relating to our business, financial condition and other matters. You may examine such reports, exhibits and other information filed by us with the SEC, without charge, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C., 20549. You may also receive copies of these materials by mail from the SEC's Public Reference Branch at 100 F Street, N.E., Room 1580, Washington, D.C., 20549, at prescribed rates. For more information on the public reference rooms, call the SEC at 1-800-SEC-0330. The SEC maintains an Internet website at http://www.sec.gov that contains reports, proxy statements, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system. We began filing through the EDGAR system on November 6, 2002.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

Notwithstanding the foregoing, we solicit proxies and furnish proxy statements for all meetings of shareholders pursuant to NASDAQ Marketplace Rule 4350(g), a copy of which proxy statement is filed promptly thereafter with the SEC under the cover of a Current Report on Form 6-K. However, in accordance with NASDAQ Marketplace Rule 4350(a)(1) we have received an exemption from the requirement to distribute an annual report to our shareholders prior to our annual meeting of shareholders. The basis for the exemption is that the generally accepted business practice in Israel, where we are incorporated, is not to distribute an annual report to shareholders. We post our Annual Report on Form 20-F on our web site (www.scailex.com) as soon as practicable following the filing of the Annual Report on Form 20-F with the SEC.

I. SUBSIDIARY INFORMATION

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our functional currency and that of most of our consolidated subsidiaries is the U.S. dollar. Accordingly, we have balance sheet exposure deriving from the gap between assets and liabilities in each currency other than the dollar. This exposure is limited, mainly for balances in European currencies and New Israeli Shekels, or NIS. Until the sale of Scailex Vision's business, we used to hedge certain assets or liabilities denominated in currencies other than the dollar by balancing debt with receivables in the same currency.

We do not actively hedge interest rate exposure or engage in other transactions intended to manage risks relating to interest rate fluctuations. The interest income on our cash equivalents and short-term investments is sensitive to changes in the general level of market interest rates. We mitigate the impact of fluctuations in interest rates primarily through diversification and by limiting the average duration of our interest-bearing investment portfolio. The interest rate for the credit lines we use varies according to changes in the dollar LIBOR rate as well as the Euro LIBOR rate.

PRESENTATION OF EXCHANGE RATE AND INTEREST RATE RISK

The table below details the balance sheet exposure, by currency, as of the periods indicated below (at fair value). All data in the table has been translated for convenience into the dollar equivalent (in millions). Explanatory notes are provided below the table.

Balance sheet exposure by currency (from continuing operations)			
	European Currencies	**NIS**	**Other Currencies**
as of December 31, 2005	$0.1	$(11.4)	--
as of December 31, 2004	--	$(11.6)	--

- The amounts shown in the table represent monetary assets less liabilities.
- The table does not include data with respect to balance sheet exposure for certain equity investments in which the functional currency was the local currency, since those balances do not create any such exposure.
- "European Currencies"include all European currency exposure.

(See "Item 5. Operating And Financial Review And Prospects – Impact of Inflation and Exchange Rates" and Note 11 to our consolidated financial statements included in this Annual Report.)

For information about forward-exchange contracts please see Note 11a to our Consolidated Financial Statement included in this Annual Report.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS IN THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure controls and procedures*:* Our chief executive officer, or CEO, and chief financial officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures. These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2005. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to information required to be disclosed in our periodic reports to the SEC.

Management's annual report on internal control over financial reporting*:* Not applicable.

Attestation report of the registered public accounting firm*:* Not applicable.

Changes in internal control over financial reporting: There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that two of the four members of the audit committee are "audit committee financial experts" as defined in Item 16A of Form 20-F. Our "audit committee financial experts" are Mr. Asheri and Mr. Dogon, both of whom are "independent" as this term is defined in the NASDAQ rules.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Ethics and Business Conduct, which applies to all of our directors, executive officers and employees. A copy of our Code of Ethics and Business Conduct has been posted on our Internet website, http://www.scailex.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEESAND SERVICES

In the annual general meeting held in December 2005, our shareholders re-appointed Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd. (PwC), to serve as our independent auditors until the next annual meeting.

PwC, including Kesselman & Kesselman, billed the following fees to us for professional services in each of the last two fiscal years:

	Year ended December 31, (approximate $ in millions)	
	2005*	2004*
Audit Fees [1]	$ 0.40	$ 0.25
Audit-Related Fees [2]	0.16	0.14
Tax Fees [3]	0.24	0.18
All Other Fees [4]	0.04	--
Total Fees	**$ 0.84**	**$ 0.57**

* Includes fees related to services rendered in respect of discontinued operations.

(1) "Audit Fees" are the aggregate fees billed for the audit of our annual financial statements, reviews of interim financial statements and attestation services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) "Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.

(3) "Tax Fees" are the aggregate fees billed for professional services rendered for tax compliance, tax advice on actual or contemplated transactions and tax planning. Kesselman & Kesselman provided us with tax services such as PFIC evaluation and tax planning.

(4) "All Other Fees" are the aggregate fees billed for professional services that are not reported under the captions "Audit Fees," "Audit-Related Fees" or "Tax Fees."

Our Audit Committee oversees our independent auditors. See also the description under the heading "Board Practices" in "Item 6. Directors, Senior Management and Employees."

Our Audit Committee approves each audit and non-audit service to be performed by our independent accountant before the accountant is engaged.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FORAUDIT COMMITTEES.

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER ANDAFFILIATED PURCHASERS.

On March 29, 2006, Clal and Discount purchased on the open market 42,765 shares and 42,235 shares, respectively, at an average price per share of NIS 27.75 ($5.90 based on an exchange rate of NIS 4.703 per dollar as of March 29, 2006). On March 30, 2006, Clal and Discount purchased on the open market 6,541 shares and 6,451 shares, respectively, at an average price per share of NIS 27.70 ($5.93 based on an exchange rate of NIS 4.673 per dollar as of March 30, 2006). These purchases were made in open market transactions on the TASE.

Nothing herein shall be deemed as an admission by Discount or Clal that they are "affiliated purchasers" within the meaning of Rule 10b-18 promulgated under the Exchange Act.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Scailex is filing as part of this Annual Report:

- consolidated audited financial statements of Scailex for the year ended December 31, 2005; and
- consolidated audited financial statements of Objet for the year ended December 31, 2004 (includes audited financial statements for the year ended December 31, 2003).

ITEM 19. EXHIBITS

1.1	Memorandum of Association of the Registrant.
1.2	Amended and Restated Articles of Association of the Registrant.
3	Voting Agreement, dated December 1, 1980, by and among Discount Investment Corporation Ltd., PEC Israel Economic Corporation and Clal Electronics Industries Ltd. (1)
4(a)(2)	Asset Purchase Agreement, dated November 24, 2003, between Eastman Kodak Company, the Registrant, Scitex Digital Printing, Inc. and Scitex Development Corp. (2)
4(a)(5)	Asset Purchase Agreement, dated August 11, 2005, between Hewlett-Packard Company and Scitex Vision Ltd. and the First Amendment thereto, dated November 1, 2005.
4(c)(1)	The Israel Key Employee Share Incentive Plan 1991. (3)
4(c)(2)	The International Key Employee Stock Option Plan 1991 (as amended, 1995). (3)
4(c)(3)	Form of the Letter of Indemnification provided to office holders. (4)
4(c)(4)	The 2001 Stock Option Plan (as amended, 2003). (5)
4(c)(5)	The 2003 Share Option Plan. (6)
4(d)(1)	Services Agreement dated November 1, 2001, between Clal and the Registrant (as amended, 2004). (7)
4(d)(2)	Share Exchange Agreement, dated December 22, 2002, by and among the Registrant, Scitex Vision Ltd. and Aprion Digital Ltd. (8)
4(d)(3)	Services Agreement, dated March 1, 2004, between Discount Investment Corporation Ltd. and the Registrant. (9)
8	List of Subsidiaries of the Registrant.
12.1	Certification of CEO of the Registrant pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of CFO of the Registrant pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of CEO of the Registrant pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of CFO of the Registrant pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
14(a)(1)	Consent of Independent Registered Public Accounting Firm relating to Registrant.
14(a)(2)	Consent of Independent Registered Public Accounting Firm relating to Jemtex.
14(a)(3)	Consent of Independent Registered Public Accounting Firm relating to Objet.
14(a)(4)	Consent of Independent Registered Public Accounting Firm relating to Scitex Vision America, Inc.

(1) Incorporated by reference to Exhibit 10.h to our Registration Statement on Form F-1 filed May 26, 1983 (File No. 2-82743).
(2) Incorporated by reference to Exhibit 4(a)(2) to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003, filed June 30, 2004.
(3) Incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000, filed June 29, 2001.
(4) Incorporated by reference to Appendix B to our Proxy Statement filed under the cover of a Current Report on Form 6-K filed December 1, 2005.
(5) Incorporated by reference to Exhibit (d)(4) to our Tender Offer Statement on Schedule TO filed May 14, 2004.

(6) Incorporated by reference to Appendix B to our Proxy Statement filed under the cover of a Current Report on Form 6-K filed December 3, 2003.
(7) Incorporated by reference to Exhibit 4(d)(1) to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003, filed June 30, 2004.
(8) Incorporated by reference to Exhibit 4(d)(2) to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002, filed June 19, 2003.
(9) Incorporated by reference to Exhibit 4(d)(3) to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003, filed June 30, 2004.

SCAILEX CORPORATION LTD.
(Formerly SCITEX CORPORATION LTD.)

2005 CONSOLIDATED FINANCIAL STATEMENTS

SCAILEX CORPORATION LTD.
2005 CONSOLIDATED FINANCIAL STATEMENTS

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The amounts are stated in U.S. dollars ($).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

SCAILEX CORPORATION LTD.

We have audited the consolidated balance sheets of Scailex Corporation Ltd. (the "Company") and its subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, which statements reflect total assets of $954,132 and $18,550,000 at December 31, 2005 and 2004, respectively, and net income (losses) of ($3,497,222) and $1,739,810 for the years then ended, respectively. We did not audit the financial statements of certain associated companies, the Company's investment in which, as reflected in the balance sheets as of December 31, 2004 is $124,000, and the Company's share in losses of which is $1,418,000 and $5,637,000 in 2004 and 2003, respectively. Those financial statements were audited by other independent registered public accounting firms whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other independent registered public accounting firms.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent registered public accounting firms provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other independent registered public accounting firms, 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, 2005 and 2004 and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Tel-Aviv, Israel
March 19, 2006

BY: /S/ Kesselman & Kesselman

Certified Public Accountants (Isr.)

SCAILEX CORPORATION LTD.
CONSOLIDATED BALANCE SHEETS

	December 31	
	2005	2004
	U.S. dollars in thousands	
A s s e t s		
CURRENT ASSETS:		
Cash and cash equivalents	200,350	85,892
Short-term investments	30,405	56,693
Restricted deposit	5,165	5,000
Other receivables	583	962
Deferred income taxes	1,260	709
Current assets of discontinued operations	80,754	89,767
T o t a l current assets	318,517	239,023
INVESTMENTS AND OTHER NON-CURRENT ASSETS:		
Restricted deposit		5,000
Securities held-to-maturity	29,707	
Other investments and prepaid expenses	1,540	1,574
Funds in respect of employee rights upon retirement	613	596
	31,860	7,170
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization (note 5)	82	101
INTANGIBLE ASSETS, net of accumulated amortization (note 6)	559	1,774
NON-CURRENT ASSETS OF DISCONTINUED OPERATIONS		26,085
	351,018	274,153

BY: /S/ Ami Erel
_____
Ami Erel
Chairman of the Board of Directors

BY: /S/ Raanan Cohen
_____
Raanan Cohen
Interim President & Chief Executive Officer

	December 31	
	2005	2004
	U.S. dollars in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Trade payables	329	312
Income taxes payable	13,660	13,872
Accrued and other liabilities	1,507	1,046
Current liabilities related to discontinued operations	30,822	83,352
T o t a l current liabilities	46,318	98,582
LONG-TERM LIABILITIES:		
Liability for employee rights upon retirement (note 7)	715	648
Long-term liabilities related to discontinued operations	1,192	16,423
T o t a l long-term liabilities	1,907	17,071
COMMITMENTS AND CONTINGENT LIABILITIES (note 8)		
T o t a l liabilities	48,225	115,653
MINORITY INTEREST OF DISCONTINUED OPERATION	41,190	4,226
SHAREHOLDERS' EQUITY (note 9):		
Share capital - ordinary shares of NIS 0.12 par value (authorized: December 31, 2005 and 2004 - 48,000,000 shares; issued and outstanding: December 31, 2005 and 2004 - 43,467,388 shares)	6,205	6,205
Capital surplus	280,314	278,812
Accumulated other comprehensive loss	(1,110)	(327)
Deferred stock compensation	(45)	(517)
Retained earnings (accumulated deficit)	8,539	(97,599)
Treasury shares, at cost (December 31, 2005 and 2004 - 5,401,025 shares)	(32,300)	(32,300)
T o t a l shareholders' equity	261,603	154,274
	351,018	274,153

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

SCAILEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands (except per share data)		
RESEARCH AND DEVELOPMENT COSTS, net	2,549	2,168	
MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES	3,679	4,859	2,890
AMORTIZATION OF INTANGIBLE ASSETS	1,215	1,215	
OPERATING LOSS	(7,443)	(8,242)	(2,890)
FINANCIAL INCOME, net	4,293	2,723	48
OTHER INCOME, net	917	648	498
LOSS BEFORE TAXES ON INCOME	(2,233)	(4,871)	(2,344)
INCOME TAX BENEFITS (note 12)	94	1,121	
SHARE IN RESULTS OF ASSOCIATED COMPANY (including gain gain from sale of the associated company in 2005 of $2,981)	2,876	(1,418)	(5,637)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	737	(5,168)	(7,981)
NET INCOME FROM DISCONTINUED OPERATIONS, net of taxes and minority interests	105,401	52,421	9,368
NET INCOME	106,138	47,253	1,387
EARNING (LOSS) PER SHARE ("EPS") - BASIC:			
Continuing operations	0.02	(0.13)	(0.19)
Discontinued operations	2.77	1.30	0.22
	2.79	1.17	0.03
EARNING (LOSS) PER SHARE ("EPS") - DILUTED:			
Continuing operations	0.02	(0.13)	(0.19)
Discontinued operations	2.67	1.30	0.22
	2.69	1.17	0.03
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EPS (in thousands):			
Basic	38,066	40,336	43,018
Diluted	38,134	40,336	43,018

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

SCAILEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Capital surplus	Accumulated other comprehensive Income (loss)	Accumulated deficit	Deferred Stock Compensation	Treasury shares	Total shareholders' equity
	U.S. dollars in thousands						
BALANCE AT JANUARY 1, 2003	6,205	364,619	801	(146,239)	–,–	(4,207)	221,179
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2003:							
Net Income				1,387			1,387
Other comprehensive loss, in respect of currency translation adjustments			(1,353)				(1,353)
T o t a l comprehensive income							34
Share in beneficial conversion feature relating to convertible preferred shares issued by Scailex Vision (see note 14b)		3,485					3,485
BALANCE AT DECEMBER 31, 2003	6,205	368,104	(552)	(144,852)	–,–	(4,207)	224,698
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2004:							
Net income				47,253			47,253
Other comprehensive income (loss), in respect of:							
Available-for-sale securities, net			(327)				(327)
Realization of currency translation adjustments			552				552
T o t a l comprehensive income							47,478
Cash distribution		(89,837)					(89,837)
Deferred stock compensation related to options granted to employees		545			(545)		
Amortization of deferred stock compensation from options granted to employees					28		28
Treasury shares						(28,093)	(28,093)
BALANCE AT DECEMBER 31, 2004	6,205	278,812	(327)	(97,599)	(517)	(32,300)	154,274
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2005:							
Net income				106,138			106,138
Other comprehensive loss, in respect of:							
Available-for-sale securities			(865)				(865)
Realized losses included in net income			82				82
T o t a l comprehensive income							105,355
Deferred stock compensation related to options granted to employees		1,502			(1,502)		
Amortization of deferred stock compensation from options granted to employees					1,974		1,974
BALANCE AT DECEMBER 31, 2005	6,205	280,314	(1,110)	8,539	(45)	(32,300)	261,603

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

SCAILEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	106,138	47,253	1,387
Adjustments to reconcile net income from operations to net cash provided by (used in) operating activities:			
Income and expenses not involving cash flows:			
Gain from sale/Share in results of associated companies (including funds received from cost method investee), net	(3,668)	1,418	5,637
Depreciation and amortization	1,252	1,273	23
Amortization of deferred stock compensation	20	20	
Gain from issuance of shares by an associated company		(137)	
Long-term prepaid expenses	21	(16)	
Write-down of investment in investee companies		137	2,493
Gain from waiver of loan		(581)	
Accrued severance pay, net	50	42	
Deferred income taxes, net	(551)	(709)	
Loss (gain) from sale of available-for-sale and bonds interests Income	59	70	(11,058)
Changes in operating asset and liability items:			
Decrease (Increase) in other receivables	359	257	(3)
Increase (decrease) in accounts payable and accruals	542	(275)	142
Other items, net		(339)	(8)
Net cash used in discontinued operation, net	(131,209)	(58,717)	(4,777)
Net cash used in operating activities	(26,987)	(10,304)	(6,164)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of assets and operations consolidated for the first time*		294	
Acquisition of available for sale marketable securities	(13,233)	(98,198)	
Proceeds from sale of marketable securities	8,972	49,034	
Purchase of fixed assets	(18)	(10)	
Proceeds from sale of investment in discontinued operations	199,164	230,418	
Proceeds from sale of other investment			53,886
Proceeds from disposal of associated company	3,000		
Distribution of funds from cost method investment	1,006		
Restricted deposits	4,835	(10,000)	
Investment in associated companies and other investments	(325)	(594)	(3,061)
Net cash provided by (used in) discontinued operations, net	(18,802)	2,219	72
Net cash provided by investing activities	184,599	173,163	50,897

SCAILEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
Subtotal - brought forward	157,612	162,859	44,733
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury shares		(28,093)	
Cash distribution		(89,837)	
Repayment of long-term loans and other liabilities			(18,759)
Net cash provided by (used in) discontinued operations, net	(43,154)	(15,798)	9,073
Net cash used in financing activities	(43,154)	(133,728)	(9,686)
NET INCREASE IN CASH AND CASH EQUIVALENTS	114,458	29,131	35,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	85,892	56,761	21,714
CASH AND CASH EQUIVALENTS AT END OF YEAR	200,350	85,892	56,761
* Acquisition of assets and operations consolidated for the first time:			
Assets and liabilities at the date of acquisition:			
Deficiency in working capital (excluding cash and cash equivalents)		574	
Property and equipment, net		(140)	
Investment in associated company		2,266	
Intangible assets arising from acquisition		(2,987)	
Long-term loans and other liabilities		581	
Cash received		294	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	123	6,137	1,225

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

NOTE 1 – GENERAL:

a. Nature of operations

Continuing operation:

Scailex Corporation Ltd. (formerly Scitex Corporation Ltd., hereafter the "Company") is an Israeli company. As of December 31, 2005 the Company operates through two segments:

a) **Corporate** - management of assets and pursuing investments and opportunities.

b) **Continuous inkjet industrial digital printing** - develop, manufacture and market of continuous inkjet based digital printers, through the Company's subsidiary Jemtex Ink Jet Printing Ltd. (hereafter - "Jemtex").

On December 2005, the shareholders of the Company agreed to change the name of the Company from Scitex Corporation Ltd. to Scailex Corporation Ltd. Amounts provided in these notes to the consolidated financial statements pertain to continuing operations - unless otherwise indicated.

b. Discontinued operations:

The Company used to operate in two other segments through its subsidiaries. Both segments were disposed over the last two years: Consequently operating results of both segments have been reported in these financial statements as discontinued operations in accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144) and the Company has reclassified its results of operations, and the related assets and liabilities for the prior periods in accordance with provisions of FAS 144 as follows:

1) Sale of the High-Speed Digital Printing segment

On January 5, 2004, the Company completed the sell of substantially all of the assets, liabilities and operations of its indirect wholly-owned subsidiary Scailex Digital Printing Inc. ("SDP") related to its High-Speed Digital Printing Business, including most of the distribution channels that served SDP, to Eastman Kodak Company ("Kodak"), for $ 250 million in cash (in addition $12 million were retained at SDP following the transaction). Pursuant to the agreement, a $25 million was held in escrow, of which (1) $15 million were released in February 2004 to SDP's parent company ("SDC", a wholly owned subsidiary of the Company) account, (2) $5 million were released in January 2005 to SDP's account and (3) the remaining $5 million were released in January 2006, in accordance with the applicable terms of the agreement. The last $5 million are presented as restricted deposit (short-term, in equal shares) in the Company's balance sheet as of December 31, 2005. The closing of the transaction took place on January 5, 2004. As a result of the transaction, the Company recorded a net gain of approximately $60 million, of which approximately $52 million were included in the statement of operations in 2004, and approximately $8 million of which was recognized in the fourth quarter of 2003 as a tax benefit related to expected utilization of carryforward tax losses including capital losses and is recorded under "income from discontinued operation".

NOTE 1 – GENERAL (continued)**:**

The current liabilities of SDP classified as discontinued operation in the Consolidated Balance Sheets, are as follows:

	Year ended December 31	
	2005	2004
	U.S. dollars in thousands	
Assets		
Federal Income tax receivable (see not 10g(2))	7,800	
T o t a l assets	7,800	-,-
Liabilities		
Current liabilities	250	2,193
T o t a l liabilities	250	2,193

Revenues and net income from the discontinued operations of SDP are as follow:

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
Revenues			170,113
Cost of revenues			101,721
Gross profit			68,392
Other operation expenses			56,300
Operating income			12,092
Financial income, net			3,970
Other (income) expenses, net	966	51,646	(390)
Income before taxes on income	966	51,646	15,672
Income tax benefit (note 10g(2))	7,800		4,371
Net income for the year	8,766	51,646	20,043

* In 2004 the Company recognized a gain of $51.6 million on the said sale of SDP presented as part of other income above.

2) Sale of the Wide Format Digital Printing Segment

On November 1, 2005, the Company completed the sale of the substantially all of the assets and the liabilities of the business of Scailex Vision (Tel-Aviv) Ltd. (Formerly Scitex Vision Ltd.), a majority-owned subsidiary of the Company, to Hewlett-Packard Company (“HP”). Under the terms of the agreement, HP paid approximately $230 million in cash to Scailex Vision (subject to certain adjustments under the agreement), of which $23 million are retained in escrow for 24 months to cover possible indemnification claims and $1 million will be retained for 12 months to cover possible tax payments related to 2005. In addition, the Company has agreed to license its rights to the “Scitex” trade name to HP, and has agreed to change its corporate name (accordingly the Company changes its name to Scailex Corporation Ltd. At December 31, 2005, the remaining cash and assets classified as discontinued operations are estimated to be used for future payment of the related liabilities of the discontinued operations. At December 31, 2005, the remaining liabilities classified as discontinued operation represent liabilities for payments of deal expenses and related taxes.

NOTE 1 – GENERAL (continued)**:**

The assets and liabilities of Scailex Vision (Tel-Aviv) Ltd. (hereafter - Scailex Vision) classified as discontinued operation in the Consolidated Balance Sheets, are as follows:

	December 31	
	2005	2004
	U.S. dollars in thousands	
Assets		
Current assets:		
Cash	53,905	
Restricted Deposits		13,000
Trade and other receivables	19,049	40,226
Inventories		36,541
Total current assets	72,954	89,767
Funds in respect of employee rights Upon retirement		2,815
Property, plant and equipment, net of depreciation and amortization		9,046
Goodwill		6,717
Other intangible assets, net of accumulated amortization		7,507
Total non-current assets		26,085
Total assets	72,954	115,852
Liabilities		
Current liabilities	30,572	81,159
Long-term liabilities:		
Liability for employee rights upon retirement		3,530
Loans, net of current maturities	1,192	12,893
Total long-term liabilities	1,192	16,423
Minority interest in discontinued operation	41,190	4,226
Total liabilities	72,954	101,808

NOTE 1 – GENERAL (continued):

Revenues and net income (loss) from the discontinued operations of Scailex Vision are as follow:

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
Revenues	126,964	128,186	102,880
Cost of revenues	73,778	69,165	63,212
Gross profit	53,186	59,021	39,668
Other operation expenses	40,797	50,037	47,943
Operating income (loss)	12,389	8,984	(8,275)
Financial expense, net	(506)	(3,449)	(2,907)
Other income, net	123,049	212	12
Income (loss) before taxes on income	134,932	5,747	(11,170)
Taxes on income	963	1,054	2,402
Net income (loss)	133,969	4,693	(13,572)
Minority interests in income (loss) of discontinued operation	(37,334)	(3,918)	2,897
Net income (loss)	96,635	775	(10,675)

In 2005 the Company recognized a gain of $92.3 million on the said sale (net of minority interest and related taxes), presented as part of other income above.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

a. General:

1) Risk factors and concentration

As of December 31, 2005, the Company and its subsidiaries are subject to various risks, including but not limited to: (i) business and industry risks like diversification of the business and uncertainty as to a prospective business model of the Company; changes in domestic and foreign economic and market conditions and classification as investment company under US securities laws; (ii) financial risks such as currency fluctuations, credit risks, obtaining future financing for affiliated companies, decreases in the value of its financial investments and classification as a passive foreign investment company for US tax law purpose; and (iii) risks related to operations in Israel like political, economic and military instability in Israel or the Middle East; and terms and conditions of tax benefits and governmental grants. See also note 11 for financial instruments and other risks.

2) Functional currency

The U.S. dollar is the functional currency for the Company and its subsidiaries. Since the U.S. dollar is the primary currency in the economic environment in which the foreign subsidiaries operate, monetary accounts maintained in currencies other than the U.S. dollar (principally cash and liabilities) are remeasured using the representative foreign exchange rate at the balance sheet date. Operational accounts and non monetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in current operations and have not been material to date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**:**

3) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

4) Accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

b. Principles of consolidation

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

c. Cash equivalents

The Company and its subsidiaries consider all highly liquid investments, with an original maturity of three months or less at time of investment, that are not restricted as to withdrawal or use, to be cash equivalents.

d. Investments in marketable securities

Pursuant to SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, part of the Company’s investments in marketable securities has been designated as held to maturity and part of it has been classified as available-for-sale.

Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, recorded as a separate component of comprehensive income in shareholders’ equity until realized. Interest and amortization of premiums and discounts for debt securities and gains and losses on securities sold are included in financial income. For all investment securities, unrealized losses that are other than temporary are recognized in net income.

For debt securities are held-to-maturity - in the fourth quarter of 2005, the Company decided to hold some securities to maturity and changed some of the classifications to held-to-maturity in accordance with the policy of the Company, the unrealized holding gain or loss at the date of the change in classification continues to be reported as a separate component of comprehensive income in shareholders’ equity, but is being amortized over the remaining life of the security as an adjustment of yield.

Investment in marketable securities - which are to be held to maturity - are stated at amortized cost with the addition of computed interest accrued as of the balance sheet date (such interest represents the computed yield on cost from acquisition to maturity). Interest and amortization of premium or discount for those debt securities are carried to financial income or expenses.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**:**

e. Other non-current investments

These investments are carried at cost, net of write-down for decrease in value, which is not of a temporary nature.

f. Investments in associated companies

Associated companies are companies over which significant influence is exercised, but which are not consolidated subsidiaries, and are accounted for by the equity method, net of write-down for decrease in value, which is not of a temporary nature. The excess of cost of investment in associated companies over the Company's share in their net assets at date of acquisition ("excess of cost of investment") represents amounts attributed to know-how and technology. The excess of cost of investment is amortized over a period of 5 years, commencing in the year of acquisition.

g. Property and equipment

Property and equipment are carried at cost and are depreciated by the straight-line method over their estimated useful life.

Annual rates of depreciation are as follows:

	%
Equipment	7-20
Computers	20-33

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related asset using the straight-line method.

h. Intangible assets

Intangible assets which consist of technology are presented at cost and are amortized by the straight-line method over the estimated useful life of 5 years.

i. Impairment of long-lived assets

FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS "144"), requires that long-lived assets including certain intangible assets, to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets would be written down to their estimated fair values.

j. Deferred income taxes

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period. Valuation allowances are provided for deferred tax assets when it is more likely than not that all or a portion of the deferred tax assets will not be realized. The Company may incur an additional tax liability in the event of an intercompany dividend distribution by non-Israeli subsidiaries.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Comprehensive income (loss)

In addition to net income (loss), comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and currency translation adjustments of non-dollar currency financial statements of a subsidiary.

l. Treasury shares

Company's shares held by the Company, are presented as a reduction of shareholders' equity, at their cost to the Company.

m. Research and development costs, net

Research and development costs are charged to income as incurred. Royalty-bearing grants received from governments for approved projects are recognized as a reduction of expenses as the related costs are incurred.

n. Stock based compensation

The Company and its subsidiaries account for employee stock based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Under APB 25 compensation cost for employee stock option plans is measured using the intrinsic value based method of accounting, and is amortized by the straight-line method against income, over the expected service period.

FAS 123 "Accounting for Stock-Based Compensation", establishes a fair value based method accounting for employee stock options or similar equity instruments, and encouraged adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans the accounting treatment prescribed by APB 25.

Proforma information regarding net income (loss), required under FAS 123, has been determined as if the Company and its subsidiaries had accounted for its stock options under the fair value method of FAS 123. The fair value for their stock options was estimated at the date of each option grant using the Black-Scholes option pricing model with the following assumptions: in 2004 risk-free interest rate of 3.1%; dividend yields of zero; expected life of the options of approximately 3 years; and expected volatility of and 52% respectively.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued):

The following table illustrates the effect on net income (loss) and earning (loss) per share assuming the Company and its subsidiaries had applied the fair value recognition provisions of FAS 123 to its stock-based employee compensation:

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands (except for per share data)		
Net income (loss) from continuing operations - as reported	737	(5,168)	(7,981)
Add: stock based employee compensation expenses, included in reported net loss from continuing operations	20	20	-,-
Deduct: stock based employee compensation expenses determined under fair value method	(95)	(156)	(371)
Pro-forma net income (loss) from continuing operations	662	(5,304)	(8,352)
Net income from discontinued operations - as reported	105,401	52,421	9,368
Add: stock based employee compensation expenses, included in reported net income from discontinued operations (net of minority interest and related taxes)	1,954	8	-,-
Deduct: stock based employee compensation expenses determined under fair value method (net of minority interest and related taxes)	(3,434)	(437)	(1,952)
Pro-forma net income from discontinued operations	103,921	51,992	7,416
Pro-forma net income (loss)	104,583	46,688	(936)
Basic earning (loss) per share - as reported:			
Continuing operations	0.02	(0.13)	(0.19)
Discontinued operations	2.77	1.30	0.22
Net income	2.79	1.17	0.03
Basic Pro-forma earning (loss) per share:			
Continuing operations	0.02	(0.13)	(0.19)
Discontinued operations	2.70	1.29	0.17
Net income (loss)	2.72	1.16	(0.02)
Diluted earning (loss) per share - as reported:			
Continuing operations	0.02	(0.13)	(0.19)
Discontinued operations	2.67	1.30	0.22
Net income	2.69	1.17	0.03
Diluted Pro-forma earning (loss) per share:			
Continuing operations	0.02	(0.13)	(0.19)
Discontinued operations	2.60	1.29	0.17
Net income (loss)	2.62	1.16	(0.02)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Earning (loss) per share ("EPS")

Basic EPS are computed based on the weighted average number of shares outstanding during each year excluding the treasury shares held by the Company. Diluted EPS reflects the increase in the weighted average number of shares outstanding that would result from the assumed exercise of options, calculated using the treasury-stock-method (in 2004, 2003 such effect was not included since it would have been anti-dilutive). In addition, diluted EPS does not reflect options exercisable to the Company's ordinary shares not included in the EPS calculation since their effect is anti-dilutive include options granted to employees only.

p. Revision of prior years statements of cash flows

We have revised our 2004 and 2003 statements of cash flows to separately disclose the operating, investing, and financing portions of the cash flows attributable to our discontinued operations. We had previously reported these amounts on a combined basis.

q. Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

r. Recently issued accounting pronouncements:

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) addresses all forms of share-based payment ("SBP") awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS No. 123(R) supersedes our current accounting for SBP awards under APB No. 25 and requires us to recognize compensation expense for all SBP awards based on fair value. In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB No. 107") relating to the adoption of SFAS No. 123(R). Beginning in the first quarter of 2006, the Company will adopt the provisions of SFAS No. 123(R) under the modified prospective transition method. Under the new standard, our estimate of compensation expense will require a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), future forfeitures and related tax effects. The Company recognize SBP compensation expense based on FASB Interpretation 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an interpretation of APB Opinions No. 15 and 25", which provides for accelerated expensing and will continue to do so after the adoption of SFAS No. 123(R). SFAS 123R requires the Company to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Currently, the Company accounts for forfeitures as they accrue as permitted under previous accounting standard. The Company does not expect the statement to have a material effect on its consolidated financial position, results of operations or cash flows. In addition, the Company estimates that the cumulative effect of adopting SFAS No. 123R as of its adoption date (January 1, 2006), based on the awards outstanding as of December 31, 2005, will not be material. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur after December 31, 2005 and prior to the Company's adoption of SFAS No. 123R.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued):

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 supercedes of Accounting Principles Board Opinion No. 20 and SFAS No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005. The Company will be adopting this pronouncement beginning in the fiscal year 2006 and does not currently believe that it will have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued FAS 155, accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided that no interim period financial statements have bee issued for the financial year. Management is currently evaluating the impact of this statement, if any, on the Company's financial statements or its results of operations.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1 and 124-1"), which clarifies when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 are effective for all reporting periods beginning after December 15, 2005. The Company does not believe adoption of FSP FAS 115-1 and FAS 124-1 will have a material effect on its consolidated financial position, results of operations or cash flows.

NOTE 3 – INVESTMENTS IN ASSOCIATED COMPANIES (including associated Company consolidated for first time in 2004):

a. Jemtex Ink Jet Printing Ltd.

In December 2002, the Company signed a share purchase agreement with Jemtex Ink Jet Printing Ltd ("Jemtex"), according to which, the Company invested additional $2,400,000 in three equal quarterly installments of $800,000 each. The first installment and an advance of $250,000 on the last payment were made in December 2002. The additional $1,350,000 was transferred in February and May 2003. The excess of cost of investment over the Company's share in Jemtex' net assets at the date of transaction in the amount of $1,371,000 was attributed to technology to be amortized over five years.

NOTE 3 – INVESTMENTS IN ASSOCIATED COMPANIES (including associated Company consolidated for first time in 2004) (continued):

In addition, Jemtex granted to the Company for no additional consideration, warrants to purchase (1) 3,181 preferred shares of Jemtex at an exercise price of $ 251.467 per share, exercisable until January 2, 2004, and (2) 3,181 preferred shares of Jemtex at an exercise price of $ 251.467 per share exercisable until March 31, 2005. An amount of $51,000 was allocated to the said warrants out of the total above-mentioned investment of $2,400,000. In August 2003, the Company invested in Jemtex an amount of $799,917 by way of convertible loan, bearing interest at the rate of LIBOR+0.75%. The loan is due on August 31, 2007, and is convertible at the option of the holder, at any time during the term of the note and the accrued interest, into preferred shares. According to the investment agreement and upon its execution, the second warrant to purchase 3,181 preferred shares of Jemtex was cancelled.

In the beginning of 2004, the Company concluded a $1.5 million investment in Jemtex in consideration for convertible loans, out of which $0.45 million were provided to Jemtex in late 2003 and $1.05 million were provided to Jemtex in early 2004.

In addition, during September 2004, the Company signed an investment agreement and invested an additional amount of $1 million by way of convertible loans and in November 2004 signed a further investment agreement under which it invested between the date of such agreement and January 2005 an additional amount of $1 million by way of convertible loans. The convertible loans and accrued interest thereon may be converted by the Company into preferred shares of Jemtex at any time during a 5-year period at an exercise price of approximately $0.68 subject to adjustment as set forth in the notes. The loans bear interest of between LIBOR plus 0.75%-1%.

During February 2005, the Company signed on an investment agreement (that was subsequently amended to increase the invested amount), under which the Company invested a total of $2,825,000 by way of convertible loans in 2005. The convertible loans bear interest at LIBOR plus 1% and mature 5 years from the date of issuance. The convertible loans are convertible at the option of the Company to preferred shares, nominal value CityplaceNIS 0.01 per share at any time after the issue date of the particular note and ending at the maturity date at a PersonNameProductIDprice perprice per share of approximately $0.68, subject to adjustment as set forth in the notes.

As of December 31, 2005, the Company effectively holds approximately 85% of Jemtex's issued share capital on an "as-converted" basis. Jemtex has a capital deficit and as the Company is currently the sole financier of Jemtex, it has taken full share (100%) in Jemtex' losses, commencing on the third quarter of 2003.

Since January 2004, Jemtex financial statements are consolidated with those of the Company, since the Company effectively has the right to appoint 4 out of 6 directors and holds majority of the shareholders voting rights.

NOTE 3 – INVESTMENTS IN ASSOCIATED COMPANIES (continued):

b. Objet Geometries Ltd.

On June 28, 2005, the Company sold all of its holdings in Objet Geometries Ltd. (hereafter – "Objet") to several shareholders of Objet for $3 million in cash. Additional contingent consideration will be paid to the Company if Objet undergoes specified "exit events" prior to the end of 2007. The Company recognized a gain on sale of approximately $3 million from this sale, presented under "Share in results of associated company" in the Company's 2005 Statements of operations.

Summarized data from Objet's financial statements for the periods ended December 31, 2004:

	December 31, 2004
	U.S. dollars in thousands
Current assets	8,515
Non-current assets	1,415
Current liabilities	11,938
Non-current liabilities	732

	Year ended December 31, 2004
	U.S. dollars in thousands
Revenues	16,951
Gross profit	6,520
Operating loss	(678)
Net loss	(845)

NOTE 4 – OTHER INVESTMENTS:

a. During 2005, the Company invested an amount of $0.3 million in Dor Venture Capital (hereafter - "Dor"), following a capital call made by Dor. In May 2005, the Company received $1 million as a return on investment. As a result, the Company recognized a gain of $0.8 million presented in other income. As of December 31, 2005, the Company is committed to invest an additional $1.8 million in Dor.

b. See also note 14c.

NOTE 5 – PROPERTY AND EQUIPMENT

Grouped by major classifications, the assets are composed as follows:

	December 31	
	2005	2004
	U.S. dollars in thousands	
Equipment	133	132
Leasehold improvements	64	64
Computers	302	285
	499	481
Less - accumulated depreciation and amortization	(417)	(380)
	82	101

Depreciation of property and equipment from continuing operations totaled $37,000, $58,000 and $23,000 in 2005, 2004 and 2003, respectively.

NOTE 6 – INTANGIBLE ASSETS:

Intangible assets are comprised of acquired technology, as follows:

	December 31	
	2005	2004
	U.S. dollars in thousands	
Gross carrying amount	6,072	6,072
L e s s - accumulated amortization and impairment charges	(5,513)	(4,298)
	559	1,774

Amortization expenses totaled $1,215,000 and $1,215,000 in 2005 and 2004 respectively. Estimated amortization expense for the following years, subsequent to December 31, 2005:

	U.S. dollars in thousands
Year ending December 31:	
2006	284
2007	275
	559

NOTE 7 – EMPLOYEE RIGHTS UPON RETIREMENT:

a. Israeli labor laws and agreements require the payment of severance pay upon dismissal of an employee or upon termination of employment in certain circumstances. The liability is based upon the length of service and the latest monthly salary (one month's salary for each year worked), and is mainly funded through monthly payments by the Company and its Israeli subsidiaries to severance pay and pension funds as well as insurance companies (principally, an insurer which is an affiliate of the two major shareholders of the Company).

The Company records the long-term obligation as if it was payable at each balance sheet date on an undiscounted basis.

b. Severance pay and defined contribution plan expenses totaled $145,000, $191,000 and $9,000, in 2005, 2004 and 2003, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES:

a. Commitments:

1) Operating leases

The Company leases its facilities and automobiles under cancelable and non-cancelable operating lease agreements. The commitment of the Company and its subsidiary since the end of year 2005 is for additional six months.

2) Commencing November 1, 2001 and until January 2004, the Company's headquarters were located on the premises of one of its major shareholders. The Company obtained the services of certain executives and other staff as well as certain services from the major shareholder, for which the Company paid amounts based on formulas determined in the agreement between the Company and the shareholder. During the first two quarters of 2004, the Company's headquarters were relocated to the premises of another major shareholder. The Company obtains the services of an executive as well as certain ancillary services from the shareholder, for which the Company pays amounts based on formulas determined in the agreement between the Company and the shareholder. Expenses due to the said agreements totaled $302,000, $227,000 and $518,000 in 2005, 2004 and 2003, respectively. Beginning with the third quarter of 2004 the Company has a lease agreement with an unrelated third party.

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

3) In connection with its research and development, a subsidiary of the Company received and accrued participation payments from the Office of the Chief Scientist of the Ministry of Industry and Trade in Israel in the total amount of approximately $3,249,000. In return for the Government of Israel's participation, the subsidiary is committed to pay royalties at a rate of 3% - 5% of sales of the developed products, up to 100% of the amount of grants received (for grants received under programs approved subsequent to January 1, 2000 - 100% plus interest at LIBOR). The subsidiary's total commitment for royalties payable with respect to future sales, based on Government participations received or accrued, net of royalties paid or accrued, totaled approximately $3,200,000, as of December 31, 2005.

4) In connection with a commitment to invest in investee company, see note 4a.

b. Contingent liabilities:

1) A shareholder of the Scailex Vision (hereafter CDI), filed against Scailex Vision (and others) three claims in 2003 and 2004: the first, a monetary claim in the amount of NIS 14 million, asserting, inter alia, that SV had "allowed" its controlling shareholders and directors to execute the share exchange agreement with the company and Scailex Vision International, dated December 2002, to CDI's alleged detriment. The second, an originating motion, requiring that Scailex Vision submit to CDI various documents and information pertaining to the conversion of all preferred shares of Scailex Vision into ordinary share capital, that took place in May 2003. The third, also an originating motion, was directed against the resolutions adopted by Scailex Vision's audit committee, board of directors and general meeting of shareholders, that approved the internal financing round of May 2004.

On April 6, 2005, the Company and the Company's two largest shareholders, Clal and Discount (the "Purchasers") signed an agreement with the minority shareholder, whereby they agreed to purchase all of the minority shareholder's shares in Scailex Vision, constituting then 1.89% of Scailex Vision's issued share capital (1.35% on a fully diluted basis) in consideration for $1.6 million, plus additional contingent consideration to be paid if Scailex Vision undergoes an "exit event" within the next 2 years at a higher valuation as detailed in the agreement. In the framework of the agreement, the minority shareholder dismissed all suits and other legal proceedings it had initiated or had threatened to initiate against the Company, the Purchasers and other various parties. In addition, the minority shareholder, on one hand, and the Company, the Purchasers and other various parties on the other hand waived all other claims and disputes in connection with Scailex Vision they may have vis-à-vis the other party to the agreement.

As a result of the sale of the business of Scailex Vision on November 1, 2005 (that is being considered as an "exit event") the company and the other two shareholders compensated the minority shareholders according to the agreement. The company accrued $0.34 million for that purpose and paid it to the minority in the beginning of 2006.

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

2) In December 2003, three minority shareholders of Objet, a company in which the Company had a 22.91% interest, filed an approximate 7.8 million New Israeli Shekels ("NIS") (approximately $1.75 million) lawsuit against Objet, certain of its shareholders, including the Company, and certain of Objet's directors. The lawsuit alleges that the defendants acted in a manner that prejudiced the rights of the minority shareholders, and breached Objet's obligations to such shareholders. Among the remedies being sought by the said minority shareholders are compensation, restitution (with linkage and interest) of the investment amount, or repurchase of the plaintiffs' shares in Objet, and a demand for changes to the terms of certain convertible loans made to Objet by certain of the defendants including the Company. Objet has asked for a dismissal of the case relating to one of the parties suing.

In September 2005 the court recommended to the parties to try and settle the dispute in mediation (the parties have not reached any settlement yet regarding the mediator to be appointed).

At this time neither Objet nor the Company is able to assess the likelihood of success of the suit, therefore no provision was recorded.

3) Claims have been filed against the Company and its subsidiaries in the ordinary course of business. The Company and its subsidiaries intend to defend themselves vigorously against those claims. Management does not expect that the Company will incur substantial expenses in respect thereof; therefore, no provision has been made for the claims.

NOTE 9 – SHAREHOLDERS' EQUITY:

a. Share capital:

1) The Company's shares are traded on NASDAQ, under the symbol SCIX, and on The Tel Aviv Stock Exchange ("TASE").

On December 31, 2005, the Company's share closed on NASDAQ and TASE at $6.00 and approximately $5.97 (in NIS), respectively.

2) The number of shares stated as issued and outstanding – 43,467,388 shares at December 31, 2005 and 2004 – includes, at December 31, 2004, 5,401,025 shares repurchased by the Company and held by the Company or by a trustee. These shares bear no voting rights or rights to cash dividends.

b. Cash distribution and treasury stock

In 2004, approximately $118 million were transferred by the Company to its shareholders through a repurchase of shares from the shareholders and a cash distribution:

1) In June 2004, the Company completed a self tender offer and purchased 4,952,050 shares for an aggregate amount of approximately $28.1 million that represent $5.67 per share.

2) In July 2004, the Company distributed in cash $2.36 per ordinary share, or approximately $89.8 million in the aggregate, to its shareholders.

NOTE 9 – SHAREHOLDERS' EQUITY (continued):

c. Share incentive and stock option plans

2001 and 2003 Plans

In December 2001, the Company's shareholders approved the adoption of the Company's 2001 Stock Option Plan ("2001 Plan"), designed primarily for employees and directors of the Company and its subsidiaries. In December 2003, the Company's shareholders approved the adoption of the company's 2003 Share Option Plan ("2003 Plan"), designed for employees, directors and consultants of the Company who are Israeli residents, and also approved an increase in the aggregate number of shares reserved for issuance under the 2001 Plan from an initial 750,000 shares to 1,900,000 shares, with all such reserved shares being available for issuance under either the 2001 Plan or the 2003 Plan. Option awards may be granted under the 2001 Plan until November 5, 2011 and under the 2003 Plan until November 23, 2013. Terms of the options granted under the plans, such as length of term, exercise price, vesting and exercisability, are determined by the board of directors. The maximum term of an option may not exceed ten years. Each option can be exercised to purchase one share having the same rights as other ordinary shares of the Company.

The 2003 Plan is designed to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company will be allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plan. The amount allowed as an expense for tax purposes, at the time the employee utilizes such benefit, is limited to the amount of the benefit that is liable to tax as labor income, in the hands of the employee; all being subject to the restrictions specified in Section 102 of the Income Tax Ordinance.

On September 20, 2004, the board of directors resolved to grant two senior employees of the Company options under the 2003 Plan to purchase an aggregate of 168,000 shares of the Company at an exercised price of $3.70 per share. The fair value of one share at the day of grant was $4.11. The options vest ratably over three years and are exercisable for ten years until September 20, 2014. Any options not exercised by then will expire. In the year 2004, the Company recorded $69,000 of deferred stock compensation for the excess of the fair value of shares over the exercise price at the date of grant related to these options. The deferred stock compensation is amortized over the vesting period using the straight-line method. The compensation costs of $20,000 and $7000 is presented under "general and administrative expenses" in 2005 and 2004 respectively.

In the years ended December 31, 2005 and December 31, 2003, no options were granted under either the 2001 plan or 2003 plan.

The options granted under the Company's plans are exercisable for the purchase of shares as follows:

	December 31	
	2005	2004
	Number of options	
At balance sheet date	234,754	351,922
During the first year thereafter	56,000	56,000
During the second year thereafter	56,000	112,000
	346,754	519,922

NOTE 9 – SHAREHOLDERS' EQUITY (continued)**:**

A summary of the status of the Company's plans at December 31, 2005, 2004 and 2003, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	2005		2004		2003	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		$		$		$
Options outstanding at beginning of year	519,922	8.09	987,066	10.48	1,252,492	10.34
Changes during the year:						
Granted			168,000	3.70		
Forfeited and canceled	(173,168)	10.46	(635,144)	10.64	(265,426)	9.82
Options outstanding at end of year	346,754	6.91	519,922	8.09	987,066	10.48
Options exercisable at end of year	234,754	8.44	351,922	10.19	978,732	10.50
Options available for future awards	1,732,000		1,732,000		1,900,000	

The weighted average fair value of options granted during 2004 is $1.69.

The weighted average fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 3.1%; dividend yields of zero; expected life of the options of approximately three years; and expected volatility of 52%.

The following table summarizes information about options under the Company's plans outstanding at December 31, 2005:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2005	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2005	Weighted average exercise price
$		Years	$		$
3.70	168,000	8.7	3.70	56,000	3.70
9.06	102,754	0.6	9.06	102,754	9.06
10.00	9,000	3.0	10.00	9,000	10.00
11.00 to 11.99	61,000	0.6	11.11	61,000	11.11
12.00 to 12.99	6,000	1.8	12.57	6,000	12.57
	346,754	4.6	6.91	234,754	8.44

NOTE 9 – SHAREHOLDERS' EQUITY (continued)**:**

Option plan in subsidiaries

1) The Company's Israeli subsidiary, Scailex Vision (who's operations are classified as discontinued in these financial statements), has an employee stock option plan (the "subsidiary plan"), whereunder options to purchase up to 18,054,200 ordinary shares of the subsidiary can be granted to employees, directors and consultants of the subsidiary without consideration. Each option can be exercised to purchase one ordinary share of NIS 0.01 par value of the subsidiary.

   During 2005, 14,626, options were exercised of the above grants (During 2004 and 2003 no options were exercised).

   As of December 31, 2005, 15,673,184 options are granted, vested and outstanding at an exercise price of $0.405223.

   In connection with the sale of the business of Scailex Vision, the board of directors of Scailex Vision decided to accelerate part of the unvested options prior to the transaction, according to specific criteria such as seniority at work and grant dates. 4,693,683 options were accelerated. In connection with this acceleration, Scailex Vision recorded a compensation expense of approximately $2.4 million (this amount was classified as "net income from discontinued operation" in the statement of operation). The options that were not accelerated were forfeited. See also note 14.

2) In 2003, Jemtex adopted an Option Plan which grants options to purchase up to an aggregate of 426,100 Ordinary shares to officers, directors, key employees, etc. The plan will expire eight years after its adoption unless terminated earlier by the Board of Directors.

   In 2003, Jemtex granted certain employees 176,200 options (No options were granted in previous years). The options may be exercised over a period of eight years from the date of grant, at an exercise price of $ 2.26. The vesting period of the options is up to four years. No compensation expense was recognized, as the exercise price on the date of grant was greater than the estimated fair value of the underlying shares.

NOTE 10 – TAXES ON INCOME:

a. The Company and its Israeli subsidiary:

Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company's subsidiary has received the approval of the Investment Center for an investment program for the Lod facility, qualifying for "alternative benefits" under the Law for the Encouragement of Capital Investments, 1959 ("the Law").

These benefits provide the subsidiary with an exemption from income taxes on income from its "Approved Enterprise", for a period of two years followed by reduced tax rates of 25% for an additional period of five years from the first year in which there is taxable income, up to the earlier of twelve years from the time the facility was first made operational, or fourteen years from the issuance of the letter of approval. The investment program was completed and a final implementation report was submitted to the Investment Center.

NOTE 10 – TAXES ON INCOME (continued)**:**

Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the Inflationary Adjustments Law)

Under this law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli CPI, or in the exchange rate of the dollar for a "foreign investors' company". The Company and its Israeli subsidiaries elected to measure their results on the basis of the changes in the Israeli CPI.

Tax rates

The income of the company and its Israeli subsidiaries is taxed at the regular rate. Through December 31, 2003, the corporate tax was 36%. In July 2004, Amendment No. 140 to the Income Tax Ordinance was enacted. One of the provisions of this amendment is that the corporate tax rate is to be gradually reduced from 36% to 30%. In August 2005, a further amendment (No. 147) was published, which makes a further revision to the corporate tax rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the corporate tax rates for 2004 and thereafter are as follows: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and for 2010 and thereafter - 25%.

b. Non-Israeli subsidiaries

The non-Israeli subsidiaries are taxed under the laws of their countries of residence.

c. Carryforward tax losses and deductions

Carryforward tax losses and deductions of the Company and its subsidiaries, including capital losses and losses from realization of marketable securities approximated $391 million at December 31, 2005. Most of the carryforward amounts are available indefinitely with no expiration date.

d. Deferred income taxes:

	December 31		
	2005	2004	2003
	U.S. dollars in thousands		
Computed in respect of the following:			
Carryforward tax losses and credits	136,946	141,028	133,000
Investments	4,191	5,447	4,374
	141,137	146,475	137,374
Less - valuation allowance (attributed mainly to loss carryforwards and expenses deductible upon payment)	(139,877)	(145,766)	(137,374)
	1,260	709	-,-
Deferred income taxes are included in the balance sheets as current assets	1,260	709	-,-

NOTE 10 – TAXES ON INCOME (continued)**:**

e. Income (loss) before taxes on income from continuing operation:

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
The Company and its Israeli subsidiaries	(4,916)	(5,591)	(1,840)
Non-Israeli subsidiaries	2,683	720	(504)
	(2,233)	(4,871)	(2,344)

f. Taxes on income included in the statements of operations - from continuing operation:

1) As follows:

	Year ended December 31	
	2005	2004
	U.S. dollars in thousands	
Current:		
Israeli	(185)	(103)
Non-Israeli	(272)	515
	(457)	412
Deferred, see e. above -		
Non-Israeli	551	709
	551	709
	94	1,121

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rate applicable to Israeli corporations (see a. above) and the actual tax expense:

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
Loss before taxes on income	(2,233)	(4,871)	(2,344)
Theoretical tax expense (tax benefit) on the above amount	(759)	(1,705)	(844)
Decrease in taxes resulting from different tax rates – net	(175)	(75)	
Change in valuation allowance	(5,889)	8,392	(16,601)
Changes in deferred taxes resulting from carryforward tax losses	4,082	(8,028)	17,445
Increase in taxes resulting from prior years		(515)	
Increase (decrease) in taxes arising from differences between non-dollar currencies income and dollar income, net, and other*	2,835	3,052	-,-
Taxes on income in the consolidated statements of operations	94	1,121	-,-

NOTE 10 – TAXES ON INCOME (continued)**:**

* Resulting mainly from the difference between the changes in the Israeli CPI (the basis for computation of taxable income of the Company and its Israeli subsidiaries, see a. above) and the changes in the exchange rate of Israeli currency relative to the dollar.

g. Tax assessments:

1) The Company has received, or is considered to have received, final tax assessments through the 2000 tax year.

2) Following the filing of tax returns of the Company's U.S. subsidiaries (reported under discontinued operations of SDP) for the years 1992 through 1996 (and receive certain refunds in respect thereof), the Internal Revenue Service (IRS) commenced an audit on those years. By the end of 2001, the Company had already made advance payments of $21.5 million on account of this audit. In partial settlement of said audit the Company consented to a "partial assessment" by the IRS for approximately $10.6 million of federal taxes on certain agreed upon issues in June 2002. In the same month, the Company received a notice from the IRS proposing to assess $29.6 million of additional federal income taxes for the years 1992 through 1996. In August 2002, the Company appealed the proposed additional assessment. In February 2004, following negotiations with the IRS, the Company finalized the settlement with the IRS, and the during the remainder of 2004, the Company concluded paying according to the settlement the IRS in an amount of $5.9 million to the IRS, and also paid $5.7 million as state taxes derived from that IRS audit.

As a result of the conclusion of the 1992-1996 IRS audits, the Company filed federal tax amendments for the years 1994, 1995 and 1997, claiming a refund of $7.8 million of federal taxes. During 2005, the IRS reviewed the refund claim and forwarded the refund request on to the Joint Committee of Taxation for their approval. Management estimates that the likelihood of receiving this refund is high; therefore the Company recorded a Federal income tax receivable of $7.8 million as part of discontinued operations on 2005. When the cash is received it will be allocated to continued operations of the Company.

During 2005 the IRS has begun an audit of the US subsidiary for year 2003 and for the requested refund.

NOTE 11 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. Foreign exchange risk management

The Company and its subsidiaries operate internationally, which gives rise to significant exposure to market risks, mainly from changes in foreign exchange rates.

b. Concentrations of credit risks

At December 31, 2005 and 2004, the Company and its subsidiaries held cash and cash equivalents, most of which were deposited with major Israeli, European and U.S. banks. Substantially, all of the marketable securities held by the Company are debt securities of the U.S. Treasury and highly rated corporations. The Company considers the inherent credit risks to be remote.

NOTE 11 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

c. Cash Management and Fair value of financial instruments

The financial instruments of the Company and its subsidiaries consist mainly of cash and cash equivalents, marketable securities and short-term investments.

In view of their nature, the fair value of the financial instruments included in working capital is usually identical or close to their carrying amount.

NOTE 12 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

a. Information on investments in securities available for sale and held-to-maturity:

1) The fair value and the amortized cost of available-for-sale securities, cash equivalents and short term maturities of securities held-to-maturity are as follows:

	December 31, 2005		
	Cost	Unrealized holding losses (*)	Estimated fair market value (except for securities held-to-maturity)
	U.S. dollars in thousands		
Corporate debt securities	19,517	(428)**	19,089
Accrued interest to the end of the year			367
Current maturities of securities held-to-maturity			10,949
Total - securities presented as short-term			30,405

(*) Such unrealized holding losses are the result of an increase in market interest rates during 2004 and 2005 and are not the result of credit or principal risk. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of December 31, 2005. Securities in continuance amounts reclassified out of accumulated comprehensive income into earning are determined by specific identification. As of December 31, 2005, the Company held investments in available for sale with unrealized holding losses totaling $428,000. Realized losses in 2005 were approximately $84,000 compared to 2004 that were approximately $70,000.

(**) Of which $306,000 has been in continuous unrealized loss position for over 12 months.

NOTE 12 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

2) Maturities of the available-for-sale and held-to-maturities above securities are as follows:

	Securities held-to-maturity	Estimated fair market value of available for sale securities
	U.S. dollars in thousands	
2006	11,127	5,399
2007	16,643	9,050
2008	2,967	3,010
2009 and there after	9,914	2,002
	40,651	19,461

In addition, as a result of the Company's decision in the forth quarter of 2005, to hold certain securities, then classified as available-for-sale, to maturity an other comprehensive income of unrealized losses of $682 thousands continues to be reported as a separate component of comprehensive income in shareholders' equity, but is being amortized over the remaining life of the security as an adjustment of yield.

3) In June and August 2003, the Company sold all of its remaining holdings in Creo Inc. (hereafter - "Creo") shares for a net total consideration of $54,000,000 and recorded a gain of approximately $3,000,000. Prior to the said sale, the investment in Creo shares was accounted for as shares available for sale, and following the sale of the shares, the Company recorded approximately $750,000 gain in its shareholders' equity. This gain was realized and released to earnings in 2003.

b. Long-term loans:

In July 2004, Jemtex received a waiver of all rights regarding a long-term loan from a third party at the amount of $581,000. The waiver of the loan is presented in the financial statements under "Other income, net".

NOTE 12 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

Statements of operations:

	Year ended December 31	
	2005	2004
	U.S. dollars in thousands	
c. Research and development costs, net:		
Expenses incurred	2,555	2,346
L e s s - royalty-bearing participations from the Government of Israel	(6)	(178)
	2,549	2,168

	Year ended December 31		
	2005	2004	2003
	U.S. dollars in thousands		
d. Marketing, general and administrative expenses:			
Marketing	55	51	
General and administrative	3,624	4,808	2,890
	3,679	4,859	2,890
e. Financial income, net:			
Interest income	4,470	2,874	255
Gain (loss) on trading marketable securities, net	(84)	(70)	3
Interest on loan from associated company			(237)
Bank charges	(48)	(67)	(10)
Other (including foreign exchange transaction losses, net)	(45)	(14)	37
	4,293	2,723	48
f. Other income, net:			
Gain from sale of a portion in a subsidiary			2,822
Impairment of investment in cost			(2,492)
Distribution of funds from cost method investment	793		
Gain from waiver of a loan		585	
Other	124	63	168
	917	648	498

NOTE 13 – SEGMENTS INFORMATION:

a. General:

Following the sale of the wide format digital printing segment the Company is operating in two segments: 1) The corporate segment that its main activity is management of the funds of the company. 2) The continuous inkjet industrial digital printing segment (develop, manufacture and market of continuous inkjet based digital printers for the industrial printing ceramic tiles and textile markets).

b. Information on segment loss and assets of the reportable operating segments:

1) Measurement of segment loss and assets:

The measurement of losses and assets of the reportable segments is based on the same accounting principles applied in these consolidated financial statements.

2) Financial data relating to the reportable operating segments:

	Year ended December 31,	
	2005	2004
	U.S. dollars in thousands	
Operating loss from continuing operations:		
Corporate	(2,862)	(4,252)
Continuous inkjet industrial digital printing	(4,581)	(3,990)
Total consolidated operating loss from continuing operations	(7,443)	(8,242)
Financial income, net:		
Corporate	4,283	2,757
Continuous inkjet industrial digital printing	10	(34)
Total consolidation financial income, net	4,293	2,723
Other income, net:		
Corporate	917	62
Continuous inkjet industrial digital printing		586
Total consolidation other income, net	917	648
Income (loss) before taxes on income:		
Corporate	2,338	(2,648)
Continuous inkjet industrial digital printing	(4,571)	(2,223)
Total consolidation loss before taxes on income	(2,233)	(4,871)

NOTE 13 – SEGMENTS INFORMATION (continued):

	December 31,	
	2005	2004
	U.S. dollars in thousands	
Assets:		
Corporate:		
Cash*	235,920	147,239
Other assets	330	627
Securities held-to-maturities	29,707	
Other long-lived assets	2,158	8,395
Continuous inkjet industrial digital printing	2,149	2,040
	270,264	158,301
Discontinued operations	80,754	115,852
	351,018	274,153
Depreciation and amortization expenses:		
Corporate	4	7
Continuous inkjet industrial digital printing, other assets	1,248	1,266
	1,252	1,273

* including short term investments and short term restricted cash.

** The majority of long-lived assets are located in Israel.

NOTE 14 – SUBSEQUENT EVENTS:

a) In January 2006, Scailex Vision's shareholders approved the distribution of a cash dividend in the amount of approximately $135 million, which reflected the amount available for distribution, (of which $101 million received by the Company) following the conclusion of the asset sale agreement with HP (after taking into consideration funds required for loan repayments, taxes and other liabilities and expenses). The distribution resulted in the payment of approximately $0.80 per share to each shareholder and approximately $0.39 per option to each option holder.

b) In July 2003 and May 2004, two of the Company's shareholders granted Scailex Vision convertible loans in the total amount of $933,000 and $805,000, respectively (the balance of this convertible loan is presented in discontinued operations). Prior to the distribution said in note 14a, the lenders converted the entire principal of their loans and all interest accrued thereon into a total of 4,559,650 ordinary shares, based on a conversion price $0.405223 per share. Additionally, such lenders exercised the right granted to them and exercised a total of 1,058,578 warrants (which had been issued to them in association with the loans they provided) by means of setting off the exercise price ($0.405223 per share) against the dividend payable on the ordinary shares issuable upon exercise of such warrants (i.e. cashless exercise).

c) In January 2006, RealTimeImage, Ltd., (hereafter - RTI) in which the Company holds approximately 14.9% of the issued share capital (RTI was recorded on the Company's balance sheet at $1.2 million as of December 31, 2005, and accounted under the cost method) paid dividend to its shareholders. The Company received approximately $2.7 million.

[ZIV HAFT LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
JEMTEX INK JET PRINTING LTD.

We have audited the accompanying balance sheets of Jemtex Ink Jet Printing Ltd**.** ("the Company") as of December 31, 2005 and 2004 and the related statements of operations, changes in shareholders' deficiency and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operation and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1B, to the financial statements, the Company has suffered recurring losses from operations and as of December 31, 2005 has a shareholders' deficiency of approximately US $ 7.7 million. These factors described in Note 1B raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ ZIV HAFT
ZIV HAFT
Certified Public Accountants (Isr.)
BDO member firm

Tel-Aviv, Israel
February 26, 2006

Objet Geometries Ltd.

Consolidated Financial Statements
As of December 31, 2004

Contents

Chaikin, Cohen, Rubin & Gilboa.

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Certified Public Accountants (Isr.)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Shareholders of
Objet Geometries Ltd.

We have audited the accompanying consolidated balance sheets of Objet Geometries Ltd., ("the Company") and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973 and with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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, 2004 and 2003 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

Without qualifying our opinion, we wish to draw your attention that the Company is defendant in certain lawsuits as described in note 8A.

/s/ Chaikin, Cohen, Rubin & Gilboa
Chaikin, Cohen, Rubin & Gilboa
Certified Public Accountants (Isr.)

Tel-Aviv, March 2, 2005

In thousands of US Dollars

	Note	December 31, 2004	2003
ASSETS			
Current assets			
Cash and cash equivalents		3,036	831
Restricted cash		244	239
Trade receivables		1,202	506
Other receivables and prepaid expenses	3	764	387
Inventories	4	3,269	2,790
		8,515	4,753
Property, plant and equipment	5	737	879
Other assets			
Severance pay funds		678	562
Other		-	41
		678	603
		9,930	6,235

Elan Jaglom
Chairman of the Board of Directors

Adina Shorr
Chief Executive Officer

The accompanying notes are an integral part of the financial statements

In thousands of US Dollars

	Note	December 31, 2004	December 31, 2003
LIABILITIES AND CAPITAL DEFICIENCY			
Current liabilities			
Short term loans	6	632	-
Trade payables		3,277	2,024
Deferred revenues		3,298	3,482
Accrued liabilities and other liabilities	7	4,731	4,048
		11,938	9,554
Long-term liabilities			
Accrued severance pay		732	644
Contingencies and commitments	8		
Capital deficiency			
Ordinary shares of NIS 0.01 par value:	9		
Authorized: 100,000,000 at December 31, 2004 and 2003; issued and outstanding: 3,669,900 at December 31, 2004 and 2003		9	9
Preferred shares of NIS 0.01 par value:			
Authorized: 400,000,000 at December 31, 2004 and 2003; issued and outstanding: 102,110,637 and 93,842,996 at December 31, 2004 and 2003, respectively		218	199
Additional paid in capital		35,271	33,222
Accumulated deficit		(38,238)	(37,393)
		(2,740)	(3,963)
		9,930	6,235

The accompanying notes are an integral part of the financial statements

In thousands of US Dollars

	Note	Year ended December 31, 2004	2003	2002
Revenues		16,951	4,966	614
Cost of revenues		10,431	4,043	529
Gross profit		6,520	923	85
Operating expenses:				
Research and development, net	11	2,382	4,293	6,627
Marketing and selling		2,575	1,363	1,287
General and administrative		1,349	1,373	1,526
Special legal expenses and provision	8A(2)	892	-	-
Amortization of intangible assets		-	-	109
Total operating expenses		7,198	7,029	9,549
Operating loss		(678)	(6,106)	(9,464)
Financial expenses, net		(167)	(122)	(309)
Net loss		(845)	(6,228)	(9,773)

The accompanying notes are an integral part of the financial statements

In thousands of US Dollars

	Number of Shares		Share Capital				Total
	Ordinary Shares	Preferred Shares	Ordinary Shares	Preferred Shares	Additional Paid In Capital	Accumulated Deficit	Capital Deficiency
Balance at January 1, 2002	3,669,900	10,114,200	9	25	20,520	(21,392)	(838)
Net loss for the year	-		-	-	-	(9,773)	(9,773)
Balance at December 31, 2002	3,669,900	10,114,200	9	25	20,520	(31,165)	(10,611)
Conversion of convertible loans	-	47,330,154	-	130	9,239	-	9,369
Issuance of preferred shares	-	36,398,642	-	44	3,463	-	3,507
Net loss for the year	-	-	-	-	-	(6,228)	(6,228)
Balance at December 31, 2003	3,669,900	93,842,996	9	199	33,222	(37,393)	(3,963)
Issuance of preferred shares		8,267,641	-	19	2,049	-	2,068
Net loss for the year		-	-	-	-	(845)	(845)
Balance at December 31, 2004	3,669,900	102,110,637	9	218	35,271	(38,238)	(2,740)

The accompanying notes are an integral part of the financial statements

In thousands of US Dollars

	Year ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities			
Net loss for the year	(845)	(6,228)	(9,773)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	300	336	640
Provision for severance pay, net	(28)	26	(50)
Other	(5)	9	-
Changes in operating assets and liabilities			
Increase in trade receivables	(696)	(470)	(36)
Decrease (increase) in other receivables and prepaid expenses	(336)	503	(530)
Decrease (increase) in inventories	(479)	(606)	227
Increase (decrease) in trade payables	1,253	602	(1,042)
Increase (decrease) in deferred revenues	(184)	1,023	1,944
Increase (decrease) in customer advance	(1,400)	1,606	-
Increase in accruals and other current liabilities	2,083	159	811
Net cash used in operating activities	(337)	(3,040)	(7,809)
Cash flows from investing activities			
Purchase of fixed assets	(158)	(217)	(195)
Restricted cash	-	-	(218)
Net cash used in investing activities	(158)	(217)	(413)
Cash flows from financing activities			
Short term loan received	632	-	-
Receipts on account of shares	-	-	2,500
Issuance of shares	2,068	1,035	-
Convertible loans received	-	505	7,265
Non cash provided by financing activities	2,700	1,540	9,765
Increase (decrease) of cash and cash equivalents	2,205	(1,717)	1,543
Cash and cash equivalents at beginning of year	831	2,548	1,005
Cash and cash equivalents at end of year	3,036	831	2,548

Supplemental non cash investing and financing activities:

On December 1, 2003 convertible loan of $505,000 was converted to 1,990,173 preferred shares.

On March 4, 2003 77,663,122 preferred shares were issued on account of the conversion of $8,965,436 loans, the receipt of $2,500,000 on account of shares received in 2002 and shares issued in accordance with anti dilution protection as stated in the articles.

The accompanying notes are an integral part of the financial statements

NOTE 1 – GENERAL

A. Objet Geometries Ltd. (the Company) was founded and commenced its operations on March 8, 1998. The Company develops, manufactures and markets 3D printers for the rapid prototyping market.

The Company is an Israeli corporation and it has a fully owned subsidiary: Objet Geometries Inc. - located in the United States.

B. The Company faces a number of business risks, including uncertainties regarding demand and market acceptance of the Company's products, the effects of technological changes, uncertainties concerning government regulation, competition, dependence on proprietary technology and the development of new products. Additionally, other risk factors such as the loss of key personnel could affect the future results of the Company.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

A. *Use of Estimates*

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

B. *Reporting currency*

Most of the Company's revenues are generated in U.S. dollars ("dollar"). In addition, most of the Company's costs and expenses are incurred in dollars. The Company's management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the financial and reporting currency of the Company is the dollar.

Accordingly transactions and balances originally denominated in dollars are presented in their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in Statement No. 52 of the Financial Accounting Standards Board of the United States ("FASB").

Exchange gains and losses from the aforementioned remeasurement are reflected in the statement of operations as financial income or expenses. The representative rate of exchange at December 31, 2004 was $1 = 4.308 New Israeli Shekels ("NIS") (At December 31, 2003 $ 1 = 4.379 NIS).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Principles of consolidation*

The consolidated financial statements include the accounts of the Company and its fully owned subsidiary. Significant intercompany transactions and balances have been eliminated upon consolidation.

D. *Cash equivalents*

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

E. *Restricted cash*

Restricted cash is primarily invested in highly liquid deposits, which are used as security for the Company's facilities lease commitment.

F. *Inventories*

Inventories are valued of the lower of cost or market. Cost is determined as follows:
Raw materials and consumables – on a moving average basis.
Finished products and products in process – on basis of production costs:
Raw materials – on the moving average basis.
Labor and overhead – on the basis of actual manufacturing costs.

G. *Property, plant and equipment*

These assets are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Annual rates of depreciation are as follows:

	%
Computers and software	33
Office furniture and equipment	6-33
Machinery and equipment	10-33

Equipment produced by the Company and used for research and development purposes is depreciated on a straight-line basis over two years.
Leasehold improvements are amortized on a straight- line basis over the shorter of the term of the lease or the estimated useful life of the improvement.

H. *Technology and other intangible assets*

Acquired technology is amortized by the straight-line method over a period of 2.5 years.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. *Impairment of long-lived assets and intangibles*

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2004, no impairment losses have been identified.

J. *Revenue recognition*

Revenues from sales of products and consumables are recognized when an arrangement exists (usually in the form of a purchase order), delivery has occurred and title passed to the customer, the Company's price to the customer is fixed or determinable, collectability is reasonably, assured future obligations of the Company are considered insignificant and the cost of such obligations can be reliably estimated. With respect to products with installation requirements, revenue is recognized when all of the above criteria are met and installation is completed.

Sales contracts with distributors stipulate fixed prices and current payment terms and are not subject to the distributor's resale or any other contingencies. Accordingly when all criteria above are met, sales of finished products to distributors are recognized as revenue upon delivery and after title and risk pass to distributors.

Service revenue is recognized ratably over the contractual period or as services are performed.

Warranty costs are provided for at the same time as the revenues are recognized. The annual provision for warranty costs is calculated based on expected cost of inputs, based on historical experience.

Emerging Issues Task Force ("EITF") Issue 00-21, "Revenue Arrangements with Multiple Deliverables", addresses the accounting, by a vendor, for contractual arrangements in which multiple revenue-generating activities will be performed by the vendor. It is effective prospectively for all arrangements entered into in fiscal periods beginning after June 15, 2003. EITF Issue 00-21 addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. In accordance with EITF Issue 00-21 the Company separates the different units of accounting of sales with multiple deliverables (generally consists of machine and Resin) based on the objective and reliable evidence of fair value of the different elements, which is estimated based on stand alone sales of the different elements.

Customer's deposits and other payments received prior to sales recognition are included in advances from customers and deferred revenues in the balance sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. *Deferred income taxes*

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period. Valuation allowances are provided for deferred tax assets when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

L. *Concentration of credit risk*

Financial instruments that are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The majority of the Company's cash and cash equivalents are invested in dollar and Euro instruments with major banks in Israel. 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's trade receivables are derived from sales to large and solid organizations located mainly in the United States, Europe and the Far East. The Company performs ongoing credit evaluations of its customers and to date has not experiences any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. In certain circumstances, the Company may require letters of credit, other collateral or additional guarantees.

M. *Severance Pay*

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

The value of these policies and pensions funds is recorded as assets in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Severance expenses for the years ended December 31, 2002, 2003 and 2004 amounted to approximately ($50,000) $26,000 and ($28,000), respectively.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. *Research and development, net*

The Company expenses research and development costs, as incurred.

Royalty bearing participation from the Government of Israel via the Office of the Chief Scientist (OCS) for the development of approved projects is recognized as a reduction of expenses as the related costs are incurred.

O. *Stock based compensation*

The Company grants restricted shares and stock options for a fixed number of shares to employees, consultants and others. The Company accounts for stock options grants to employees in accordance with APB Opinion No.25, "Accounting for Stock Issued to Employees" and for stock options granted to consultants and others, in accordance with FAS Statement No. 123 "Accounting for Stock-based compensation" using the minimum value method. Under APB 25, compensation cost for employee stock option plans is measured using the intrinsic value based method of accounting and is amortized by the straight-line method against income, over the expected service period. FAS 123, "Accounting for Stock-Based Compensation", establishes a fair value based method of accounting for employee stock options or similar equity instruments, and encourages adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans using the accounting treatment prescribed by APB 25. The impact of the measurement requirements of the FAS Statement No. 123 for stock options grants to employees on the financial statements, using the minimum value method, was immaterial.

P. *Comprehensive income*

The Company has no comprehensive income (loss) components other than net income (loss).

Q. *Reclassifications*

Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. *Recently issued accounting pronouncements*

1. In December 2004, the Financial Accounting Standards Board ("FASB") issued the revised Statement of Financial Accounting Standards ("FAS") No. 123, "Share-Based Payment" ("FAS 123R"), which addresses the accounting for share-based payment transactions in which the Company obtains employee services in exchange for (a) equity instruments of the Company or (b) liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for employee share-based payment transactions using APB Opinion No. 25 or using the minimum value method and requires instead that such transactions be accounted for using the grant-date fair value based method. This statement will be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 for public companies and the beginning of the annual reporting period that starts after December 15, 2005 for non public companies. Early adoption of FAS 123R is encouraged. This Statement applies to all awards granted or modified after the statement's effective date. In addition, compensation cost for the unvested portion of previously granted awards that remains outstanding on the statement's effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards' grant-date fair value as previously calculated for the pro-forma disclosure under FAS 123.

   The Company estimates that the cumulative effect of adopting FAS 123R as of its adoption date by the Company , based on the options outstanding as of December 31, 2004 will be immaterial. This estimate does not include the impact of additional awards, (including the 2004 Plan) which may be granted, or forfeitures, which may occur subsequent to December 31, 2004 and prior to the adoption of FAS 123R. The Company expects that upon the adoption of FAS 123R, the Company will apply the modified prospective application transition method, as permitted by the statement. Under such transition method, upon the adoption of FAS 123R, the Company's financial statements for periods prior to the effective date of the statement will not be restated. The impact of this statement on the Company's financial statements or its results of operations in 2006 and beyond will depend upon various factors, among them the Company's future compensation strategy.

In thousands of US Dollars

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued accounting pronouncements (cont.)

2. In November 2004, the FASB issued FAS No. 151, "Inventory Costs – an Amendment of ARB 43, Chapter 4" ("FAS 151"). This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This statement requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (January 1, 2006 for the Company). Earlier application of FAS 151 is permitted. The provisions of this statement shall be applied prospectively. The Company does not expect this statement to have a material effect on the Company's financial statements or its results of operations.

3. In December 2004, the FASB issued FAS No. 153, "Exchanges of Non-Monetary Assets – An Amendment of APB Opinion No. 29" ("FAS 153"). FAS 153 amends APB Opinion No. 29, "Accounting for Non-Monetary Transactions" (Opinion 29). The amendments made by FAS 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the exception for non-monetary exchanges of similar productive assets and replace it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The provisions in FAS 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 (July 1, 2005 for the Company). Early application of the FAS 153 is permitted. The provisions of this Statement shall be applied prospectively. The Company does not expect the adoption of FAS 153 to have a material effect on the Company's financial statements or its results of operations.

NOTE 3 – RECEIVABLES AND PREPAID EXPENSES

	December 31,	
	2004	**2003**
VAT refunds	260	164
Prepaid expenses	113	102
Research and development grant receivables	266	87
Other receivables	125	34
	764	387

In thousands of US Dollars

NOTE 4 – INVENTORIES

	December 31,	
	2004	2003
Components and materials	1,162	750
Consumables	199	61
Work in process	255	94
Finished products	1,653	1,885
	3,269	2,790

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

	December 31,	
	2004	2003
Cost		
Computers and software	610	569
Office furniture and equipment	359	315
Leasehold improvement	370	370
Machinery and equipment	926	853
	2,265	2,107
Accumulated depreciation		
Computers and software	462	408
Office furniture and equipment	111	63
Leasehold improvement	215	146
Machinery and equipment	740	611
	1,528	1,228
	737	879

Depreciation expenses totaled $300,000, $336,000 and $531,000, in the years ended December 31, 2004, 2003 and 2002, respectively.

NOTE 6 – SHORT-TERM LOANS

The balance as of December 31, 2004 represents short-term bank loans denominated in dollars and bearing interest of 5.37% per annum. The maturity date is within 30-45 days.

NOTE 7 – ACCRUED LIABILITIES AND OTHER LIABILITIES

	December 31,	
	2004	2003
Employees and related expenses	653	587
Accrued expenses	1,893	1,614
Warranty provision	1,214	-
Advances from customers	206	1,606
Other	765	241

4,731	4,048

NOTE 8 – CONTINGENCIES AND COMMITMENTS

A. Contingencies

1. On December 16, 2003, certain minority shareholders of the company filed a lawsuit claiming approximately NIS 7.8 million (approximately $1.75 million) against the company, certain of its shareholders, and certain of its directors. The lawsuit alleges that the defendants acted in a manner, which prejudiced the rights of the minority shareholders, and were in breach of the Company's obligations to such shareholders. Among the relief being claimed by the said minority shareholders are claims for compensation, claims that the Company will return to them (with linkage and interest) the amount of their investment in the Company, or that the defendants will purchase their shares in the Company, and a demand for changes to the terms of certain convertible loans made to the Company by certain of the defendants. The Company has asked for a dismissal of the case relating to one of the parties suing. The Company and its attorneys are not able to give any realistic assessment as to the outcome of this matter, therefore no provision was recorded.

2. On October 26, 2004, a competitive company filed a lawsuit against the company and its North America distributor in which the plaintiff accused the company and its distributor of infringing six US patents based on sales in the US of the Company's three – dimensional modeling equipment. The plaintiff has requested damages in an unspecified amount, as well as triple damages and attorneys fees for alleged willful infringement. The plaintiff also seeks an injunction to prevent further infringement of its patents.

   On January 21, 2005 the Company filed a lawsuit against the competitive company claiming infringement of three of the Company's US patents.

   Because the case was recently filed the Company and its attorneys are still in the process of evaluating the case. As such, the Company and its attorneys are not in a position, at this time, to comment on the likelihood of an unfavorable outcome of the litigation or on the amount or range of potential loss.

   In addition, at this time the Company and its attorneys are not in a position to provide an estimate on the cost of litigation if the case, were to proceed through trial.

   The Company assesses the litigation costs for the year 2005 to be approximately $500,000, which together with other expenses incurred in 2004 were recorded in the statement of operations as special legal expenses and provision.

3. A former employee of the Company is suing the Company and one of its directors for a sum of NIS 315,000. The cause of action is an alleged breach of certain undertakings made by the Company to the plaintiff, including, inter alia, an undertaking to grant the plaintiff an option to purchase 1.75% of the Company's shares. Additionally the plaintiff is claming that the Company allegedly failed to pay his salary and certain social benefits. A statement of defense by the Company has been filed.

   Management does not expect that the Company will incur substantial expenses in respect thereof; therefore, no provision has been made for this lawsuit.

NOTE 8 - CONTINGENCIES AND COMMITMENTS (cont.)

B. Commitments

1. The Company is committed to pay royalties of 3%-3.5% to the Government of Israel on sales of products in which the government participated in supporting the research and development expenses by way of grants, up to the amount of the grants received (dollar linked), plus annual interest based on the LIBOR, accruing from the date of grant. At the time the funding was approved, successful development of the project was not assured. In the case of failure of a project that was partly financed by royalty-bearing Government participations, the Company is not obligated to pay any royalties to the Israeli Government.

   As of December 31, 2004, the maximum contingent liability in respect of these royalties amounts to approximately 1.5 million dollars.

2. The Company's facilities in Israel are rented under a lease agreement for 5 years which end on December 31, 2006. The Company has two options to extend the agreement either by three additional years or by two additional years following the three for a total of 5 years. The rental payment under this agreement is $520,000 per annum. If the company doesn't exercise the options mentioned above the lessor will charge the Company for part of the leasehold improvements made by him up to maximum amount of about $400,000.

   Since May 2002, the Company leases part of the premises to third parties. The annual rental revenue under those agreements is $120,000.

3. The Company is committed to pay royalties of 6-7% on sales of consumables to one of its suppliers as defined in the agreement between the parties.

In thousands of US Dollars

NOTE 9 – SHARE CAPITAL

A. Balance as of December 31, 2004 and 2003 –

	December 31,	
	2004	2003
	Number of shares	Number of shares
Authorized :		
Ordinary shares of NIS 0.01 par value	100,000,000	100,000,000
Preferred shares of NIS 0.01 par value	400,000,000	400,000,000
Issued and fully paid up		
Ordinary shares of NIS 0.01 par value	3,669,900	3,669,900
Preferred shares of NIS 0.01 par value	102,110,637	93,842,996

B. On September 20, 2004 the Company completed a capital raising round, under which 8,267,641 preferred shares were issued in consideration of $2,099,980. In addition, the Company granted to the investors 4,133,822 warrants to purchase preferred shares in consideration of an exercise price of $0.254 per share.

C. On August 31, 2003, the Company received a convertible loan in the amount of $500,000 from one of its shareholders. The loan bore an interest of LIBOR + 4% per annum.

On December 1, 2003, the loan was converted into 1,990,173 preferred shares. In addition, on that date the company issued 4,075,501 preferred shares in consideration of $1,035,000 and granted 3,032,839 warrants to purchase preferred shares in consideration of an exercise price of $0.254 per share.

D. On March 4, 2003 the authorized shares capital was increase by 93,500,000 ordinary shares and by 386,500,000 preferred shares.

On that date, the company issued 77,663,122 preferred shares as follows:

– 9,842,520 preferred shares in consideration of $2,500,000, which have been received in 2002.

– 22,480,621 preferred shares pursuant to the Article of Association of the company as anti dilution agreements.

– 45,339,981 preferred shares as a result of conversion of convertible loans at the amount of $8,965,436.

E. The Company has decided to grant up to 2,500,000 stock options to key employees, consultants and directors as an incentive to attract and retain qualified personnel. Each option can be converted into one ordinary share at an exercise price to be determined. The total number of options granted are:

	Exercise price			
	$2.5	$1.5	$0.63	Total
Balance as of December 31, 2003	795,766	647,500	283,400	1,726,666
Options forfeited	(10,000)	(279,000)	(30,000)	(319,000)
Balance of options outstanding as of December 31, 2004	785,766	368,500	253,400	1,407,666
Options exercisable as of December 31, 2004	692,260	273,059	253,400	1,218,718

NOTE 9 - SHARE CAPITAL (cont.)

F. In 2004, the Company's board of directors approved an Omnibus Incentive Stock Option and Restricted stock Plan (hereafter – the 2004 plan) under which up to 14,000,000 shares to be granted to key employees, consultants and directors. As of December 31, 2004 no options or shares were granted under the 2004 plan.

NOTE 10 – INCOME TAXES

A. On October 14, 2001 the Company was granted "Approved Enterprise" status under the law for the Encouragement of Capital Investment, 1959 (hereafter: the law) in the path of "Alternative Benefits Program". The program includes an investment of $ 2,050,000 in computers, equipment, and leasehold improvements. Pursuant to the law, the Company is entitled for exemption from taxes on income derived therefrom for a period of 2 years, starting in the year in which the Company first generated taxable income and reduced tax rate of 10-25% for an additional period of 5-8 years.

In the event of distribution of cash divided out of tax-exempt income, the Company will be liable to corporate tax of 10-25% in respect of the amount distributed.

The period of tax benefits is subject to limits of the earlier of 12 years from the commencement of production or 14 years from October 2001 (date of approval).

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the law, regulations published thereunder and the approval letter.

B. The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985, measuring income on the basis of changes in the Israeli Consumer Price Index.

C. Until December 31, 2003, the regular tax rate applicable to income of companies (which are not entitled to benefits due to "approved enterprise", as described above) was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament), which determined, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 – 35%, 2005 – 34%, 2006 – 32% and 2007 and thereafter – 30%.

D. The Company has a carry forward loss of approximately $33 millions for tax purposes as of December 31, 2004. Since it is more likely than not that the differed tax regarding the loss carry forwards will not be utilized in the foreseeable future, no income tax benefits have been recorded in respect thereof.

E. The subsidiary is taxed under the laws of its country of residence.

F. The Company and its subsidiary have not yet been assessed for income tax purposes since their incorporation.

In thousands of US Dollars

NOTE 11 – OTHER OPERATING INFORMATION

A. Research and development expenses, net:

	Year ended December 31,		
	2004	2003	2002
Expenses incurred	2,668	5,003	7,155
Less - grants from the government of Israel	(336)	(710)	(528)
	2,332	4,293	6,627

B. Following is data regarding major suppliers:

Certain components used in our systems are only available from single or limited sources.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder
Scitex Vision America, Inc.

We have audited the accompanying balance sheet of Scitex Vision America, Inc. (a wholly owned subsidiary of Scitex Vision, Ltd.) (the Company) as of December 31, 2004 and the related statements of operations, stockholder's deficit, and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purposes 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (not presented separately herein) present fairly, in all material respects, the financial position of Scitex Vision America, Inc. (a wholly owned subsidiary of Scitex Vision, Ltd.) as of December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

/s/ Frazier & Deeter, LLC

Frazier & Deeter, LLC

Atlanta, Georgia, United States
February 7, 2005

Frazier & Deeter, L.L.C.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

SCAILEX CORPORATION LTD.
(Registrant)

By: /s/ *Raanan Cohen*
_____

Raanan Cohen
President of the Company
& Chief Executive Officer

Date: June 28, 2006

EXHIBIT 1.1

THE COMPANIES ORDINANCE

A COMPANY LIMITED BYSHARES

MEMORANDUM OF ASSOCIATION

OF

SCAILEX CORPORATION LTD.

Incorporated in the State of Israel on 2nd November 1971

(Incorporating amendments to 29th December 2005)

THE COMPANIES ORDINANCE

A COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

SCITEX CORPORATION LTD.

1. The name of the Company is:

   In English: SCITEX CORPORATION LTD.

2. The objects for which the Company is established are:

   (I) (a) (i) To engage in the activity or business of developing, manufacturing, producing, processing, vending, purchasing, licensing (as licensor or licensee), leasing (as lessor or lessee), importing, exporting, supplying, distributing, acting as agent for or dealer in, or otherwise handling or dealing in any products, materials, goods, wares, components, equipment, systems, merchandise and movable property of every kind and description, and to engage in selling, promoting, leasing (as lessor or lessee), licensing (as licensor or licensee), importing, exporting, distributing, acting as agent for or dealer in, or otherwise handling or dealing in, any service.

   (ii) To acquire, create, form, operate, encourage or otherwise promote or manage any kind of enterprise.

   (b) To engage, directly or indirectly, in any lawful undertaking or business whatsoever, mercantile, manufacturing or otherwise, in which it is lawful for a company to engage, or in which it would be lawful for an individual to engage, and to have and exercise all powers conferred by the State of Israel on companies organized for profit under the companies laws of the State of Israel.

(II) (a) To carry on the business of developing, manufacturing, distributing, selling and exporting electro-optical systems designated for use in the textile industry in connection with spinning, weaving, knitting and otherwise manufacturing or processing textiles of any kind or nature, and related materials and products, including fibre, yarn, knitwear and cloth of any kind or nature whatsoever.

(b) To carry on the business of producing, manufacturing, working, improving, developing, importing, exporting, transportation, supply, marketing, distribution, trading, exploiting and dealing in technical and mechanical equipment, apparatus, tools, utensils, appurtenances, accessories, containers, packings, raw materials, products, good and materials, of all kinds and description and for any use whatsoever which the Company may consider expedient or conducive to be carried on in connection with all or any of its objects.

(c) To deal in any research, exploration and development of natural resources, and the exploitation thereof, to establish, hold and operate institutions, experimental stations, laboratories and research associations, to finance, organize, employ and equip expeditions, commissions, experts and agents.

(d) To apply for, purchase or otherwise acquire and obtain and register rights of use or inspection, to protect, extend and renew, in Israel or abroad, all kinds of patents, patent rights, brevet d'invention, licenses, protections, concessions (hereinafter called "patent rights") which may, in the opinion of the Company, be conducive to the interests of the Company to use patent rights and work in accordance therewith, to exploit the same in any manner, to enter into any agreement and do any act whatsoever in connection with patent rights; to sell and otherwise dispose of patent rights and to grant licenses and privileges in connection with the same.

(e) To engage in any scientific, technical and other research work, including research work and experiments for the purpose of improving or attempting to improve any invention and patent rights which the Company shall acquire or desire to acquire.

(f) To enter into any arrangements with any Governments or authorities, supreme, municipal, local or otherwise, or any corporations, companies or persons that may seem conducive to the attainment of the Company's objects, or any of them, and to obtain from any such Government, authority, corporation, company or person any charters, contracts, decrees, rights, privileges and concessions which the Company may think desirable, and to carry out, exercise and comply with such contracts, charters, decrees, right, privileges and concessions.

(g) To receive money, securities, and valuables of all kinds for custody.

(h) To carry on and undertake any business transaction or operation, commonly carried on or undertaken by promoters of companies, financiers, concessionaires, contractors, capitalists, merchants, or traders, and to carry on any business within the framework of the above objects, or any of them, which may seem to the Company capable of being conveniently carried on in connection with the above objects, or any of them, or calculated, directly or indirectly, to enhance the value of, or render profitable, any of the Company's property or rights.

(i) To carry on all kinds of promotion business, and in particular to form, constitute, float, lend money to, assist and control any companies or undertakings whatsoever, and to be and act as a director of any company, in connection with or for the purpose of attaining all or any of the Company's objects.

(j) To borrow, raise, secure the payment of, any money, in such manner and on such terms and conditions as the Company may deem fit, and in particular by the issue of debentures, series of debentures, charged upon all or any of the property of the Company, present or future, immovable and movable property, or unpaid capital, and to acquire, release and redeem any such security, to mortgage the immovable property of the Company, and to discharge, release and redeem any such mortgage or charge.

(k) To purchase, take on lease or in exchange, hire or otherwise acquire, hold, construct, manage, cultivate, develop, sell, let on lease, hire, and generally deal in all manner of lands, buildings, business premises, flats, offices, shops, stores, rights, privileges, concessions, licenses, machinery, plant, stock-in-trade and any movable or immovable property of any kind necessary or convenient for the purpose of, or in connection with, the Company's business or any branch or department thereof.

(l) To carry on the business of an investment company in all its branches, and to undertake and transact all kinds of investment business.

(m) To invest moneys in the purchase or upon the security of shares, stocks, debentures, debenture stock, bonds, mortgages, obligations and securities of any kind, issued or guaranteed by any company of whatever nature and wheresoever constituted or carrying on business, and shares, stocks, debentures, debenture stocks, bonds, mortgages, obligations and other securities issued or guaranteed by any Government, Sovereign Ruler, Commissioners, Trust, Municipal, Local or other Authority or body of whatsoever nature, whether at home or abroad.

(n) To acquire any shares, stocks, debentures, debenture stocks, bonds, mortgages, obligations and other securities by original subscription, tender, purchase, exchange or otherwise, and to subscribe for the same, either conditionally or otherwise, and to guarantee the subscription thereof; to hold, manage, sell, transfer, mortgage, charge or otherwise deal in the same.

(o) To lend money and to give advances or credit to, and to guarantee the debts and contracts of, such persons, firms and companies and on such terms and conditions as the Company may deem fit, and, in particular, to customers and other persons having dealings with the Company, and to guarantee and be guarantor for such persons, firms or companies, and to accept from those to whom the Company shall lend money or give credit or guarantee all kinds of guarantees as the Company may deem fit, including mortgages over immovables and movable property, as well as pledges, charges, floating charges or security, and to release and surrender any such securities on such terms as the Company may deem fit.

(p) To carry on the business of a trust company, in all its branches, and undertake the office of trustee, receiver, executor, administrator, committee, manager, attorney, delegate, substitute, treasurer and any other office or situation of trust or confidence, and to perform and discharge the duties and functions incident thereto, and generally to transact all kinds of trust and agency business, either gratuitously or otherwise.

(q) To apply for, obtain, acquire, maintain, sell, transfer, utilize and deal in any manner whatsoever in plans, know-how, processes, trade secrets, permits, licenses, concessions, tenements and any other rights, privileges and benefits which may entitle, authorize or assist the Company to carry on any of the businesses which it is authorized to carry on.

(r) To adopt such means of making known the activities of the Company as may seem expedient, and, in particular, by advertising in the press, by circulars, by publication of books and periodicals, and by granting prizes, rewards and donations.

(s) To purchase or otherwise acquire and undertake, whether as a going concern or otherwise, the whole or any part of the business, good-will and assets of any person, firm or company carrying on any of the businesses which this Company is authorized to carry on, or any such business, within the framework of the Company's objects or any of them, the carrying on of which is calculated to benefit this Company or to advance its interests, or possessed of property suitable for the purposes of this Company.

(t) To amalgamate or merge with any company.

(u) To promote, establish, concur in the establishment of and subsidize any company for the purpose of acquiring the rights, property and liabilities of the Company, or for any other purpose which might, in the opinion of the Company, be conducive to its interests, either directly or indirectly.

(v) To enter into partnership or any agreement for sharing of profits, combining of profits or cooperation with any person or company carrying on or entitled to carry on any business or businesses which the Company is entitled to carry on.

(x) To sell and transfer the undertaking of the Company, in whole or in part, for such consideration as the Company may deem fit, and, in particular, in consideration for shares, debentures or other bonds, to another company having objects similar in whole or in part to the objects of this Company.

(y) To enter into any contract or agreement and to sign and execute any contract, agreement, deed, document or instrument, in connection with all or any of the Company's objects.

(z) To insure the Company, its property, plants, undertakings and business, in whole or in part, against any damage, loss, risk or liability.

(aa) To distribute all or any of its assets among its members in specie, in accordance with the provisions of the Companies Ordinance.

(bb) To grants pensions, allowances, gratuities and bonuses to employees, ex-employees and directors of the Company or its predecessors in business, or the dependents of such persons, and to establish and support, or to aid in the establishment and support of, any schools and educational, scientific, literary, religious or charitable institutions or trade societies, whether such institutions or trade societies be solely connected with the business carried on by the Company or its predecessors in business or not, and to institute and maintain any club or other establishment or profit-sharing scheme calculated to advance the interests of the Company or of the persons employed by the Company.

(cc) To procure the Company to be registered or recognized in any place outside Israel.

(dd) To do all or any of the acts set out in the [*]Second Schedule to the Companies Ordinance, and it is hereby declared that any object or power that may be added to the Second Schedule to the Companies Ordinance by any amendment to the Companies Ordinance or otherwise shall be deemed as if expressly added to this Memorandum of Association, provided, however, that any object or power that may be eliminated from the Second Schedule to the Companies Ordinance by virtue of any amendment to the Companies Ordinance or otherwise shall not be deemed to be eliminated from this Memorandum of Association and shall continue to be included herein, save insofar as such object or power is prohibited by the law of Israel for the time being.

(ee) To do all such other things as are or may be deemed incidental or conducive to the attainment of the above objects or any of them.

(ff) To do all or any of the above things in any part of the world, and either as principals, agents, trustees, contractors or otherwise, and either alone or in conjunction with others, an either by or through agents, sub-contractors, trustees or otherwise.

[*] Reference in paragraphs (dd), (gg) and (hh) to "the Second Schedule to the Companies Ordinance" is to the Second Schedule of the Companies Ordinance 1929.

(gg) And it is hereby agreed and declared that in this Memorandum of Association the following expressions, whether appearing in the Memorandum of Association itself or in the **Second Schedule to the Companies Ordinance, shall have the following meanings:

"person" - includes company and corporation.

“company”or “corporation” – includes, unless it refers to this Company, any other company, cooperative society, any other society, body politic, public or juristic, association, partnership or body of persons, whether incorporated or not incorporated.

“land”– includes any right or interest in or to land, whether registrable or not, buildings, plantations, and everything attached or affixed to and on land.

(hh) And it is hereby further agreed and declared that, unless it is expressly otherwise stated, each of the objects and powers specified in each of the paragraphs of this Clause, including, having regard to the provisions of paragraph () of this Clause, each of the paragraphs of the **Second Schedule to the Companies Ordinance, is a main and independent object, and shall in no way be limited or restricted by any reference or inference from any other paragraph of this Clause or of the Second Schedule to the Companies Ordinance, or by any reference to or inference from the name of the Company.

3. The liability of the members is limited.

4. The share capital of the Company is five million seven hundred and sixty thousand New Shekels (NIS 5,760,000), divided into forty-eight million (48,000,000) Ordinary Shares of a nominal value of twelve Agora (NIS 0.12) each, all ranking *pari passu*.

** See footnote on previous page.

We the several persons whose names and addresses are subscribed, are desirous of being formed into a Company in pursuance of this Memorandum of Association, and we hereby respectively agree to take the number of shares in the capital of the Company set opposite our respective names:

Names of Subscribers, Address and Descriptions	Number of Shares by Each Subscriber	Signature
SCIENTIFIC TECHNOLOGY LTD. Kiryat Weizmann Rehovot, Israel	200,000 Ordinary Shares of IL. 1.- each	/s/ E. Arazi & D. Tolkowsky with stamp of Scientific Technology Ltd.
ELECTRONICS CORPORATION OF ISRAEL LTD. 88 Giborei Israel St. Tel-Aviv, Israel	200,000 Ordinary Shares of IL. 1.- each	/s/ A. Low & U. Goren with stamp of Electronics Corporation of Israel Ltd.

DATE: October 7, 1971

WITNESS TO ABOVE SIGNATURES:

Signature of Scientific Technology Ltd.
/s/ A. Ben-Porath
_____

A. BEN-PORATH, Advocate,
HAIM ZADOK, BARZEL, DEOUELL & CO.
39 Montifiori Street
Tel-Aviv, Israel

Signature of Electronics Corporation of Israel Ltd.
/s/ D. Smith
_____

DAVID SMITH, Advocate

EXHIBIT 1.2

ARTICLES OF ASSOCIATION

OF

SCAILEX CORPORATION LTD.

Revised to incorporate amendments to and including 29th December 2005

THE COMPANIES ORDINANCE

A COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

SCAILEX CORPORATION LTD.

PRELIMINARY

1. ***Second Schedule Excluded***

The regulations contained in the second schedule to the Companies Ordinance (New Version) 5743-1983 (the "Companies Ordinance") shall not apply to the Company.

2. ***Interpretation***

(a) Unless the subject or the context otherwise requires: words and expressions defined in the Companies Ordinance in force on the date when these Articles, or any amendment thereto, as the case may be, first became effective shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the constructions of any provision hereof.

(c) Any reference in these Articles to the "Companies Ordinance" shall mean a reference to the Companies Ordinance or the Companies Law 5759-1999 (the "Companies Law"), as applicable in the context.

3. ***Non-Private Company***

The Company is a non-private company.

SHARE CAPITAL

4. ***Share Capital***

The share capital of the Company is five million seven hundred and sixty thousand New Shekels (NIS 5,760,000), divided into forty eight million (48,000,000) Ordinary Shares of a nominal value of twelve Agora (NIS 0.12) each, all ranking *pari passu*.

5. ***Increase of Share Capital***

(a) The Company may, from time to time, by Special Resolution, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such Special Resolution shall provide.

(b) Except to the extent otherwise provided in such Special Resolution, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

6. ***Special Rights; Modification of Rights***

(a) Subject to the provisions of the Memorandum of Association of the Company, and without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Special Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such Special Resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Special Resolution, subject to the consent in writing of the holders of seventy-five percent (75%) of the issued shares of such class or the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class, provided, however, that the requisite quorum at any such separate General Meeting shall be one or more members present in person or proxy and holding not less than seventy-five percent (75%) of the issued shares of such class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

7. ***Consolidation, Subdivision and Cancellation of Share Capital***

(a) The Company may, from time to time, by Special Resolution (subject, however, to the provisions of Article 6(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by the Memorandum of Association (subject, however, to the provisions of Section 144(4) of the Companies Ordinance), or

(iii) cancel any shares which, at the date of the adoption of such Special Resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of shares so canceled.

(b) With respect of any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including,*inter alia*, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 7(b)(iv).

SHARES

8. ***Issuance of Share Certificates; Replacement of Lost Certificates***

(a) Share certificates shall be issued under the seal or the rubber stamp of the Company and shall bear the signatures or two Directors (or if there be only one Director, the signature of such Director), or of any other person or persons authorized thereto by the Board of Directors.

(b) Each member shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if the Board of Directors so approves, to several certificates, each for one or more of such shares. Each certificate may specify the serial numbers of the shares represented thereby and may also specify the amount paid up thereon.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named on the Register of Members in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

9. ***Registered Holder***

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person.

10. ***Allotment of Shares***

The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Ordinance, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit.

11. ***Payment in Installments***

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share or the person(s) entitled thereto.

12. ***Calls on Shares***

(a) The Board of Directors may, from time to time, make such calls as it may think fit upon members in respect of any sum unpaid in respect of shares held by such members which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each member shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all the shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the member(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such member(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

13. ***Prepayment***

With the approval of the Board of Directors, any member may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

14. ***Forfeiture and Surrender***

(a) If any member fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, *inter alia*, attorneys' fees and costs of suits, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of, the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such member, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall be not less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be *ipso facto* forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing to the Company by the member in question (but not yet due) in respect of all shares owned by such member, solely or jointly with another.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

15. ***Lien***

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each member (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements to the Company arising from any amount payable by such member in respect of any unpaid or partly paid share, whether or not such debt, liability or engagement has matured. Such lien shall extend to all dividends from time to time declared in respect of such shares. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such member, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such member (whether or not the same have matured), and the residue (if any) shall be paid to the member, his executors, administrators or assigns.

16. ***Sale After Forfeiture or Surrender or in Enforcement of Lien***

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Members in respect of such shares, and the purchaser shall not be bound to see to the regularity of proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Members in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

17. ***Redeemable Shares***

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

18. ***Conversion of Shares into Stock***

(a) The Board of Directors may, with the sanction of the members previously given by Special Resolution, convert any paid-up shares into stock, and may, with like sanction, reconvert any stock into paid-up shares of any denomination.

(b) The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations, as the shares from which the stock arose might have been transferred prior to conversion, or as near thereto as circumstances admit, provided, however, that the Board of Directors may from time to time fix the minimum amount of stock so transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal value of each of the shares from which such stock arose.

(c) The holders of stock shall, in accordance with the amount of stock held by them, have the same rights and privileges as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which such stock arose, but no such right or privilege, except participation in the dividends and profits of the Company, shall be conferred by any such aliquot part of such stock as would not, if existing in shares, have conferred that right or privilege.

(d) Such of the Articles of the Company as are applicable to paid-up shares shall apply to stock, and the words "share" and "shareholder" (or "member") therein shall include "stock" and "stockholder".

TRANSFER OF SHARES

19. ***Registration of Transfer***

No transfer of shares shall be registered unless a proper writing or instrument of transfer (in any customary form or any other form satisfactory to the Board of Directors) has been submitted to the Company (or its transfer agent), together with the share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Members in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

20. ***Record Date for Notices of General Meetings***

Any other provision of these Articles to the contrary notwithstanding, the Board of Directors may fix a date, not exceeding Ninety (90) days prior to the date of any General Meeting, as the date as of which shareholders entitled to notice of and to vote at such meeting shall be determined, and all persons who were holders of record of voting shares on such date and no others shall be entitled to notice of and to vote at such meeting.

TRANSMISSION OF SHARES

21. ***Decedents' Shares***

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 21(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a member in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

22. ***Receivers and Liquidators***

(a) The Company may recognize the receiver or liquidator of any corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, as being entitled to the shares registered in the name of such member.

(b) The receiver or liquidator of a corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a member in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

23. ***Annual General Meeting***

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place, either within or without the State of Israel, as may be determined by the Board of Directors.

24. ***Extraordinary General Meetings***

All General Meetings other than Annual General Meetings shall be called “Extraordinary General Meetings”. The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting, at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Section 109 of the Companies Ordinance.

25. ***Notice of General Meetings; Omission to Give Notice***

(a) Not less than seven (7) days' prior notice shall be given of every General Meeting, provided, however, that a Special Resolution shall not be passed unless at least twenty-one (21) days' prior notice shall have been given of the meeting at which it is proposed to pass the same. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat, said notice to be given to all members who would be entitled to attend and vote at such meeting. Anything herein to the contrary notwithstanding, with the consent of all members entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

(b) The accidental omission to give notice of a meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such meeting.

PROCEEDINGS AT GENERAL MEETINGS

26. ***Quorum***

(a) Two or more members (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate thirty-three and one-third percent ($33^{(1)}/3$ %) of the voting power of the Company, shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within half an hour from the time appointed for a meeting a quorum is not present, the meeting, if convened upon requisition under Section 109 of the Companies Ordinance, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) members (not in default as aforesaid) present in person or by proxy, shall constitute a quorum.

27. ***Chairman***

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the members present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

28. ***Adoption of Resolutions at General Meetings***

(a) (i) An Ordinary Resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(ii) A Special or Extraordinary Resolution shall be deemed adopted if approved by the holders of not less than seventy-five percent (75%) of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any member present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another member may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

29. ***Resolutions in Writing***

A resolution in writing signed by all members of the Company then entitled to attend and vote at General Meetings or to which all such members have given their written consent (by letter, telegram, telex or otherwise) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

30. ***Power to Adjourn***

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, whether pursuant to Article 26(b) or Article 30(a), unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

31. ***Voting Power***

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every member shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote thereon is conducted by a show of hands, by written ballot or by any other means.

32. ***Voting Rights***

(a) No member shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls then payable by him in respect of his shares in the Company have been paid, but this Article 32(a) shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

(b) A company or other corporate body being a member of the Company may duly authorize any persons to be its representative at any meeting of the Company or to execute or deliver a proxy on its behalf. Any person so authorized shall be entitled to exercise on behalf of such member all the powers which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.

(c) Any member entitled to vote may vote either personally or by proxy (who need not be a member of the Company), or, if the member is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

PROXIES

33. ***Instrument of Appointment***

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I _*(Name of Shareholder)*_ of _*(Address of Shareholder)*_ being a member of _*(Name of Company)*_ hereby appoint _*(Name of Proxy)*_ of _*(Address of Proxy)*_ as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the _____ day of _____ 19__ and at any adjournment(s) thereof. Signed this _____ day of _____ 19__.

_____
(Signature of Appointor)"

or in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointor or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than twenty-four (24) hours before the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the Chairman at such meeting.

(c) The Board of Directors may determine, in its discretion, the matters that may be voted upon by ballot (without attendance in person or by proxy) at the meeting, in addition to the matters listed in Section 87(a) of the Companies Law.

34. ***Effect of Death of Appointor or Revocation of Appointment***

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing member (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing member, if present in person at said meeting, may revoke the appointment by means of a writing, and notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. ***Powers of Board of Directors***

(a) In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Ordinance, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

(d) Contributions

The Board may, from time to time, authorize the Company to make contributions in reasonable amounts for charitable, public or other worthy causes which it deems appropriate.

36. ***Exercise of Powers of Board of Directors***

(a) A meeting of the Board of Directors at which a quorum is present (in person, by means of a conference call or any other means enabling each director participating in such meeting to communicate orally or in writing in the course of the meeting with the other directors participating in such meeting, or in any other way the Board of Directors thinks fit) shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) A resolution in writing signed by all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee *(Va'adat Bikoret)* and in the absence of such determination – by the Chairman of the Board of Directors) or to which all such Directors have given their consent (by letter, telegram, telex, facsimile (telecopier), electronic mail or otherwise, or by oral communication, telephone or otherwise, to the Chairman or Secretary of the Company and confirmed in writing by such officer) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

37. ***Delegation of Powers***

(a) The Board of Directors may, subject to the provisions of the Companies Ordinance, delegate any or all of its powers to committees, each consisting or two or more persons (who are Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, *mutatis mutandis*, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers. Without limiting the scope of the foregoing, the Board of Directors may delegate to a committee its power, authority and discretion to approve transactions, which are not "extraordinary transactions", of the type referred to in Section 270(1) of the Companies Law.

(b) Without derogating from the provisions of Article 50, the Board of Directors may from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Ordinance, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

38. ***Number of Directors***

The Board of Directors of the Company shall consist of such number of Directors (not less than five nor more than fifteen) as may be fixed, from time to time, by Ordinary Resolution of the Company.

39. ***Election and Removal of Directors***

The holders of a majority of the voting power represented at a General Meeting by person or by proxy and voting on the election of Directors at said Meeting shall be entitled to elect all or any of the Directors, may remove any Director(s) from office and may fill any vacancy, however created, in the Board of Directors.

40. ***Qualification of Directors***

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

41. ***Continuing Directors in the Event of Vacancies***

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and, pending the filling of any vacancy pursuant to the provisions of Article 39, may temporarily fill any such vacancy, provided, however, that if they number less than a majority of the number provided pursuant to Article 38 hereof, they may only act in an emergency, and may call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 38 hereof are in office as a result of said meeting.

42. ***Vacation of Office***

(a) The office of a Director shall be vacated, *ipso facto*, upon his death, or if he be found lunatic or become of unsound mind, or if he become bankrupt, or, if the Director is a company, upon its winding-up.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43. ***Remuneration of Directors***

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved pursuant to the provisions of the Companies Ordinance.

44. ***Conflict of Interests***

(a) Subject to the provisions of the Companies Ordinance, no Director shall be disqualified by virtue of his office from holding any office or place of profit under the Company or under any company in which the Company shall be a shareholder or otherwise interested, or from contracting with the Company as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested, be avoided, nor, other than as required under the Companies Ordinance, shall any Director be liable to account to the Company for any profit arising from any such office or place of profit or realized by any such contract or arrangement by reason only of such Director’s holding that office or of the fiduciary relations thereby established, but the nature of his interest, as well as any material fact or document, must be disclosed by him at the meeting of the Board of Directors at which the contract or arrangement is first considered, if his interest then exists, or, in any other case, no later than the first meeting of the Board of Directors after the acquisition of his interest.

(b) Subject to the provisions of the Companies Law, the entering into of a transaction by the Company with an Office Holder or a third party in which an Office Holder has a personal interest (as more fully described in Section 270(1) of the Companies Law), which is not an "extraordinary transaction" shall, if such Office Holder is a Director or the General Manager, be approved in such manner as may be prescribed by the Board of Directors, from time to time, and in the absence of thereof, will require the approval of the Board of Directors. If such Office Holder is not a Director, then such transaction shall be approved in such manner as may be prescribed by the General Manager from time to time and in the absence of any such determination, with the approval of the General Manager, according to guidelines from the Board of Directors.

45. ***Alternate Directors***

(a) A Director may, by written notice to the Company, appoint an alternate for himself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Directors, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, and for all purposes.

(b) Any notice given to the Company pursuant to Article 45(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself (unless the instrument appointing him otherwise expressly provides), and provided further than an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) Any natural person, whether or not he be a member of the Board of Directors, may act as an Alternate Director. One person may act as Alternate Director for several Directors, and in such event he shall have a number of votes (and shall be treated as the number of persons for purposes of establishing a quorum) equal to the number of Directors for whom he acts as an Alternate Director. If an Alternate Director is also a Director in his own right, his rights as an Alternate Director shall be in addition to his rights as a Director.

(e) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director(s) who appointed him.

(f) The office of an Alternate Director shall be vacated under the circumstances, *mutatis mutandis*, set forth in Article 42, and such office shall *ipso facto* be vacated if the Director who appointed such Alternate Director ceases to be a Director.

PROCEEDINGS AT THE BOARD OF DIRECTORS

46. ***Meetings***

(a) The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Directors think fit.

(b) Any Director may at any time, and the Secretary, upon the request of such Director, shall, convene a meeting of the Board of Directors, but not less than fourteen (14) days' notice shall be given of any meeting so convened.

47. ***Quorum***

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Audit Committee *(Va'adat Bikoret)* and in the absence of such determination – by the Chairman of the Board of Directors) but shall not be less than two. No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present when the meeting proceeds to business.

48. ***Chairman of the Board of Directors***

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting.

49. ***Validity of Acts Despite Defects***

All acts done *bona fide* at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director (s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

50. ***General Manager***

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Ordinance and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

MINUTES

51. ***Minutes***

(a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute *prima facie* evidence of the matters recorded therein.

DIVIDENDS

52. ***Declaration of Dividends***

Subject to the provisions of the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay, such dividends as may appear to the Board of Directors appropriate. The Board of Directors shall determine, and may authorize, subject to applicable law, any of its directors and/or officers to determine, the time for payment of such dividends and the record date for determining the shareholders entitled thereto.

53. ***Funds Available for Payment of Dividends***

No dividend shall be paid other than as permitted under the Companies Law.

54. ***Amount Payable by Way of Dividends***

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the members entitled thereto in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid.

55. ***Interest***

No dividend shall carry interest as against the Company.

56. ***Payment in Specie***

Subject to the provisions of the Companies Law, upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

57. ***Capitalization of Profits, Reserves, etc.***

Subject to the provisions of the Companies Law, upon the resolution of the Board of Directors, the Company (i) may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock; and (ii) may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

58. ***Implementation of Powers Under Articles 56 and 57***

For the purpose of giving full effect to any resolution under Articles 56 or 57, and without derogating from the provisions of Article 7(b) hereof, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution to any members upon the footing of the value so fixed, or that fractions of less nominal value than the nominal value of one Ordinary Share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors. Where requisite, a proper contract shall be filed in accordance with Section 130 of the Companies Ordinance, and the Board of Directors may appoint any person to sign such contract on behalf of the person entitled to the dividend or capitalized fund.

59. ***Deductions from Dividends***

The Board of Directors may deduct from any dividend or other moneys payable to any member in respect of a share any and all sums of money then payable by him to the Company on account of calls.

60. ***Retention of Dividends***

(a) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward the satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a member, or which any persons is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

61. ***Unclaimed Dividends***

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof. The principal (and only the principal) of an unclaimed dividend or such other moneys shall be, if claimed, paid to a person entitled thereto.

62. ***Mechanics of Payment***

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company.

63. ***Receipt from a Joint Holder***

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable in respect of such share.

ACCOUNTS

64. ***Books of Account***

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Ordinance and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No member, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by Ordinary Resolution of the Company.

65. ***Audit***

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

66. ***Auditors***

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law. The Board of Directors shall have the authority to fix, in its discretion, the remuneration of the auditor(s) for their auditing services and may delegate such authority to the Audit Committee of the Company.

BRANCH REGISTERS

67. ***Branch Registers***

Subject to an in accordance with the provisions of Sections 71 to 80, inclusive, of the Companies Ordinance and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RIGHTS OF SIGNATURE, STAMP AND SEAL

68. ***Rights of Signature, Stamp and Seal***

(a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

(b) The Company shall have at least one official stamp.

(c) The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

(d) The Company may exercise the powers conferred by Section 102 of the Companies Ordinance regarding a seal for use abroad, and such powers shall be vested in the Board of Directors.

NOTICES

69. ***Notices***

(a) Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid mail (airmail if sent internationally) addressed to such member at his address as described in the Register of Members or such other address as the member may have designated in writing for the receipt of notices and other documents. Such designation may include a broker or other nominee holding shares at the instruction of the shareholder. Proof that an envelope containing a notice was properly addressed, stamped and mailed shall be conclusive evidence that notice was given. A declaration of an authorized person on behalf of the stock transfer agent of the Company or other distribution agent stating that a notice was mailed to a shareholder will suffice as proof of notice for purposes of this Article.

(b) Any written notice or other document may be served by any member upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if mailed from outside placecountry-regionIsrael) to the Company at its Registered Address.

(c) Any notice of General Meeting shall be deemed to be properly served by the Company on the date of mailing (when initially sent by mail) or on the date of transmission (when initially sent via facsimile (telecopier), cablegram, email or other electronic means and confirmed by mail), irrespective of the date upon which it was actually received, provided mailing, transmission (by any of the aforesaid means) or tendering in person to such member commenced or took place at least twenty one (21) days prior to the date upon which the said General Meeting is to be held.

(d) Subject to paragraph (c) above, any notice or other document referred to in paragraph (a) or (b) of this Article shall be deemed to have been served forty-eight (48) hours (or twenty-four (24) hours provided both days are regular business days) after it has been mailed (five (5) days if sent internationally), or when actually received by the addressee if sooner than forty-eight hours, twenty-four hours or five days, as the case may be, after it has been mailed, or when actually tendered in person, to such member (or to the Secretary or the General Manager), provided, however, that notice may be sent by facsimile (telecopier), cablegram, email or other electronic means and confirmed by mail as aforesaid, and such notice shall be deemed to have been given twenty-four (24) hours after such facsimile (telecopier), cablegram, email or other electronic means has been sent or when actually received by such member (or by the Company), whichever is the earlier.

(e) If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some other respect, to comply with the provisions of this Article 69.

(f) All notices to be given to the members shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Members, and any notice so given shall be sufficient notice to the holders of such share.

(g) Any member whose address is not described in the Register of Members, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(h) The mailing date, actual transmission or delivery date or publication date and the date of the meeting shall be counted as part of the days comprising any notice period.

INSURANCE AND INDEMNITY

70. ***Exculpation, Indemnity and Insurance***

(a) For purposes of these Articles, the term "Office Holder" shall mean every Director and every officer of the Company, including, without limitation, each of the persons defined as "*Nosei Misra*" in the Companies Law.

(b) Subject to the provisions of the Companies Law, the Company may prospectively exculpate an Office Holder from all or some of the Office Holder's responsibility for damage resulting from the Office Holder's breach of the Office Holder's duty of care to the Company:

(c) Subject to the provisions of the Companies Law, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on the Office Holder in respect of an act performed in his or her capacity as an Office Holder, as follows:

(i) a financial obligation imposed on him or her in favor of another person by a court judgment, including a settlement or an arbitrator's award approved by court;

(ii) reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against the Office Holder by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the Office Holder and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and

(iii) reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to the Office Holder by a court, in a proceeding instituted against the Office Holder by the Company or on its behalf or by another person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

The Company may (aa) undertake in advance to indemnify an Office Holder as aforesaid, provided that, in respect of Article 70(c)(i), the undertaking is limited to events which in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify and (bb) indemnify an Office Holder as aforesaid following a determination to this effect made by the Company after the occurrence of the event in respect of which such Office Holder will be indemnified.

(d) Subject to the provisions of the Companies Law, the Company may enter into a contract for the insurance of all or part of the liability of any Office Holder imposed on the Office Holder by reason of an act performed in his or her capa as an Office Holder, in respect of each of the following:

(i) a breach of his or her duty of care to the Company or to another person;

(ii) a breach of his or her duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;

(iii) a financial obligation imposed on him or her in favor of another person.

(e) The provisions of Article 70 above are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or in respect of indemnification for and/or exculpating from liability (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; provided that the procurement of any such insurance and/or the provision of any such indemnification for and/or such exculpating from liability shall be approved by the Audit Committee of the Company.

WINDING UP

71. ***Winding Up***

If the Company be wound up, then, subject to applicable law and the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the members shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

EXHIBIT 4.(a).5

ASSET PURCHASE AGREEMENT

By and Among

Scitex Vision Ltd.

And

Tech Ink (Pty) Ltd.

And

Kovacs Investments 183 (Pty) Ltd.

And

Kovacs Investments 319 (Pty) Ltd.

And

Hewlett-Packard Company

Dated as of August 11, 2005

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ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT dated as of August 11, 2005 by and among (i) Hewlett-Packard Company (the "Buyer"), (ii) Scitex Vision Ltd., a private company organized under the laws of the State of Israel (the "Company"), and (iii) Tech Ink (Pty) Ltd., Kovacs Investments 183 (Pty) Ltd. and Kovacs Investments 319 (Pty) Ltd., companies incorporated under the laws of South Africa (the "Additional Sellers").

W I T N E S S E T H :

WHEREAS, the Company and the Company Subsidiaries are engaged in the Business; and

WHEREAS, the Company and the Additional Sellers wish to sell and assign to the Buyer (or one or more of Buyer's Affiliates) (collectively, the "Buyers"), and the Buyers wish to purchase and assume from the Company and the Additional Sellers the Acquired Assets and the Assumed Liabilities relating to the Business, all in consideration for the Purchase Price and on the terms and conditions set forth herein; and

WHEREAS, each of the Company, the Additional Sellers and the Buyer has determined the Transaction desirable and in its best interests and has approved the Transaction pursuant to this Agreement and all the other transactions contemplated hereby.

NOW, THEREFORE, in consideration of the premises and of the mutual representations, warranties, covenants and agreements hereinafter contained, the parties agree as follows:

ARTICLE 1. ASSETS AND LIABILITIES

1.1 Purchase and Sale of Acquired Assets.

(a) On the terms and subject to the conditions set forth in this Agreement (and the Assignment and Assumption Agreements and the General Assignments and Bills of Sale to be executed at the Closing), at the Closing, the Company and the Additional Sellers shall sell, convey, assign, transfer and deliver to the Buyers, and in reliance on the accuracy of the representations and warranties and the performance of the covenants of the Company and the Additional Sellers, the Buyers shall purchase, acquire and accept from the Company and the Additional Sellers, all of the Company's and the Additional Sellers' rights, title and interest in and to the Acquired Assets, free and clear of all Liens, other than Permitted Liens, and without any further Liability that is not included in the Assumed Liabilities. All Company Subsidiaries whose shares shall be purchased by the Buyer (or one or more of Buyer's Affiliates) are set forth in Schedule 1.1(a) attached hereto.

(b) Any Acquired Assets may be purchased by any Affiliate of the Buyer, as shall be designated by the Buyer, and any such Acquired Assets so purchased shall require separate instruments of transfer which shall be executed with such Affiliate(s) of Buyer. In the event that any Acquired Assets are owned or held by an Additional Seller, separate instruments of transfer shall be executed with such Additional Seller and each such Additional Seller shall be deemed to be the Company under this Agreement to the extent and with respect to the Acquired Assets purchased from such Additional Seller. In the event that any of the Buyer's Affiliates purchases any Acquired Assets, the Buyer shall cause each such Buyer's Affiliate to sign separate Assignment and Assumption Agreements and General Assignments and Bills of Sale, as applicable, through which each such Buyer's Affiliate agrees to perform the obligations of the Buyer in the Agreement with respect to such Acquired Assets. The Company and the Buyer shall cause their respective subsidiaries and Affiliates to execute such separate instruments. In the event that the assignment, transfer, conveyance or delivery of any Acquired Asset to the Buyer or any Affiliate thereof involves or gives rise to any Liability, other than such Liability which is an Assumed Liability, then such Liability shall be deemed to be an Excluded Liability as further described in Section 1.2(b).

(c) Notwithstanding anything herein to the contrary, from and after the Closing Date, the Company and the Additional Sellers shall retain all of the right, title and interest in and to, and there shall be excluded from the sale, conveyance, assignment or transfer to the Buyers hereunder, all assets of the Company and the Additional Sellers other than the Acquired Assets (the "Excluded Assets"). Without limiting the generality of the foregoing, the Excluded Assets include all right, title and interest of the Company and any of the Company Subsidiaries in those assets identified on Schedule 1.1(c) (the "Excluded Subsidiaries").

(d) For the avoidance of doubt, the sale of the Acquired Assets and Assumes Liabilities by the Additional Sellers shall be effected by separate General Assignments and Bills of Sale and Assignment and Assumption Agreements, to be entered into by the Additional Sellers at the Closing, which documents shall constitute separate instruments of sale.

1.2 Purchase and Sale of Assumed Liabilities.

(a) On the terms and subject to the conditions set forth herein, at the Closing, the Company and the Additional Sellers shall sell, convey, assign, transfer and deliver to the Buyer or one or more of Buyer's Affiliates (as determined by the Buyer in its discretion), and in reliance on the accuracy of the representations and warranties and the performance of the agreements of the Company, the Buyer or one or more of the Buyer's Affiliates (as determined by the Buyer in its discretion) shall assume, purchase, acquire and accept from the Company and the Additional Sellers, all of the Assumed Liabilities, provided that the Acquired Assets (other than shares of Company Subsidiaries) and Assumed Liabilities of the Company shall be acquired by a single Affiliate of the Buyer and the respective Acquired Assets and Assumed Liabilities of each Additional Seller shall be acquired by a single respective Affiliate of the Buyer.

(b) The Buyers shall not assume any of the Company's (or the Additional Sellers') Liabilities that are not included in the Assumed Liabilities. Notwithstanding anything in this Section 1.2 to the contrary, the Assumed Liabilities shall not include any Liabilities whether arising under any Contract, commitment, agreement, tort or otherwise, which were incurred after the date hereof unless incurred in accordance with the Budget and Operating Plan, in the ordinary course of business consistent with past practice or as otherwise permitted pursuant to Article 5. Without limitation of the foregoing, the Assumed Liabilities shall also exclude (i) all Liabilities arising out of or in connection with any Excluded Asset, (ii) all of the Company's (and the Additional Sellers') Liabilities with respect to costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby, including the Transaction Expenses, as well as any cost or liability incurred in order to facilitate the transfer of the Acquired Assets at the Closing and which is not specifically listed in the Assumed Liabilities, (iii) any Liability arising from the Company's (or an Additional Seller's) failure to perform any of its commitments, obligations or agreements contained in this Agreement or in any Transaction Document, (iv) any and all Liabilities of the Company or any of the Additional Sellers for Taxes (including without limitation all Taxes applicable to Company or any of the Additional Sellers arising from or in connection with the transactions contemplated hereby or with any restructuring of the holdings of any Company Subsidiary), (v) any Action or threatened Action by or on behalf of any current or prior shareholder of the Company whether or not in connection with this Agreement or the transactions contemplated hereby, (vi) any Indebtedness, including, without limitation, any Indebtedness to Bank Hapoalim B.M. and Bank Discount, and any Indebtedness to Ciba Specialty Chemicals Inc. in connection with the loan granted to the Acquired Companies, (vii) any Liability of the Company or any of the Additional Sellers arising out of violations of laws, statutes, constitutions, treaties, rules, regulations, standards and directives binding as a matter of law, ordinances, codes, judgments, rulings, orders, writs, decrees, stipulations, injunctions and determinations of all Governmental Authorities (other than product liability and the absence of any Licenses, the absence of which, individually or in the aggregate, would not have a Material Adverse Effect) arising from any event or other non-compliance with any of the above occurring or related to the period prior to the Closing; (viii) any Liability arising from any act of fraud, (ix) any and all Liabilities of the Company or any of the Additional Sellers with respect to any non-compliance with Environmental Laws occurring or related to the period prior to the Closing, except as set forth in Schedule 1.2(b) provided that the assumption by the Buyers of such Liabilities shall not limit or derogate from the Buyers' rights to indemnification in connection with such Liabilities, as more fully set forth in ARTICLE 8, and (x) any Liability of the Company or any of the Additional Sellers relating to or arising from a third-party claim that the operation of the Business of the Acquired Companies, including but not limited to the design, development, use, import, export, manufacture and sale of the Products, Transferred Technology or services (including products, technology or services currently under development) of the Acquired Companies infringes or misappropriates any Intellectual Property Right of any third party (other than of the Buyer or its Affiliates), all the above, occurring or related to the period prior to the Closing, except for such Liabilities set forth in Schedule 1.2(b) provided that the assumption by the Buyers of such Liabilities shall not limit or derogate from the Buyers' rights to indemnification in connection with such Liabilities, as more fully set forth in ARTICLE 8. All liabilities and obligations excluded under this Section 1.2 shall be referred herein as "Excluded Liabilities".

ARTICLE 2. PURCHASE PRICE AND CLOSING

2.1 Purchase Price. Subject to the terms and conditions set forth herein, in consideration for the sale, assignment, conveyance, transfer and delivery of the Acquired Assets and Assumed Liabilities being sold, conveyed, transferred, assigned, delivered and assumed hereunder, the Buyer will pay, or cause the respective Buyer Affiliate to pay, to the Company (and/or the Additional Sellers, in accordance with Section 5.15) the Purchase Price (subject to adjustment in accordance with the provisions of Section 2.2) plus value added tax against delivery by the Company of a value added tax invoice (to the extent required by Law) and an exemption from withholding certificate (or, if the Company fails to so provide Buyer with such exemption, Buyers shall withhold any amounts required by law, to the extent required). Any payment to be made to the Additional Sellers hereunder may be made by the Buyers in South African Rand (ZAR) (converted at the rate of exchange quoted by the Standard Bank of South Africa Limited as the market buying rate of the United States Dollars against South African Rand at or around 4:00 p.m. on the 5th Business Day prior to the Closing Date, as quoted on the following website: http://www.standardbank.co.za/). The payment of the Purchase Price shall be made as follows:

(a) At the Closing, the Buyer will deliver, or cause the respective Buyer Affiliate to deliver, to the Company (and/or the Additional Sellers, in accordance with Section 5.15), an aggregate sum of US$206,000,000 out of the Purchase Price, subject to adjustment in accordance with the provisions of Section 2.2 (the "Closing Date Purchase Price"), by wire transfer of immediately available funds to the bank account designated by the Company by written notice to Buyer at least four (4) BusinessDays prior to the Closing.

(b) At the Closing, the Buyer will deliver, or cause the respective Buyer Affiliate to deliver, to the Escrow Agent US$24,000,000out of the Purchase Price to be held by the Escrow Agent pursuant to the Escrow Agreement (the "Escrow Amount"). Such Escrow Amount shall be beneficially owned by the Company on its behalf or on behalf of the Additional Sellers, as applicable, and shall be available to compensate Buyers as provided in ARTICLE 8.

2.2 Adjustment of Purchase Price. The Purchase Price shall be subject to adjustment in accordance with the provisions of this Section.

(a) At least seven days prior to the Closing, the Company shall cause to be prepared and delivered to Buyer a draft of the consolidated balance sheet of the Company and the Company Subsidiaries as of the Closing (the "Draft Closing Date Statements") and a certificate of an officer of the Company based on such Draft Closing Date Statements setting forth the Company's calculation of (i) the Draft Closing Net Working Capital, and (ii) the Draft Closing Capital Expenditure. The Draft Closing Date Statements shall present the estimated Net Working Capital as of the end of business on the Closing Date ("Draft Closing Net Working Capital") and a projected detail of Capital Expenditures by the Company from June 30, 2005 until the end of business on the Closing Date ("Draft Closing Capital Expenditure"). "Net Working Capital" means balance sheet figures reflecting the excess of (X) all current assets of the Company and the Company Subsidiaries, other than those current assets that are Excluded Assets, over (Y) all current liabilities of the Company and the Company Subsidiaries, other than those current liabilities that are Excluded Liabilities, all determined on a consolidated basis in accordance with GAAP. "Capital Expenditures" means gross additions to fixed assets. For purposes of the Net Working Capital calculation only (as defined above), Excluded Assets shall consist of cash and Cash Equivalents and Restricted Deposits, determined in accordance with GAAP. Similarly, for the purposes of the Net Working Capital calculation only, Excluded Liabilities shall consist of short term credit and loans, determined in accordance with GAAP. In addition, for purposes of the Net Working Capital calculation only, (a) current liabilities shall not include any deferred Tax liabilities and (b) current assets shall not include any deferred Tax assets. The Company will deliver, together with the Draft Closing Date Statements, all the supporting work papers prepared for the calculation of Draft Closing Date Statements and such other supporting documentation as Buyer shall reasonably request.

(b) In order to allow for the adjustment of the Purchase Price hereunder, the Company hereby agrees and undertakes that until the adjustment of the Purchase Price under this Section 2.2 is completed and consummated, it shall reserve at all times, a sum of at least US$2,000,000 free and clear of all Liens for the sole purpose of meeting its obligations under this Section 2.2 (the "Withheld Amounts").

(c) Promptly following the Closing, but in any event no later than 120 days thereafter, Buyers shall cause to be prepared and delivered to the Company an unaudited statement of the Net Working Capital of the Company and the Company Subsidiaries as of the end of business on the Closing Date (the "Closing Net Working Capital"), as well as a consolidated statement of Capital Expenditures from June 30, 2005 through the Closing Date (the "Closing Capital Expenditure"), prepared in accordance with GAAP (the "Closing Date Statements").

(d) Within 30 days after the earlier of (i) the receipt of the Closing Date Statements by the Company, and (ii) the expiration of such 120 day period if the Buyers fail to deliver Closing Date Statements within the 120-day period prescribed in Section 2.2(c), the Company or its representatives shall deliver in writing to the Buyer any good faith objections that the Company may have with respect to any balances included on the Closing Date Statements (the "Notice of Dispute"), together with any supporting documentation, in reasonable detail of any such objections or calculations or, if no Closing Date Statements were delivered by the Buyers, the Company shall deliver to the Buyer Closing Date Statements and the Buyer shall have the right to deliver to the Company a Notice of Dispute, and the provisions of this Section 2.2(d) shall apply, *mutatis mutandis*. Buyers will deliver, together with the Closing Date Statements, all the supporting work papers prepared for the calculation of Closing Date Statements and such other supporting documentation as Company shall reasonably request. If no Notice of Dispute is received by the Buyer, or the Company, as applicable, within 30 days after (A) the Company's (or the Buyer's, as applicable) receipt of the Closing Date Statements, or (B) the expiration of the 120-day period, the Closing Date Statements shall be determined final.

(e) Within fourteen (14) days after delivery of the Notice of Dispute, Buyers and the Company shall attempt to resolve the underlying dispute in good faith, and if such parties cannot agree within such fourteen (14)-day period, such dispute shall be resolved by a nationally known independent firm of certified public accountants jointly chosen by the Buyers and the Company, which in the absence of an agreement shall be Deloitte Touche. The written decision of such accounting firm shall be rendered within no more than 60 days from the date that the matter is referred to such firm and shall be final and binding on the parties hereto and shall not be subject to dispute or review. Following any such dispute resolution (whether by mutual agreement of the parties or by written decision of the accounting firm), the Closing Date Statements and the Closing Net Working Capital and Closing Capital Expenditure (as determined in such dispute resolution) shall be determined final. Any fees or expenses payable to such accounting firm shall be shared equally between the Company and the Buyers.

(f) In the event that, based on the Closing Date Statements, it transpires that as of the Closing Date, either (i) the Closing Net Working Capital is less than 99% of the Net Working Capital Target, or (ii) the Closing Capital Expenditure is less than 90% of the Net Capital Expenditure Target, then the Purchase Price shall be reduced on a dollar for dollar basis by the entire aggregate amount of such difference (of both (i) and (ii) above). In such event, the reduction in the Purchase Price shall be paid first by way of payment out of the Withheld Amounts from the Company to the Buyer (or a Buyer Affiliate designated by the Buyer) by wire transfer of immediately available funds to an account designated by the Buyer within three Business Days after the final determination of the amount of such reduction in the Purchase Price. In the event that the reduction in the Purchase Price is greater than the Withheld Amounts, then all the Withheld Amounts shall be deducted from the Purchase Price, and any reduction in excess of the Withheld Amounts (the "Excess Reduction") shall be paid to the Buyers out of the Escrow Amount by way of transfer from the Escrow Fund to the Buyers of such Excess Reduction.

(g) In the event that, based on the Closing Date Statements, it transpires that as of the Closing Date, either (i) the Closing Net Working Capital is more than 101% of the Net Working Capital Target, or (ii) the Closing Capital Expenditure is more than 110% of the Net Capital Expenditure Target, then the Purchase Price shall be increased on a dollar for dollar basis by the entire aggregate amount of such difference (of both (i) and (ii) above). In such event, the Buyer will pay to the Company (and/or the Additional Sellers, in accordance with Section 5.15) any such increase in the Purchase Price by wire transfer of immediately available funds to an account designated by the Company within three Business Days after the final determination of the amount of such increase in the Purchase Price.

2.3 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") will take place (i) at the offices of Meitar Liquornik Geva & Leshem Brandwein, 16 Abba Hillel Silver Road, Ramat-Gan 52506, Israel, at 10:00 a.m. Tel Aviv time on the fifth Business Day following the satisfaction or waiver of all conditions set forth in ARTICLE 6, or (ii) at such other place, date and time as the Company and the Buyer may agree. The date and time at which the Closing actually occurs is referred to herein as the "Closing Date".

2.4 Closing Deliveries of the Company. At the Closing, the Company and the Additional Sellers will deliver to the Buyers the following:

(a) The Acquired Assets, including (i) with respect to the Acquired Contracts, a complete, accurate and legible copy of each such Contract (including all amendments and supplements thereto); and (ii) with respect to all Software included in the Acquired Assets, a copy of all such Software (such delivery to be made by electronic means);

(b) duly executed General Assignments and Bills of Sale, and accompanying powers of attorney, which shall be in full force and effect;

(c) the specific assignments, bills of sale, endorsements, deeds and other good and sufficient instruments of conveyance and transfer reasonably requested by the Buyers, in form and substance reasonably satisfactory to the Buyer and its counsel, including, without limitation, the Assignment and Assumption Agreements, as shall be effective to vest in the Buyer or applicable Buyer Affiliate title to all the Acquired Assets, including, without limitation, assignment deeds and powers of attorney with respect to any and all Company Registrable Intellectual Property Rights, and all the applications to register any of the foregoing as well as physical possession (whether by way of actual delivery or, if more appropriate, by confirmation of handing over of possession to the control of a Buyers' representative) of certain Acquired Assets acquired hereunder, whose physical delivery is reasonably required, including, without limitation, all source code of all Products and Software;

(d) a certificate executed by the president and chief executive officer of the Company (as authorized officer of the Company) in a form mutually agreed upon by the parties certifying that: (i) the representations and warranties of the Company set forth in Sections 3.8, 3.9, 3.10, and 3.12 are true and correct in all material respects on and as of the Closing, unless such representation is not true on and as of the Closing due to an inaccuracy as to which the Company has notified the Buyer in writing that such matter will be treated as an Excluded Liability, (ii) all other representations and warranties of the Company hereunder are true and correct on and as of the Closing, except where the failure to be so true and correct would not, individually or in the aggregate, have a Material Adverse Effect (all of the above, other than those representations and warranties which were qualified by terms such as "material", "materially" or "Material Adverse Effect" which representations and warranties as so qualified shall be true and correct in all respects on and as of the Closing and except that each representation and warrantee given as of a specific date need be true only as of such date); (iii) all covenants required by the terms hereof to be performed and complied with by the Company or the Additional Sellers on or before the Closing Date have been so performed and complied with in all material respects, and (iv) all documents to be executed and delivered by the Company or the Additional Sellers at the Closing have been executed by a duly authorized officer of the Company or the Additional Seller, as applicable;

(e) fully executed resolutions of the Board of Directors of the Company adopted by unanimous written consent in the form attached hereto as Schedule 2.4(e).

(f) an opinion of Herzog, Fox, Neeman, counsel to the Company, dated as of the Closing, in the form attached hereto as Schedule 2.4(f);

(g) an executed signature page of the Company to the Escrow Agreement;

(h) a written resignation from each of the officers and directors of each of the Company Subsidiaries (other than the Additional Sellers) effective as of the Closing Date.

(i) duly executed share transfer deeds or similar documents required under applicable Laws for the transfer of the shares of each of the Company Subsidiaries (other than the Additional Sellers), including duly executed share certificates in the name of the Buyer or an Affiliate thereof, as applicable.

(j) all other instruments, agreements, certificates, opinions and documents reasonably required to be delivered by the Company at or prior to the Closing Date pursuant to this Agreement.

2.5 Closing Deliveries of the Buyers.

(a) At the Closing, the Buyers will deliver the following:

(1) the wired funds required to be delivered pursuant to Section 2.1(a) and the Escrow Amount required to be delivered to the Escrow Agent pursuant to Section 2.1(b);

(2) a certificate executed by an authorized officer of the Buyer in a form mutually agreed upon by the parties certifying that: (i) the representations and warranties of the Buyer hereunder are true and correct in all material respects on and as of the Closing (other than those representations and warranties which were qualified by terms such as "material", or "materially" which representations and warranties as so qualified shall be true and correct in all respects on and as of the Closing and except that each representation and warrantee given as of a specific date need be true only as of such date); (ii) all covenants required by the terms hereof to be performed and complied with by each of the Buyers on or before the Closing Date have been so performed and complied with in all material respects, and (iii) all documents to be executed and delivered by each of the Buyers at the Closing have been executed by a duly authorized officer of the respective Buyer;

(3) duly executed General Assignments and Bills of Sale as well as Assignment and Assumption Agreements, which shall be in full force and effect, and as shall be effective to vest in the Buyer or the applicable Buyer Affiliate title to all the Acquired Assets and Assumed Liabilities to be purchased and assumed by the Buyer or such Buyer Affiliate hereunder;

(4) an executed signature page of the Buyers to the Escrow Agreement; and

(5) all other instruments, agreements, certificates, opinions and documents reasonably required to be delivered by the Buyers at or prior to the Closing Date pursuant to this Agreement.

(b) To consummate the Closing, Buyer will, or will cause the Buyer's Affiliates to, wire the funds required to be delivered pursuant to Section 2.1 after all the conditions to Closing specified in ARTICLE 6 have been satisfied.

2.6 Simultaneous Closing. All transactions occurring at the Closing as specified in Sections 2.4 and 2.5 shall be deemed to take place simultaneously and no transaction shall be deemed to have been completed and no document or certificate shall be deemed to have been delivered until all transactions are completed and all documents delivered.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company (including for the purpose of this Article 3, the Additional Sellers) represents and warrants to the Buyers that, except as expressly set forth and referred to with respect to a particular representation in the disclosure schedule delivered to the Buyers by the Company on the date of this Agreement as an inducement to the Buyers to enter into this Agreement (the "Company Disclosure Schedule"), each of the statements contained in this ARTICLE 3 is true and correct as of the date hereof and will be true and correct at and as of the Closing Date, as follows:

3.1 Organization and Qualification; Subsidiaries

(a) Each of the Company and the Company Subsidiaries is a corporation duly organized and validly existing under the Laws of its jurisdiction of incorporation and has the requisite corporate power and authority to own, lease and operate its assets and properties, including the Acquired Assets, and to carry on the Business as it is now being conducted, and is duly qualified or licensed as a foreign corporation to do business, and, where such concept is applicable, is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its activities makes such qualification or licensing necessary.

(b) Section 3.1(b) of the Company Disclosure Schedule lists each of the Company's subsidiaries (other than the Excluded Subsidiaries) (each, a "Company Subsidiary" and, collectively, the "Company Subsidiaries"), the jurisdiction of incorporation of each Company Subsidiary and the Company's equity interest therein, and, if not directly or indirectly wholly owned by the Company, the identity and ownership interest of each of the other owners of such Company Subsidiary. Other than as set forth on Section 3.1(b) of the Company Disclosure Schedule, the Company, directly or indirectly, owns 100% of the outstanding equity interests of each of the Company Subsidiaries. As of the date hereof neither the Company nor any Company Subsidiary has agreed, is obligated to make or is bound (or has bound its property) by any written agreement or contract under which it is legally obligated to make any future investment (in the form of a loan, capital contribution or otherwise) in any other entity (other than the Company or a wholly owned Company Subsidiary). Other than the Company's interests in the Company Subsidiaries and the Excluded Subsidiaries or as set forth in Section 3.1(b) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary directly or indirectly owns any equity, partnership or similar interest in any Person. All of the issued and outstanding shares of capital stock of or other equity interests in each Company Subsidiary (other than the Additional Sellers) have been duly authorized and validly issued and are fully paid and nonassessable and, except as set forth in Section 3.1(b) of the Company Disclosure Schedule, all such shares or interests owned by the Company or any Company Subsidiary are owned free and clear of all Liens.

(c) The Company has delivered to Buyer a complete and correct copy of the Memorandum of Association and Articles of Association and all other organization documents of the Company as of the date of this Agreement, as well as a complete and correct copy of all similar organizational documents of each of the Company Subsidiaries (collectively, the "Formation Documents"). Such Formation Documents are in full force and effect and no other organizational documents are applicable to or binding upon the Company or any Company Subsidiary. The Company and each Company Subsidiary is not in violation in any respect of any of the provisions of the applicable Formation Documents.

(d) All statutory books and registers of the Acquired Companies have been properly kept in accordance with applicable Laws and regulations. All information, resolutions and other documents with respect to each Acquired Company have been duly filed or published in accordance with applicable Laws and regulations.

3.2 Agreement Authorized and its Effect on Other Obligations.

(a) Authorization and Enforceability. The Company has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and, to consummate the transactions contemplated hereby. The execution and delivery by the Company of this Agreement and the performance by the Company of its obligations hereunder have been duly and validly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by the Buyers, constitutes a legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, debtor relief or similar laws affecting the rights of creditors generally and by general principles of equity.

(b) Approvals. Except as set forth in Section 3.2(b) of the Company Disclosure Schedule, no consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority, is required by or with respect to the Company or a Company Subsidiary in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (A) the requirements of any Governmental Authority under applicable competition, antitrust or foreign investment or trade regulatory Laws, including the applicable requirements of the HSR Act, (B) the approval of the Israeli Investment Center of the Israeli Ministry of Trade, Industry and Labor (the "Investment Center"), (C) the approval of the Office of the Chief Scientist of the Israeli Ministry of Trade, Industry and Labor ("OCS"), and (D) the approval, if applicable, of the Israeli Commissioner of Restrictive Trade Practices to the extent required pursuant to the Restrictive Trade Practices Act, 1988 (the "Trade Practices Act").

(c) No Conflict. Except as set forth in Section 3.2(c) of the Company Disclosure Schedule, assuming the receipt by Closing of the all required Consents, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Formation Documents of any of the Acquired Companies; (ii) contravene, conflict with or result in a violation or breach of, or result in a default under, or result in the acceleration or cancellation of any obligation under, or give rise to a right by any person to terminate, cancel, modify or amend in any respect its obligations under any Contract to which any of the Acquired Companies is a party or by which any of them or their properties or assets are bound, (iii) contravene, conflict with or result in a violation of, or give any Governmental Authority or other Person the right to challenge the Transaction or to exercise any remedy or obtain any relief under, any legal requirement or any order, writ, injunction, judgment or decree to which the Acquired Companies, or any of the assets owned or used by the Acquired Companies, is subject, (iv) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Authority the right to revoke, withdraw, suspend, cancel, terminate, modify or exercise any right or remedy or require any refund or recapture with respect to, any Grant or benefit given by any Governmental Authority or under applicable Law (or any benefit provided or available thereunder) or other permit, license, consent, authorization, Grant, benefit, or right that is held by the Company or a Company Subsidiary or that otherwise relates to the business or assets of the Acquired Companies, (v) result in the imposition, creation or crystallization of any Lien upon or with respect to any asset or property owned, leased or used by the Acquired Companies, or (vi) with the passage of time, the giving of notice, or the taking of any action by a third person, or any combination thereof, have any of the effects set forth in clauses (i) through (v) of this Section. Section 3.2(c) of the Company Disclosure Schedule sets forth a complete and accurate list of (A) all holders of any outstanding Indebtedness of the Acquired Companies, the lessors of any property leased by the Acquired Companies, in each case whose consent is required in connection with the Transaction and (B) all other parties to any Contract to which any of the Acquired Companies is a party or bound whose consent is required in connection with the Transaction.

3.3 Financial Statements.

(a) The Company has delivered to Buyer true and correct copies of (i) the audited consolidated financial statements (including any related notes thereto) of the Acquired Companies as of, and for the periods ended, December 31, 2004 and 2003, including audited consolidated balance sheets of the Acquired Companies as of December 31, 2004 and 2003 and audited consolidated statements of operations and cash flows for the years ended December 31, 2004 and 2003, together with a signed report of the Company's independent auditors attached thereto, (ii) the unaudited financial statements (including any related notes thereto) of each of the Acquired Companies as of, and for the periods ended, December 31, 2004 and 2003, including unaudited balance sheets of each the Acquired Companies as of December 31, 2004 and 2003 and unaudited statements of operations and cash flows of each the Acquired Companies for the years ended December 31, 2004 and 2003, and (iii) the unaudited consolidated financial statements of the Acquired Companies as well unaudited financial statements of each of the Acquired Companies, as of, and for the period ended June 30, 2005, including an unaudited consolidated balance sheet of the Acquired Companies as of June 30, 2005 and an unaudited consolidated statement of operations (but not cash flows) for the period ended June 30, 2005 (collectively, the "Financial Statements"). Except as set forth in the notes thereto or in Section 3.3(a) of the Company Disclosure Schedule, the Financial Statements were prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved and fairly present, in all material respects, the consolidated financial position for the Acquired Companies as of the date thereof and the consolidated results of their operations, cash flows and changes in financial position for the periods then ended, except that the unaudited Financial Statements for the period ended June 30, 2005 are subject to normal year end adjustments and lack footnotes and other presentation materials.

(b) Except as set forth in Section 3.3(b) of the Company Disclosure Schedule, the Company has established and maintains, adheres to and enforces a system of internal accounting controls which are effective in providing assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP (including the Financial Statements), including policies and procedures that (i) require the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of each of the Acquired Companies, (ii) provide assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of each of the Acquired Companies are being made only in accordance with appropriate authorizations of management of the Acquired Companies, and (iii) provide assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of each of the Acquired Companies. The Company is not aware of (i) any significant deficiencies, including material weaknesses, in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial data, (ii) any fraud, whether or not material, that involves any of the Acquired Companies' management or other employees who have a role in the preparation of financial statements or the internal accounting controls utilized by the Acquired Companies or (iii) any claim or allegation regarding any of the foregoing. Notwithstanding anything to the contrary in this Section 3.3(c) above, none of the above shall be construed as a representation with respect to the Company's compliance with Section 404 of the Sarbanes-Oxley Act.

(c) The Company has made and kept (and given the Buyer access to) (i) all records and lists of the Company pertaining to the assets of each of the Acquired Companies, (ii) all records and lists of the Acquired Companies pertaining to the personnel of each of the Acquired Companies and (iii) all financial books, ledgers, files and reports of every kind maintained by the Acquired Companies, which, in each case, accurately and fairly reflect the activities of and information regarding each of the Acquired Companies that should be recorded therein.

3.4 No Undisclosed Liabilities. Except as set forth in Section 3.4 of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary has any obligation, expense, claim, deficiency, guaranty or endorsement of any type, whether accrued, absolute, contingent, matured, unmatured or other (whether or not required to be reflected in financial statements in accordance with GAAP), except liabilities which individually or in the aggregate (i) have been reflected in the Financial Statements or disclosed in the notes thereto (to the extent of such reflection or disclosure), (ii) have arisen since the Financial Statements in the ordinary course of business consistent with past practices and are not, in the aggregate, material, (iii) have been provided for in the Budget and Operating Plan, or (iv) are executory obligations arising in the ordinary course of business consistent with past practices which are not in the aggregate material.

3.5 Absence of Certain Changes. Since December 31, 2004, each of the Acquired Companies has conducted the Business only in the ordinary course consistent with past practice, and there has not been any Material Adverse Effect. Without limiting the generality of the foregoing, except as set forth on the Financial Statements, or on Section 3.5 of the Company Disclosure Schedule, or as set forth in the Budget and Operating Plan or incurred in the ordinary course of business consistent with past practice, from and after December 31, 2004, neither the Company nor any Company Subsidiary has:

(a) suffered any loss to its property (whether through destruction, accident, casualty, expropriation, condemnation or otherwise) or its business, or incurred any liability, damage, award or judgment for injury to the property or business of others or for injury to any person (in each case, whether or not covered by insurance) in excess of $20,000 in any one case or $50,000 in the aggregate;

(b) made any capital expenditure in excess of $20,000 or series of capital expenditures in excess of $50,000 in the aggregate;

(c) made any change in the rate of compensation, commission, bonus or other direct or indirect remuneration payable or to become payable to any of their respective directors, officers, employees or agents, or agreed or promised (orally or otherwise) to pay, conditionally or otherwise, any bonus or extra compensation or other employee benefit including any additional pension, profit sharing, bonus, incentive, deferred compensation, stock purchase, share option, share appreciation, group insurance, vacation pay, severance pay, retirement or other employee benefit plan, agreement or arrangement, or changed the terms of any existing Company Benefit Plan, for or to any of such directors, officers, employees or agents; except for any changes with respect to employees who are not senior employees provided such changes do not have a Material Adverse Effect in the aggregate, and provided however that notwithstanding the above, the Company may grant employees, a special bonus in connection with the Transaction contemplated hereunder;

(d) sold, assigned, leased or transferred any assets or properties, other than sales of inventory in the ordinary course of business;

(e) amended, renegotiated or terminated (other than by completion thereof) any Contract;

(f) made any change in its accounting methods, policies, practices or principles;

(g) amended its Formation Documents;

(h) made any Tax election, changed any annual Tax accounting period, amended any Tax Return, settled or compromised any income Tax Liability, entered into any closing agreement, settled any Tax claim or assessment, surrendered any right to claim a Tax refund or failed to make the payments or consent to any extension or waiver of the limitations period applicable to any Tax claim or assessment unless such action was taken solely with respect to the Company or the Additional Sellers;

(i) issued, delivered, pledged or otherwise encumbered, sold or disposed of any shares of any Company Subsidiary's (other than the Additional Sellers) capital stock or other securities, or created, issued, delivered, pledged or otherwise encumbered, sold or disposed of any securities convertible into, or rights with respect to, or options or warrants to purchase or rights to subscribe to, any shares of any Company Subsidiary's (other than the Additional Sellers) capital stock or other securities, whether as a result of any exercise thereof or otherwise, other than such actions as are required in order to consummate the Transaction and give effect to the provisions of Schedule 1.1(a) and Schedule 1.1(c);

(j) split, combined or reclassified any of any Company Subsidiary's (other than the Additional Sellers) shares of capital stock or issued or authorized the issuance of any other securities with respect to, in lieu of or in substitution for any of any Company Subsidiary's (other than the Additional Sellers) shares of capital stock;

(k) incurred, assumed or created any Indebtedness for borrowed money or guaranteed any Indebtedness for borrowed money of any other Person in excess of $20,000 in any one case;

(l) made, incurred, assumed, created or guaranteed any loan or made any advance or capital contribution to or investment in any Person;

(m) subjected any of its assets or properties to any Lien or permitted any of its assets or properties to be subjected to any Lien;

(n) acquired or agreed to acquire by merging or consolidating with, or by purchasing a substantial portion of the capital stock or assets of, or by any other manner, any business or any corporation, partnership, limited liability entity, joint venture, association or other business organization or Person, or division, operating unit or product line thereof;

(o) (A) entered into any transaction with any Affiliate, director, officer or shareholder of any Acquired Company or any Affiliate of any of the foregoing or (B) made, directly or indirectly, any payments or transferred, directly or indirectly, any funds or other property to or on behalf of any Affiliate, director, officer or shareholder of any Acquired Company or any Affiliate of any of the foregoing (other than reimbursements of ordinary and necessary business expenses of employees or directors of the Acquired Companies incurred in connection with their employment or service consistent with written policies of the Company);

(p) purchased any real property or entered into any Lease (including any capitalized lease obligations);

(q) settled or compromised any Action; or

(r) entered into any agreement or Contract (other than the Transaction Documents) to take any of the types of action described in this Section 3.5.

3.6 Contracts

(a) Section 3.6 of the Company Disclosure Schedule sets forth, under the corresponding subsection, all of the Contracts of each of the Acquired Companies, or to which each of the Acquired Companies are bound, described below:

(1) all Contracts under which any of the Acquired Companies licenses or purchases any Transferred Intellectual Property from any third party (other than license agreements relating to third party off-the-shelf software that are available to Buyers with no additional cost or liability) whether or not such agreement involves any remaining obligations or liabilities of either party;

(2) all Contracts under the terms of which the Acquired Companies: (A) are likely to pay or otherwise give monetary consideration of more than US$100,000 in the aggregate during any calendar year or (B) are likely to pay or otherwise give consideration of more than US$200,000 in the aggregate over the remaining term of such Contract;

(3) all research and development, broker, distributor, dealer, manufacturer's representative, franchise, agency, sales promotion, market research, marketing, consulting and advertising Contracts;

(4) all management Contracts and Consulting Agreements (or similar Contracts) which are not cancelable by the Acquired Companies on notice of 30 days or less without penalty or further payment;

(5) all Employment Agreements and Consulting Agreements between any of the Acquired Companies, on the one hand, and any officer, director or employee of the Acquired Companies, on the other hand, or any service, operating or management Contract with respect to any of property of the Acquired Companies (whether leased, owned or operated);

(6) (i) all third party Indebtedness, Liabilities and commitments of others as to which any of the Acquired Companies is a guarantor, endorser, co-maker, surety, or accommodation maker, or is contingently liable therefor, (ii) all letters of credit, whether stand-by or documentary, issued by any third party and (iii) all other Contracts relating to Indebtedness of the Acquired Companies;

(7) all Contracts, including, without limitation, any Company Benefit Plan, any of the benefits of which will be increased or otherwise modified, or the vesting, funding or delivery of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement (either alone or in conjunction with any other event) or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(8) all Contracts of indemnification and all guaranties other than any Contract of indemnification entered into in connection with the sale or license of products or services in or the licensing of real property in the ordinary course of business;

(9) all Contracts with any Governmental Authority;

(10) all Contracts containing any provision or covenant prohibiting, impairing, limiting or restricting, or purporting to prohibit, impair, limit or restrict, the ability of any of the Acquired Companies to (i) sell or license any products or services of or to any other person, (ii) engage in any line of business, (iii) compete with or to obtain products or services from any person or limiting the ability of any person to provide products or services to any of the Acquired Companies in each case in any geographic area or during any period of time, (iv) grant any distribution or licensing rights or (v) acquire any property, assets or business;

(11) all Contracts currently in force relating to (i) the disposition or acquisition by any of the Acquired Companies of any material assets (other than sale of Inventory in the ordinary course of business) or pursuant to which any of the Acquired Companies has any ownership interest in any corporation, partnership, joint venture or other business enterprise other than a Company Subsidiary or (ii) capital expenditure or expenditures in excess of $50,000 in any one case;

(12) all Contracts relating to the ownership or lease of real property (whether as lessor or lessee), used or operated by any of the Acquired Companies;

(13) all Contracts currently in force to license any third party to manufacture or reproduce any of the Acquired Companies' products, services or technology and all Contracts currently in force to sell or distribute any of the Acquired Companies' products, services or technology;

(14) all Contracts currently in force to provide source code to any third party for any product or technology;

(15) all Licenses other than the sale of Products in the ordinary course of business;

(16) all settlement agreements and similar Contracts under which any of the Acquired Companies have ongoing obligations under which they (A) are likely to pay or otherwise give consideration of more than US$100,000 in the aggregate during any calendar year or (B) are likely to pay or otherwise give consideration of more than US$200,000 in the aggregate over the remaining term of such Contract;

(17) all shareholder agreements, voting agreements, buy-sell agreements, and other Contracts granting any party any rights to exercise control over any of the Company Subsidiaries, (other than the Additional Sellers) or any Company Subsidiary's (other than the Additional Sellers) capital stock; and

(18) all other Contracts, whether or not made in the ordinary course of business, which are material to the Acquired Companies, taken as a whole, or the conduct of the Business, taken as a whole, or the absence of which could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(b) Each Contract: (i) is legal, valid and binding on each of the Acquired Companies which is a party thereto and, to the Knowledge of the Company, the other parties thereto, and is in full force and effect, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or other laws of general application affecting enforcement of creditors' rights or by general principles of equity, and (ii) upon consummation of the Transaction, subject to obtaining the consent of the counterparty thereto, if required as set forth in Schedule 5.3(c), shall continue in full force and effect to the same extent without penalty or other adverse consequence to Buyers or the Acquired Companies. Neither the Company nor any Company Subsidiary is in breach of, or default under, any Contract, nor is there any default or event of default or event which with notice or lapse of time, action by any third party, or combination thereof, would constitute a default by any of the Acquired Companies under any Contract. As of the date hereof, neither the Company nor any Company Subsidiary has received any written or oral notice, and otherwise has no Knowledge, of a default (which has not been cured), offset or counterclaim under any Contract, or any other written or oral communication calling upon it to comply with any provision of any Contract or asserting noncompliance therewith or asserting that the Acquired Companies have waived or altered its rights thereunder, nor have any of the Acquired Companies received any written or oral notice, and otherwise has no Knowledge, that any party to any Contract intends or is threatening to terminate or fail to exercise any renewal or extension of any Contract or is otherwise in breach or default thereunder.

3.7 Suppliers and Customers. (a) Section 3.7(a) of the Company Disclosure Schedule contains a true and complete list of the Acquired Companies' ten largest customers in each of the regions which the Acquired Companies operate and the sales to such customers with respect to the business of the Company during the twelve-month period ended December 31, 2004.

(b) Section 3.7(b) of the Company Disclosure Schedule contains a true and complete list of the Acquired Companies' suppliers for components of the Products and the purchases by the Acquired Companies from such suppliers during the twelve-month period ended December 31, 2004.

(c) Except as set forth in Section 3.7(c) of the Company Disclosure Schedule, since December 31, 2004, none of the suppliers or customers set forth in this Section 3.7 above has cancelled or otherwise modified its relationship with the Acquired Companies in a manner adverse to the Company's Business, and (i) to the Knowledge of the Company, no such Person has communicated (orally or in writing) to the officers, directors or other managers of the Acquired Companies any intention to do so, (ii) to the Knowledge of the Company, no such Person has any intention to do so, and (iii) no officer of the Company has been informed that the consummation of the transactions contemplated hereby will adversely affect any of such relationships.

3.8 Title to Property; Leased Property.

(a) Each of the Acquired Companies has good title to, or in the case of leased properties and assets, valid leasehold interests in, all of their properties and assets, including the Acquired Assets, free and clear of all Liens, except for: (i) Liens reflected in the balance sheet of the Company, included in the Financial Statements, (ii) Liens imposed by Law, such as carriers', warehouseman's, mechanics', materialmen's, landlords', laborers', suppliers', construction and vendors' liens, incurred in good faith in the ordinary course of business and securing obligations which are not yet due or which are being contested in good faith by appropriate proceedings as to which the Company has, to the extent required by GAAP, set aside on its books adequate reserves; (iii) Liens for Taxes either not yet due and payable or which are being contested in good faith by appropriate legal or administrative proceedings; (iv) with respect to leasehold interests, liens incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of the leased property, with or without consent of the lessee, none of which impairs the use of any parcel of property material to the operation of the business of the Company; (v) as set forth in Section 3.8(a) of the Company's Disclosure Schedule, and (vi) any Liens arising in the ordinary course of business which do not interfere with the present use of the property affected thereby (collectively, "Permitted Liens").

(b) All leases pursuant to which any of the Acquired Companies leases from others real or personal property (collectively, the "Company Leases") are valid, binding and enforceable in accordance with their respective terms and in full force and effect, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or other laws of general application affecting enforcement of creditors' rights or by general principles of equity, no amounts (other than immaterial amounts the failure of which to pay would not be material) payable under any Company Lease are past due, and there is not, under any of such leases, any existing default or event of default of any of the Acquired Companies or, to the Knowledge of the Company, any other party.

(c) Section 3.8(c) of the Company Disclosure Schedule sets forth each of the Company Leases, as well as each real property owned by each of the Acquired Companies (the "Owned Property"), in each case setting forth the location of such property, the Acquired Company using, operating or owning such property, the monthly payment due in connection therewith, and the term of the lease thereunder. Each of the properties specified in Section 3.8(c) of the Company Disclosure Schedule (including any easements, rights of access, rights of way or similar rights benefiting the properties) (i) is in good repair, free of defects and is otherwise adequate and sufficient to permit the continued use of such facility in the manner and for the purpose to which it is presently devoted, and (ii) has adequate and sufficient access to and from public areas. The Company Leases and the Owned Property (taking into account all liens and third party rights related thereto, all zoning and other restrictions applicable thereto, the condition, size and all other aspects thereof) are in all respects suitable and adequate to support the operations of the Acquired Companies and for the purposes to which they are presently used. The Acquired Companies are the sole tenants and occupants of the Company Leases and the Owned Property.

(d) All major items of equipment of the Acquired Companies are in good and sufficient operating condition and in a state of reasonable maintenance and repair for the continued conduct of the Acquired Companies' Business on a basis consistent with past practice, ordinary wear and tear excepted, and are free from any known defects or Liens (other than Permitted Liens).

(e) To the Knowledge of the Company, there is no condemnation, expiration or other proceeding in eminent domain pending or threatened, affecting any parcel of real estate covered by the Company Leases or Owned Property or any portion thereof or interest thereon.

(f) The Acquired Assets include all assets, rights, properties, licenses and permits (other than Licenses required under Environmental Laws as to which Section 3.12 shall apply), contracts and other benefits that are necessary for the Business as presently conducted and as presently contemplated to be conducted by the Acquired Companies, and, other than the Acquired Assets there are no other assets, properties or rights owned, used, held, or licensed by any of the Acquired Companies or any third party which are necessary for the Business as presently conducted or as presently contemplated to be conducted by the Acquired Companies. Without limiting the foregoing, as of the Closing no Company Subsidiary that is not an Acquired Company will own or hold any assets, rights, properties, licenses and permits, contracts or other benefits that are used in the Business.

(g) Upon the Closing, the Buyers shall have good, valid and marketable title to all of the Acquired Assets, free and clear of any Liens and any adverse claims by any Person, other than Permitted Liens, and to the Company's Knowledge, the Buyers shall have full right and power to the peaceful and quite usage and possession rights of the Acquired Assets so transferred. To the Company's Knowledge, the Buyers shall be subject to no limitations, obligations or restrictions with regard to the sale, license, distribution or other transfer or exploitation of the Acquired Assets, whether in the form transferred to it or after modification, except for any such limitation, obligations or restrictions that are created by Buyers or are derived from agreements to which it is a party.

(h) All references to the Acquired Assets in this Section 3.8 shall not include the Transferred Intellectual Property.

3.9 Taxes.

(a) Tax Returns Filed; Taxes Paid. Except as set forth in Section 3.9(a) of the Company Disclosure Schedule, (i) all returns, declarations, claims for refund, information returns and reports ("Tax Returns") of or with respect to any and all taxes, charges, fees, levies, assessments, duties or other amounts payable to any U.S. federal, state or local or Israeli or other taxing authority or agency, including, without limitation, (x) income, franchise, profits, gross receipts, minimum, alternative minimum, estimated, ad valorem, value added, sales, use, service, real or personal (tangible and intangible) property, environmental, capital stock, leasing, lease, user, license, registration, payroll, withholding, disability, employment, social security (or similar), workers compensation, unemployment compensation, utility, severance, excise, stamp, windfall profits, transfer and gains taxes, (y) customs, duties, imposts, charges, levies or other similar assessments of any kind, and (z) interest, penalties and additions to tax imposed with respect thereto (all the above "Tax" or "Taxes") which are required to be filed on or before the Closing by or with respect to the Company Subsidiaries have been or will be duly and timely filed, (ii) all items of income, gain, loss, deduction and credit or other items required to be included in each such Tax Return have been or will be so included and all such information and any other information provided in each such Tax Return is true, correct and complete, (iii) all Taxes owed by any of the Company Subsidiaries (other than the Additional Sellers) which have become or will become due have been or will be timely paid in full, (iv) all Tax withholding and deposit requirements imposed on or with respect to any of the Company Subsidiaries (other than the Additional Sellers) have been or will be satisfied in full in all respects, (v) no penalty, interest or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any such Tax, and (vi) there are no Liens on any of the assets of the Company or any Company Subsidiary that arose in connection with any failure (or alleged failure) to pay any Tax.

(b) Open and Closed Returns Disclosed. Section 3.9(b) of the Company Disclosure Schedule lists all U.S. federal, state or local or Israeli or other income Tax Returns (excluding information returns) filed with respect to any of the Company Subsidiaries (other than the Additional Sellers) for the three taxable years ending prior to the date hereof, indicates those Tax Returns that have been audited, indicates those Tax Returns that are currently the subject of audit, and indicates those Tax Returns whose audits have been closed.

(c) Extensions Disclosed. Except as set forth in Section 3.9(c) of the Company Disclosure Schedule, there is not in force any extension of time with respect to the due date for the filing of any Tax Return of or with respect to any of the Company Subsidiaries (other than the Additional Sellers) or any waiver or agreement for any extension of time for the assessment or payment of any Tax of or with respect to any of the Company Subsidiaries (other than the Additional Sellers).

(d) Claims Disclosed. There is no outstanding written claim from any taxing authority against any of the Company Subsidiaries (other than the Additional Sellers) for any Taxes, and no assessment, deficiency or adjustment has been asserted, proposed or to the Company's Knowledge threatened by any taxing authority with respect to any Tax Return of or with respect to any of the Company Subsidiaries (other than the Additional Sellers) with respect to any period for which the statute of limitations on the assessment of Tax deficiencies has not expired other than those disclosed (and to which are attached true and complete copies of all audit or similar reports) in Section 3.9(d) of the Company Disclosure Schedule. To the Company's Knowledge, no claim has ever been made by a taxing authority in a jurisdiction where any of the Company Subsidiaries (other than the Additional Sellers) do not file Tax Returns that any of the Company Subsidiaries (other than the Additional Sellers) is or may be subject to taxation in that jurisdiction and, to the Knowledge of the Company, there is no such jurisdiction that could properly make such a claim.

(e) Scheduled Tax Liabilities Sufficient. The total amounts set up as Liabilities for current and deferred Taxes in the Financial Statements are sufficient to cover the payment of all Taxes, whether or not assessed or disputed, which are, or are hereafter found to be, or to have been, due by or with respect to any of the Company Subsidiaries (other than the Additional Sellers) up to and through the periods covered thereby.

(f) Tax Allocation Agreements. The Company has previously delivered to the Buyer true and complete copies of each written Tax allocation or sharing agreement and a true and complete description of each unwritten Tax allocation or sharing arrangement affecting any of the Company Subsidiaries (other than the Additional Sellers). No payments are due or will become due by any of the Company Subsidiaries (other than the Additional Sellers) pursuant to any such agreement or arrangement or any Tax indemnification agreement except as set forth in Section 3.9(f) of the Company Disclosure Schedule.

(g) Change of Accounting Method. None of the Company Subsidiaries will be required to defer any amount of income in respect of any taxable period prior to the Closing Date to any taxable period beginning after the Closing Date as a result of a change in accounting method for any taxable period ending on or before the Closing Date or pursuant to any agreement with any taxing authority with respect to any such taxable period.

(h) Partnerships; Foreign Corporations. Except as set forth in Section 3.9(h) of the Company Disclosure Schedule, none of the property of any of the Company Subsidiaries (other than the Additional Sellers) is held in an arrangement that is classified as a partnership for Tax purposes, and none of the Company Subsidiaries (other than the Additional Sellers) is, or owns any interest in any, controlled foreign corporation (as defined in section 957 of the Code), or other entity the income of which is required to be included in the income of any of the Acquired Companies.

(i) Section 341(f) Election. Neither the Company nor any of the Company Subsidiaries has made an election under section 341(f) of the Code.

(j) Business Attributes. Section 3.9(j) of the Company Disclosure Schedule sets forth with respect to each of the Acquired Companies the amount of any deferred gain or loss allocable to each of the Acquired Companies arising out of any intercompany transaction, as defined in Treasury Regulations section 1.1502-13.

(k) Activity Limitations. Neither the Company nor any Company Subsidiary has entered into any agreement or arrangement with any taxing authority that requires it to take any action or to refrain from taking any action, except for the undertaking in connection with the grant of an "Approved Enterprise" status and the undertaking in connection with the grant of options under Section 102 of the Ordinance.

(l) Franchise Taxes. Notwithstanding anything to the contrary herein, any franchise Tax paid or payable with respect to any of the Company Subsidiaries (other than the Additional Sellers) shall be allocated to the taxable period during which the income, operations, assets or capital comprising the base of such Tax is measured, regardless of whether the right to do business for another taxable period is obtained by the payment of such franchise Tax.

(m) Affiliated Groups. Except as set forth in Section 3.9(m) of the Company Disclosure Schedule, no Company Subsidiary (i) has been a member of an affiliated group filing a consolidated federal income Tax Return or (ii) has any liability for Taxes of any person under Treasury Regulations section 1.1502-6 (or any similar provision of U.S. federal, state or local or Israeli or other law), as a transferee or successor, by contract or otherwise.

(n) United States Real Property Holding Corporation. Neither the Company nor any Company Subsidiary has been a United States real property holding corporation within the meaning of section 897(c)(2) of the Code since the incorporation.

(o) Tax Incentives. Section 3.9(o) of the Company Disclosure Schedule, lists each Tax incentive currently in effect granted to each of the Acquired Companies under the laws of the State of Israel or under any other applicable Laws, the period for which such Tax incentive applies, and the nature of such tax incentive. Each of the Acquired Companies has complied with all requirements of Israeli law (or other applicable Laws) to be entitled to claim all such incentives. The consummation of the Transaction will not adversely affect the remaining duration of the incentive or require any recapture of any previously claimed incentive, and no consent or approval of any Governmental Authority is required, other than as contemplated by Schedule 5.3(c), prior to the consummation of the Transaction in order to transfer to and preserve the entitlement of the Buyers to any such incentive.

3.10 Intellectual Property.

(a) Section 3.10(a) of the Company Disclosure Schedule lists all the Transferred Intellectual Property (including but not limited to registration numbers, application serial numbers, dates of use, any further actions and payments related thereto that are required following the date hereof, etc.) as well as any and all proceedings or actions before any court, tribunal (including the PTO or equivalent authority anywhere in the world) related to any of the Transferred Intellectual Property. To the extent any of the Transferred Intellectual Property are not registered or the subject of an application to register, they shall be identified as accurately and concisely as reasonable under the circumstances. For all Transferred Intellectual Property listed on Section 3.10(a) of the Company Disclosure Schedule, the Schedule identifies the Company or Company Subsidiary that is the owner, and to the Knowledge of the Company, also identifies such Transferred Intellectual Property related to ink manufactured in Israel and such Transferred Intellectual Property related to ink manufactured in South Africa.

(b) Except as set forth in Section 3.10(b) of the Company Disclosure Schedule, to the Knowledge of the Company there are no facts or circumstances that would render any of the Transferred Intellectual Property invalid or unenforceable. Without limiting the foregoing, the Company has no Knowledge of any information, materials, facts, or circumstances, including any information or fact that would constitute prior art, that would render any of the Transferred Intellectual Property invalid or unenforceable, or would adversely affect any pending application to register any the Transferred Intellectual Property and the Company has not Knowingly misrepresented or failed to disclose, any facts or circumstances in any application for any the Transferred Intellectual Property that would constitute fraud or a misrepresentation with respect to such application or registration or that would otherwise affect the validity or enforceability of any the Transferred Intellectual Property.

(c) Except as set forth in Section 3.10(c) of the Company Disclosure Schedule, (i) each of the Transferred Intellectual Property, including all the Company Registered Intellectual Property Rights, is free and clear of any third-party interests including any Liens, (ii) the Acquired Companies are the exclusive owners or exclusive licensees of all the Transferred Intellectual Property (including all improvements, derivative works and the like), (iii) the Acquired Companies have obtained (by agreement or operation of law) a valid and enforceable assignment sufficient to irrevocably transfer all Transferred Intellectual Property (including the right to seek past and future damages with respect thereto) from third parties for all Intellectual Property developed or owned by those third parties and which has been, currently is or planned to be used, required or needed in the conduct of the Acquired Companies' Business as currently conducted, (iv) the Acquired Companies do not license any of the Transferred Intellectual Property to third parties, or permit third parties to use any of the Transferred Intellectual Property, on terms other than substantially standard payment and other terms which it offers to all third parties, and (v) none of the Acquired Companies owes any royalties or payments to any third party for using or licensing to others any of the Transferred Intellectual Property.

(d) Except as set forth in Section 3.10(d) of the Company Disclosure Schedule, the Transferred Intellectual Property, constitutes all of the Intellectual Property used in or necessary to the conduct of the Business of the Acquired Companies as it has been and currently is conducted, or currently planned to be conducted, including, without limitation, the design, development, manufacture, use, import and sale of Products, Transferred Technology and services (including products, technology or services currently under development) of the Acquired Companies.

(e) The Company has made available to the Buyer or its counsel a copy of all Contracts to which any of the Acquired Companies is a party, a third-party beneficiary, or otherwise bound by such Contract with respect to any Transferred Intellectual Property. Except as set forth in Section 3.10(e) of the Company Disclosure Schedule, to the Knowledge of the Company, (i) all such Contracts (a) are in full force and effect, (b) are not the subject of any dispute regarding the rights and obligations specified in such Contract, or performance under such Contract, and (c) are freely assignable by the Acquired Companies without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which the Acquired Companies would otherwise be required to pay, (ii) the consummation of the Transaction and the other transactions contemplated by this Agreement will neither violate nor result in the alteration, amendment, breach, modification, cancellation, termination or suspension of such Contracts, and (iii) neither the Company, any Company Subsidiary nor any other party is in breach of or has failed, to perform under, any such Contracts and, to the Company's Knowledge, no other party to any such Contract is in breach thereof or has failed to perform thereunder.

(f) The operation of the Business of the Acquired Companies as currently conducted or as currently contemplated to be conducted by the Acquired Companies, including but not limited to the design, development, use, import, export, manufacture and sale of the Products, Transferred Technology or services (including products, technology or services currently under development) of the Acquired Companies does not, and to the extent conducted by the Buyers in the same manner following the Closing will not, infringe or misappropriate any Intellectual Property Right of any third party. Except as set forth in Section 3.10(f) of the Company Disclosure Schedule, the Acquired Companies have not received notice of, nor, to the Knowledge of the Company, do any facts or circumstances exist that could reasonably be expected to give rise to, any lawsuit, claim, demand, proceeding or investigation involving matters of the type contemplated by the immediately preceding sentence.

(g) All registrations for the Company Registered Intellectual Property Right are valid and subsisting, and all necessary registration, maintenance and renewal fees in connection with such Company Registered Intellectual Property Rights have been paid and all reasonably necessary documents and certificates in connection with such Company Registered Intellectual Property Rights have been filed with the relevant patent, copyright, trademark or other authorities in the United States, Israel and other jurisdictions, as the case may be, for the purposes of maintaining such Company Registered Intellectual Property Rights. Except as set forth in Section 3.10(g) of the Company Disclosure Schedule, there are no actions that must be taken by the Company within 60 days of the Closing Date, including the payment of any registration, maintenance or renewal fees or the filing of any responses to the PTO, actions, documents, applications or certificates for the purposes of maintaining, perfecting or preserving or renewing any the Company Registered Intellectual Property Rights.

(h) To the Knowledge of the Company, other than as set forth in Section 3.10(h) of the Company Disclosure Schedule, the Transferred Intellectual Property does not include any open source, shareware, freeware code or other freely available software that is subject to restrictions on use. Section 3.10(h) of the Company Disclosure Schedule lists all software or other material that is or is required to be distributed as "freeware," "free software," "open source software" or under a similar licensing or distribution model (including but not limited to any license which complies with the Open Source Initiative Corporation's (OSI) open source definition or which is, or is equivalent to, a license approved by OSI) that the Acquired Companies use or license, and identifies that which is incorporated into, combined with, or distributed in conjunction with any Acquired Companies' Products or services ("Incorporated Open Source Software") copies of which have been provided to the Buyer. The Acquired Companies' use and distribution of each component of Incorporated Open Source Software complies with all material provisions of the applicable license agreement, and in no case does such use or distribution give rise under such license agreement to any rights in any third parties under any Company Intellectual Property Rights or obligations for the Acquired Companies with respect to any Company Intellectual Property Rights, including without limitation any obligation to disclose or distribute any such Intellectual Property in source code form, to license any such Intellectual Property for the purpose of making derivative works, or to distribute any such Intellectual Property without charge.

(i) To the Knowledge of the Company, no person is infringing or misappropriating any of the Transferred Intellectual Property.

(j) The Acquired Companies have taken all commercially reasonable steps to protect the Acquired Companies' rights in confidential information and trade secrets of the Acquired Companies or as required by any other person who has provided its confidential information or trade secrets to the Acquired Companies. All personnel who are currently or formerly have been employees, agents, consultants and contractors of the Acquired Companies who have contributed to or participated in the conception and development of all Intellectual Property for or on behalf of the Acquired Companies have executed nondisclosure agreements in substantially similar form to the form provided by the Company to the Buyer and either (i) have been a party to a "work-for-hire" arrangement or agreements with the Acquired Companies in accordance with applicable national and state law that has accorded the Acquired Companies full, exclusive and original ownership of all tangible and intangible property thereby arising, or (ii) have executed appropriate instruments of assignment in favor or the Acquired Companies as assignee that have conveyed to the Acquired Companies, effective, and exclusive ownership of all tangible and intangible property thereby arising. To the Company's Knowledge, none of the Company's officers or employees has entered into any agreement relating to the prohibition or restriction of competition or solicitation of customers, or any other similar restrictive agreement or covenant, whether written or oral, with any Person which would materially inhibit the performance of their duties in connection with the Company's business.

(k) Except as disclosed in Section 3.10(k) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary has taken any of the following actions: (i) disclosing or providing access to the Company Source Code, other than pursuant to those source code escrow agreements listed in Section 3.10(l) of the Company Disclosure Schedule, or to employees and consultants of the Acquired Companies while bound by confidentiality obligations to the Acquired Companies; (ii) disclosing any of Acquired Companies' trade secrets to a third party without an appropriate non-disclosure agreement; (iii) providing access to the Transferred Intellectual Property to a third party without restrictions on unauthorized copying, unauthorized sale or transfer, recompilation, disassembly or reverse-engineering and other industry-standard restrictions on use; or (iv) embedding, incorporating, distributing or modifying third-party software, including open source software, or other third-party material.

(l) Except as set forth in Section 3.10(l) of the Company Disclosure Schedule, to the Company's Knowledge, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or would reasonably be expected to, result in the disclosure or delivery by Company or any Company Subsidiary or any other party acting on Company's or any Company Subsidiary's behalf to any third party of any Company Source Code, except disclosure to escrow agents pursuant to escrow agent agreements listed in Section 3.10(l) of the Company Disclosure Schedule. Section 3.10(l) of the Company Disclosure Schedule sets forth each contract, agreement and instrument by and between Company, or any Company Subsidiary, and any escrow agents pursuant to which Company or any Company Subsidiary has deposited, or is or may be required to deposit, with an escrow holder or any other party, any Company Source Code ("Company Escrow Agreements"). The execution of this Agreement and the consummation of the Transaction or any of the other transactions contemplated by this Agreement, in and of itself, will not result in the release from escrow of any Company Source Code. The Company and the Company Subsidiaries are not currently in breach of any Contract that would give rise to a third party having the right to release the Company Source Code from escrow. Neither the Company nor any Company Subsidiary is in breach of, nor have either failed to perform under, any Company Escrow Agreement. To the Company's Knowledge, no other party to any such Company Escrow Agreement is in breach thereof or has failed to perform thereunder.

(m) Except as set forth in Section 3.10(m) of the Company Disclosure Schedule, to the Knowledge of the Company, neither this Agreement nor the transactions contemplated by this Agreement, including the assignment to the Buyers, by operation of law or otherwise, of any Contracts to which any of the Acquired Companies is a party, will result in (i) the Buyers granting to any third party any right to or with respect to any Transferred Intellectual Property owned by, or licensed to, either of them, or (ii) either the Buyers being bound by, or subject to, any non-compete or other restriction on the operation or scope of their respective businesses.

(n) Section 3.10(n) of the Company Disclosure Schedule lists all items of Transferred Intellectual Property, in each case that is owned by the Company or a Company Subsidiary, as of the date hereof which were developed with funding provided by or are subject to restriction, constraint, control, supervision, or limitation imposed by any Governmental Authority or quasi-Governmental Authority. Except as set forth in Section 3.10(n) of the Company Disclosure Schedule, (i) other than restrictions generally imposed by any Governmental Authority or quasi-Governmental Authority on software companies subject to the applicable jurisdiction, all Transferred Intellectual Property in each case that is owned by the Company or a Company Subsidiary is freely transferable, conveyable, and assignable by Company and Buyers to any entity located in any jurisdiction in the world without any restriction, constraint, control, supervision, or limitation that could be imposed by the OCS (or any other Governmental Authority or quasi-Governmental Authority) and (ii) other than restrictions generally imposed by any Governmental Authority or quasi-Governmental Authority on software companies subject to the applicable jurisdiction, no restriction, constraint, control, supervision, or limitation whatsoever is currently imposed by the OCS (or any other Governmental Authority or quasi-Governmental Authority) on the place, method and scope of exploitation of any Transferred Intellectual Property owned by the Company or a Company Subsidiary (including the operation of the Business as it is currently conducted, including, without limitation, the design, development, use, import, branding, advertising, promotion, marketing, manufacture and sale of Transferred Intellectual Property and any Products, Transferred Technology a services currently under development by Company or any Company Subsidiary).

3.11 Litigation. Except to the extent set forth in Section 3.11 of the Company Disclosure Schedule, there is no suit, Action, or legal, administrative, arbitration, or other proceeding or governmental investigation pending, or to the Knowledge of the Company, threatened, against or affecting the Company or a Company Subsidiary or any of their respective officers or managers in their respective capacities as such at law or in equity, or before any Governmental Authority, and the Company has no Knowledge of any basis for the foregoing (except, with respect to Environmental Laws, to the extent set forth in Section 3.12 of the Company Disclosure Schedule). All suits, Actions, or legal, administrative, arbitration, or other proceedings or governmental investigations disclosed in Section 3.11 of the Company Disclosure Schedule have been reserved for appropriately (in accordance with GAAP) on the Financial Statements, and will be appropriately reserved for (in accordance with GAAP) in any Company financial statement filed subsequent to the date hereof. No Governmental Authority has provided the Company with written notice challenging or questioning the legal right of the Company to conduct the Business as conducted at that time or as presently conducted.

3.12 Environmental Matters

(a) Except as set forth in the Financial Statements filed prior to the date hereof or in Section 3.12(a) of the Company Disclosure Schedule, (i) each of the Acquired Companies is in compliance with all applicable Laws and Licenses relating to or regulating (A) the pollution, contamination or protection of air, soil, surface water or groundwater; or (B) emissions, discharges, releases, disposal, migration or handling of any Hazardous Material; or (C) human health or safety relating to Hazardous Material; or (D) the registration of chemical substances (collectively, "Environmental Laws"), which compliance includes, but is not limited to, the possession by each of the Acquired Companies of all permits and other governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) neither the Company nor any Company Subsidiary has received written (or, to the Company's Knowledge, oral) notice of, or, is the subject of, any action, cause of action, claim, or to the Company's Knowledge – investigation, demand or notice by any Person or Governmental Authority alleging liability under or non-compliance with any Environmental Law (an "Environmental Claim") including, without limitation, relating to any contractor, subcontractor or agent of the Acquired Companies or for the business, or relating in any way to any prior facilities, locations, or business of the Acquired Companies; and (iii) there are no conditions or circumstances that are reasonably likely to result in any Liability of the Company or a Company Subsidiary under any Environmental Law, prevent or interfere with any such compliance thereunder in the future including, without limitation, relating to any contractor, subcontractor or agent of the Acquired Companies or for the business, or relating in any way to any prior property, facilities, locations, or business owned, leased or otherwise occupied or used by the Acquired Companies. The Company has provided to the Buyer all environmental assessments, reports, data, results of investigations, or compliance or other environmental audits conducted by or for the Acquired Companies, or otherwise relating to the Acquired Companies' business or properties (whether owned, leased or operated).

(b) Without in any way limiting the generality of the foregoing, (i) all on-site and off-site locations where any of the Acquired Companies previously or currently stored, disposed or arranged for the disposal of Hazardous Materials are specifically identified in Section 3.12(b) of the Company Disclosure Schedule, (ii) all underground storage tanks, and the capacity and contents of such tanks owned, operated, leased or controlled by the Acquired Companies, or located on property owned by the Acquired Companies, or to the Company's Knowledge, otherwise located on property leased or operated, or controlled by the Acquired Companies are specifically identified in Section 3.12(b) of the Company Disclosure Schedule, (iii) there is no asbestos contained in or forming part of any building, building component, structure or office space owned, leased, operated or controlled by the Acquired Companies, and (iv) no polychlorinated biphenyls (PCBs) or PCB-containing items are used or stored by the Acquired Companies at any property owned, leased, operated or controlled, or used or stored at any property owned by the Acquired Companies, or to the Company's Knowledge, otherwise located on properties leased, operated or controlled by the Acquired Companies.

(c) There are no Environmental Claims that are pending or, to the Company's Knowledge, threatened, against any of the Acquired Companies or against any person whose liability for any Environmental Claim any of the Acquired Companies have or are reasonably likely to have been retained or assumed by any of the Acquired Companies either contractually or by operation of law, and the Company has no Knowledge of any basis for the foregoing.

(d) Section 3.12(d) of the Company Disclosure Schedule sets forth for each product, substance, preparation, or mixture which is manufactured, processed, sold or distributed by the Acquired Companies, each and every chemical substance or component of such product, substance, preparation or mixture.Except as set forth in Section 3.12(d) of the Company Disclosure Schedule, the Acquired Companies have not sold, processed, used or distributed any chemical products, or any substances, preparations, mixtures or products containing any chemical, in any country (including, without limitation, the U.S., European Union, Switzerland, New Zealand, Australia, Japan, Philippines, Republic of Korea, Canada and the People's Republic of China) which has chemical registration requirements (including, without limitation, and by way of example, the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq. and related foreign laws) except in compliance with all such requirements. Except as set forth in Section 3.12(d) of the Company Disclosure Schedule, for each jurisdiction in which products manufactured or distributed by any of the Acquired Companies are currently are sold or distributed, whether by the Acquired Companies or by third parties who acquired such products for commercial sale or distribution directly or indirectly from any of the Acquired Companies, all such products comply with: (i) any chemical registration requirements applicable to such product or to any chemical substance contained in such product, and (ii) any Environmental Laws which limit or restrict the presence of solvents or other Hazardous Materials in products sold or distributed.

(e) For purposes of this Agreement, a "Hazardous Material" means (i) any regulated, hazardous, toxic or dangerous waste, emission, substance or material (including gases, liquids and solids) defined as such in (or for the purposes of) any Environmental Law, including Environmental Laws relating to or imposing liability or standards or conduct concerning any regulated, hazardous, toxic or dangerous waste, emission, substance or material, (ii) petroleum, petroleum products, asbestos or asbestos containing materials, polychlorinated biphenyls, radon or lead or lead-based paints or materials and (iii) any other chemical, material or substance, exposure to or emission of which is prohibited, limited or regulated by any Governmental Authority pursuant to any Environmental Law and which poses or could reasonably be expected to pose a hazard to the health and safety of any person or property including workers at or users of any properties of any of the Acquired Companies, or cause damage to the environment or natural resources.

3.13 Compliance with Other Laws; Permits.

(a) Except as set forth in the Financial Statements or in Section3.13 of the Company Disclosure Schedule or as required pursuant to any Environmental Law (as to which Section 3.12 applies), none of the Acquired Companies are in violation of or in default with respect to, or in alleged violation of or alleged default with respect to, any applicable law or any applicable rule, regulation, or any writ or decree of any Governmental Authority, or delinquent with respect to any report required to be filed with any Governmental Authority.

(b) Except as set forth in Section 3.13 of the Company Disclosure Schedule or as required pursuant to any Environmental Law (as to which Section 3.12 applies) (i) each of the Acquired Companies holds all permits, licenses, variances, exemptions, orders and approvals and other authorizations from Governmental Authorities which are required for the operation of the Business (including the Acquired Assets) of the Acquired Companies taken as a whole (collectively, the "Company Permits") (ii) each of the Acquired Companies has been and is in compliance in all respects with the terms of the Company Permits and any conditions placed thereon, (iii) the Company has no Knowledge of any reason it or any Company Subsidiary would not be able to renew any of the Company Permits required to operate or use any of the Acquired Companies' assets for their current or anticipated purposes and uses, and (iv) there are no permits, licenses, variances, exemptions, orders or approvals or other authorizations from Governmental Authorities held by the Acquired Companies, or required for the Acquired Companies' business, that are required to be transferred or reissued, or that are otherwise prohibited from being transferred or reissued, as a result of the transactions contemplated by this Agreement.

3.14 Brokers. Except as set forth in Section 3.14 of the Company Disclosure Schedule, no broker, finder, investment banker, or any other third party is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or the Transaction Documents based upon arrangements made by or on behalf of the Acquired Companies.

3.15 Employment Matters.

(a) Section 3.15(a) of the Company Disclosure Schedule contains (i) a complete list of the Business Employees, stating for each Business Employee the identity of the Acquired Company employing such employee and (ii) a true and complete list of all remuneration payable and other compensation and benefits provided which the Acquired Companies or any Company ERISA Affiliate (as defined below) is bound to provide (whether at present or in the future) to each such employee, or any Person connected with any such employee, and includes, if any, particulars of all profit sharing, equity compensation, incentive and bonus arrangements to which the Acquired Companies are a party, whether legally binding or not.

(b) For purposes of this Agreement, "Company Benefit Plan" means each deferred compensation and each bonus or other incentive compensation, stock purchase, stock option and other equity compensation plan, program, agreement or broad-based arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance and other "welfare" plan, fund or program (within the meaning of section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), whether or not subject to ERISA); each profit-sharing, stock bonus or other "pension" plan, insurance plans, education fund, provident fund or other similar fund or program (within the meaning of section 3(2) of ERISA, whether or not subject to ERISA); and each other employee benefit plan, fund, program, agreement or broad-based arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to or entered into by the Company or a Company Subsidiary or by any trade or business, whether or not incorporated ("Company ERISA Affiliate"), that together with the Company would be deemed a "single employer" within the meaning of section 4001(b) of ERISA, or to which the Company, a Company Subsidiary or a Company ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of the Company or any Company Subsidiary.

(c) Section 3.15(c) of the Company Disclosure Schedule contains an accurate and complete list of each Employment Agreement and each Company Benefit Plan. The Company has delivered or made available to Buyer (i) correct and complete copies of all documents embodying each Company Benefit Plan and each Employment Agreement including all amendments thereto and all related trust documents, (ii) the three (3) most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code in connection with each Company Benefit Plan, (iii) if the Company Benefit Plan is funded, the most recent annual and periodic accounting of Company Benefit Plan assets, (iv) the most recent summary plan description together with the summary(ies) of material modifications thereto, if any, required under ERISA with respect to each Company Benefit Plan, (v) all material written agreements and contracts relating to each Company Benefit Plan, including but not limited to administrative service agreements, group insurance contracts and stock award agreements or notices, (vi) all communications material to any employee or employees relating to any Company Benefit Plan and any proposed Company Benefit Plans, in each case, relating to any material amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events under any Company Benefit Plan which would result in any liability to the Acquired Companies or any Company ERISA Affiliate, (vii) all material correspondence to or from any governmental agency relating to any Company Benefit Plan, (viii) all COBRA forms and related notices, (ix) all policies pertaining to fiduciary liability insurance covering the fiduciaries for each Company Benefit Plan, (x) all discrimination tests for each Company Benefit Plan for the three (3) most recent plan years, (xi) the most recent IRS determination or opinion letter issued with respect to each Company Benefit Plan, (xii) visa and work permit information with respect to current Business Employees and (xiii) any change in control agreements. None of the Acquired Companies nor any Company ERISA Affiliate has any plan or commitment to establish any new Company Benefit Plan or Employment Agreement, to modify any Company Benefit Plan or Employment Agreement (except to the extent required by Law or to conform any such Company Benefit Plan or Employment Agreement to the requirements of any applicable Law, in each case as previously disclosed to Buyer in writing, or as required by this Agreement), or to adopt or enter into any Company Benefit Plan or Employment Agreement, except as permitted by Section 5.1(a) or 5.1(i).

(d) Each of the Acquired Companies and the Company ERISA Affiliates has performed in all material respects all obligations required to be performed by them under each Company Benefit Plan, and each Company Benefit Plan has been established and maintained in all material respects in accordance with its terms and in material compliance with all applicable laws, statutes, orders, rules and regulations, including but not limited to ERISA or the Code. All the Company Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received determination letters from the IRS after January 1, 2000 to the effect that such Company Benefit Plans are qualified and the plans and the trusts related thereto are exempt from federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, no such determination letter has been revoked and, to the Knowledge of Company, revocation has not been threatened, and no such Company Benefit Plan has been amended since the date of its most recent determination letter or application therefor in any respect, and no act or omission has occurred, that would reasonably be expected to result in the loss of its qualification. No "prohibited transaction," within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Company Benefit Plan. None of the Acquired Companies nor any Company ERISA Affiliate is subject to any penalty or tax with respect to any Company Benefit Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code. Each of the Acquired Companies and each Company ERISA Affiliate has timely made all contributions and other payments required by and due under the terms of each Company Benefit Plan. There are no actions, suits or claims pending, or, to the Knowledge of Company, threatened (other than routine claims for benefits) against any Company Benefit Plan or against the assets of any Company Benefit Plan. Except to the extent limited by applicable Law, each Company Benefit Plan can be amended, terminated or otherwise discontinued after the Closing Date in accordance with its terms, without material liability to the Acquired Companies or any Company ERISA Affiliates (other than ordinary administration expenses). There are no audits, inquiries or proceedings pending or, to the Knowledge of Company, threatened by the IRS or other Governmental Authority with respect to any Company Benefit Plan. No Company Benefit Plan has assets that include securities issued by an Acquired Company or a Company ERISA Affiliate. Each Employment Agreement and Consulting Agreement has been operated and administered in all material respects in accordance with its terms and applicable Law.

(e) None of the Acquired Companies nor any Company ERISA Affiliate has ever maintained, established, sponsored, participated in, or contributed to, any (i) Company Benefit Plan which is an "employee pension benefit plan," within the meaning of Section 3(2) of ERISA and is subject to Title IV of ERISA or Section 412 of the Code, (ii) such pension plan which is a "multiemployer plan," as defined in Section 3(37) of ERISA, (iii) "multiple employer plan" as defined in ERISA or the Code, or (iv) a "funded welfare plan" within the meaning of Section 419 of the Code. No Company Benefit Plan provides health benefits that are not fully insured through an insurance contract.

(f) None of the Acquired Companies nor any Company ERISA Affiliate has, in any material respect, violated any of the health care continuation requirements of the COBRA, the requirements of the Family Medical Leave Act of 1993, as amended, the requirements of the Health Insurance Portability and Accountability Act of 1996, the requirements of the Women's Health and Cancer Rights Act of 1998, the requirements of the Newborns' and Mothers' Health Protection Act of 1996, or any amendment to each such act, or any similar provisions of foreign and state laws applicable to Business Employees.

(g) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event (other than, in the case of clauses (i) and (ii) below, the termination of employment of a Continuing Employee by the Buyers following the Closing Date), (i) entitle any current or former employee, officer or director of the Company or any Company Subsidiary to severance pay, unemployment compensation or any other payment, (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee, officer or director, except, in the case of clauses (i) and (ii) above, (x) as required by applicable Law, (y) as set forth in Section 3.15(g) of the Company Disclosure Schedule or (iii) result in the payment of any "excess parachute payment" within the meaning of Section 280G of the Code (or any corresponding provision of applicable foreign and state Law). Other than the foregoing or as set forth in Section 3.15(g) of the Company Disclosure Schedule, there are no obligations of the Company or any Company Subsidiary to make severance payments in amounts which are materially greater than the amounts prescribed by applicable Law.

(h) Except as set forth in Section 3.15(h) of the Company Disclosure Schedule There are no pending or, to the Company's Knowledge, threatened, claims by or on behalf of any Company Benefit Plan, Employment Agreement or Consulting Agreement, by any employee or beneficiary covered under any such Company Benefit Plan, Employment Agreement or Consulting Agreement, or otherwise involving any such Company Benefit Plan, Employment Agreement or Consulting Agreement (other than routine claims for benefits).

(i) Except with respect to Israeli Company Employees (which employees are addressed in Section 3.15(k) below): and except as set forth in Section 3.15(i) of the Company Disclosure Schedule: (i) the Company and the Company Subsidiaries are, and have been at all times, in compliance with all applicable federal, state and local Laws, rules and regulations (including without limitation the National Labor Relations Act) as well as any national, industry or company collective agreement, order or award, respecting employment, pension and social security, employment practices, terms and conditions of employment, wages and hours and occupational health and safety and are not engaged in any unfair labor practices; and (ii) within the past five years there have not been nor are there any pending administrative charges, arbitration proceedings, or lawsuits brought by or on behalf of any current or former employee or group of current or former employees against the Company or any of the Company Subsidiaries. Neither the Company nor any Company Subsidiary is now, nor during the last five years has been, the subject of any complaint, charge, investigation, audit, suit or other legal process with respect to any of its/their employees, independent contractors or consultants by a Governmental Authority. None of the employees of the Company or any Company Subsidiary (in their capacities as such) is, or within the last five years has been, the subject of a representation petition before the National Labor Relations Board or any other Governmental Authority.

(j) Within the past five years, except with respect to Israeli Company Employees (which employees are addressed in Section 3.15(k) below), (i) no work stoppage or labor strike against the Company or any Company Subsidiary has occurred, is pending or, to the Knowledge of the Company, threatened; (ii) neither the Company nor any Company Subsidiary has had to their Knowledge any activities or proceedings of any labor union to organize any employees of the Company or any Company Subsidiary; and (iii) neither the Company nor any Company Subsidiary has been or is a party to, or bound by, any collective bargaining agreement or union contract and no collective bargaining agreement is being negotiated by the Company or any Company Subsidiary.

(k) All employees of the Company are listed in Section 3.15(k) of the Company Disclosure Schedule (the "Israeli Company Employees"). For purposes of this Section 3.15, the term "Israeli Company Employee" shall be construed to include consultants and freelancers who devote a majority of their working time in Israel to the business of the Company or a Company Subsidiary (each of whom are identified in Section 3.15(k) of the Company Disclosure Schedule). With respect to the Israeli Company Employees except as set forth Section 3.15(k) of the Company Disclosure Schedule: (i) the Company is not a party to any collective bargaining contract, collective labor agreement or other contract or arrangement with a labor union, trade union or other organization or body involving any of the Israeli Company Employees, and the Company has not recognized or received a demand for recognition from any collective bargaining representative with respect to any of the Israeli Company Employees; (ii) the Company is in compliance with all applicable legal requirements and contracts relating to employment, employment practices, wages, bonuses, overtime payments, withholding requirements and other matters relating to compensation and terms and conditions of employment with respect to the Israeli Company Employees; (iii) all of the Israeli Company Employees are subject to termination upon up to thirty (30) days prior written notice under the termination notice provisions included in employment agreements or applicable law; (iv) Company's obligations to provide statutory severance pay to the Israeli Company Employees pursuant to the Severance Pay Law (5723-1963) are fully funded or accrued on the Company's Financial Statements and (v) there are no pending administrative charges, arbitration proceedings, or lawsuits brought by or on behalf of any current or former Israeli Company Employee or group of current or former Israeli Company Employees against the Company or any of the Company Subsidiaries.

(l) Other than as set forth on Section 3.15(k) of the Company Disclosure Schedule, (i) neither the Company nor any Company Subsidiary engages any Israeli employees whose employment would require special licenses or permits and (ii) there are no unwritten Company policies or customs that, by extension, could entitle Israeli Company Employees to benefits in addition to what they are entitled by Law or under the terms of employment agreements (including, by way of example but without limitation, unwritten customs or practices concerning the payment of statutory severance pay when it is not legally required).

(m) All individuals who are or were performing consulting or other services for the Business are or were correctly classified by the Acquired Companies as either "independent contractors" or "employees," as the case may be. Section 3.15(m) of the Company Disclosure Schedule contains an accurate and complete list of each Consulting Agreement, stating the identity of the Acquired Company which has engages such Consultant. The Company has delivered to Buyer correct and complete copies of all documents embodying each Consulting Agreement, including all amendments thereto.

3.16 Product Warranties. (a) Each Product, including software, manufactured, sold, licensed, leased, or delivered by each of the Acquired Companies (or by a third party on their behalf) has been in conformity with all applicable contractual commitments and all express and implied warranties with respect to such Products, (b) no Product manufactured, sold, licensed, leased, or delivered by the Acquired Companies (or by a third party on their behalf) is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale, license, or lease or beyond that implied or imposed by applicable Law, except for warranties extended for no more than 2 years beyond such standard warranty term of up to 1 year. Copies of the standard terms and conditions of sale, license, or lease for the Products of the Acquired Companies have been delivered to Buyer.

3.17 User Data. Each of the Acquired Companies is in compliance with all applicable laws, regulations, orders, contracts, its policies and any other commitments, obligations or representations concerning privacy and personal data protection relating to its employees, customers, suppliers, service providers, or any other third parties from or about whom such Acquired Company has obtained personal data ("Privacy Obligations"). No Privacy Obligations will impose any restrictions upon Buyers' ability to use, possess, disclose or transfer such personal data in the manner that each of the Acquired Companies has used, possessed, disclosed or transferred such or similar personal data during its use prior to Closing. None of the Acquired Companies has any notice of any claims or alleged claims that any of them have violated Privacy Obligations and to the Company's Knowledge, no governmental agency is investigating to determine whether any of the Acquired Companies has violated any Privacy Obligations.

3.18 Relationships with Related Persons. Except as set forth and identified in Section 3.18 of the Company Disclosure Schedule, (i) there are no Contracts or other transactions between any of the Acquired Companies, on the one hand, and any director or executive officer of any of the Acquired Companies or any of their respective Affiliates, on the other hand; (ii) there are no Contracts or other transactions between any of the Acquired Companies, on the one hand, and Parent, the Excluded Subsidiaries or any of the Additional Sellers, on the other hand; (iii) no Affiliate of any of the Acquired Companies (other than the Company or any Company Subsidiary) is a distributor, supplier, vendor, customer, client, lessor, licensor, debtor, creditor, competitor or service provider to the any of the Acquired Companies, (iv) no director or executive officer of any of the Acquired Companies or any of their respective Affiliates has any interest in any of the assets or properties of any of the Acquired Companies, and (v) there are no other Contracts, transactions, arrangements or agreements of the type listed in Section 270 of the Israeli Companies Law to which any of the Acquired Companies is a party, other than, in any instance, with respect to compensation paid to officers or directors of any of the Acquired Companies.

3.19 Grants, Incentives and SubsidiesSection 3.19 of the Company Disclosure Schedule provides a complete list of all grants, incentives and subsidies (collectively, "Grants") from the Government of the State of Israel or any agency thereof, or from any foreign governmental or administrative agency, granted to any of the Acquired Companies, including, without limitation, (i) "Approved Enterprise"from the Investment Center (an "Approved Enterprise") within the definition of the Law for the Encouragement of Capital Investments (1959), as amended, and (ii) grants from the OCS. The Company has delivered to Buyer, prior to the date hereof, correct copies of all letters of approval (and other correspondence that evidences changes to the terms of such letters of approval) under which such Grants were granted to the Acquired Companies. Without limiting the generality of the foregoing, Section 3.19 of the Company Disclosure Schedule includes the aggregate amounts of each Grant, and the aggregate outstanding obligations thereunder of each of the Acquired Companies with respect to royalties, or the outstanding amounts to be paid by the OCS to the Company or any Company Subsidiary. Each of the Acquired Companies is in compliance with the terms and conditions of their respective Grants and, except as disclosed in Section 3.19 of the Company Disclosure Schedule hereto, have duly fulfilled all the undertakings relating thereto required to be fulfilled prior to the date hereof. To the Knowledge of the Company, the OCS has not notified the Company that it intends to revoke or materially modify any of the Grants or that it believes that the Acquired Companies are not in compliance with the terms of any Grant. The Company's research and development activities outside of Israel as presently conduct have not and are not reasonably expected to cause the Company to lose its qualification as an Approved Enterprise or cause any of the Company's income to fail to be eligible for the reduced Tax rates applicable to Approved Enterprises.

3.20 Foreign Corrupt Practices Act. The activities of each of the Acquired Companies and their respective officers, directors and employees has complied, and the operations, including the Business, of each of the Acquired Companies has complied, with all applicable laws governing corrupt or illicit business practices, including, without limitation, laws dealing with improper or illegal payments, gifts or gratuities or the payment of money or anything of value directly or indirectly to any person (whether a government official or private individual) for the purpose of illegally or improperly inducing any person or government official, or political party or official thereof, or any candidate for any such position, in making any decision or improperly assisting any person in obtaining or retaining business or taking any other action favorable to such person, or dealing with business practices in relation to investments outside of the United States (including, by way of example, if applicable, the U.S. Foreign Corrupt Practices Act, as amended).

3.21 Hedging Transactions Except as set forth in Section 3.21 of the Company Disclosure Schedule, no Acquired Company has entered into any hedging transaction or arrangement.

3.22 Receivables; Bank Accounts.

(a) All receivables of each of the Acquired Companies represent valid third party obligations arising from third party sales actually made or services actually performed, and are recognized as receivables in accordance with GAAP. None of the Acquired Companies is required under GAAP to write-off as uncollectible any notes, accounts receivable or other assets, except write-offs in the ordinary course of business charged to applicable reserves (which reserves are adequate and appropriate in amount) or which are immaterial in amount, and, to the Company's Knowledge, no facts or circumstances exist that could, individually or taken together, reasonably be expected to result in the Acquired Companies becoming required under GAAP to write-off as uncollectible any notes, accounts receivable or other assets, in excess of existing reserves, except write-offs which, individually or in the aggregate, would be immaterial in amount.

(b) Section 3.22(b) of the Company Disclosure Schedule sets forth a complete and accurate list of (i) all bank accounts, investment accounts, lock boxes and safe deposit boxes maintained by or on behalf of each of the Acquired Companies, including the location and account numbers of all such bank accounts, investment accounts, lock boxes and safe deposit boxes, (ii) the names of all Persons authorized to take action with respect to such bank accounts, investment accounts, lock boxes and safe deposit boxes or who have access thereto, and (iii) the names of all Persons holding general or special powers of attorney from the Acquired Companies.

3.23 Inventory. All Inventory of each of the Acquired Companies used in the conduct of the Business reflected on the Financial Statements or acquired since the date thereof was acquired and has been maintained in the ordinary course of business; is of good and merchantable quality; consists substantially of a quality, quantity and condition useable, leasable or saleable in the ordinary course of business. Section 3.23 of the Company Disclosure Schedule hereto sets forth allowances by the Company for a reserve for excess and obsolete Inventory.

3.24 Insurance. Section 3.24 of the Company Disclosure Schedule contains a complete and accurate list and description of all of the Acquired Companies' insurance policies currently in effect including the Acquired Companies' liability insurance policies currently in effect with expiration dates, including whether such policies are "occurrence" or "claims made", of all workers' compensation arrangements and of all hazard and property insurance policies of the Acquired Companies currently in effect, all such insurances from financially sound and reputable insurers and which the Company reasonably believes are of the type and in amounts customarily carried by Persons conducting businesses similar to those of the Acquired Companies. Complete copies of each such insurance policy or arrangement and its attachments have been delivered to the Buyer prior to the execution of this Agreement. Such insurance policies or arrangements are valid, outstanding and enforceable and all premiums with respect thereto which have become due have been paid. Each of the Acquired Companies has given timely notice to the insurer under each insurance policy of all claims that may be insured thereby. Neither the Company nor any Company Subsidiary has received any notice that any insurance policy is not in full force and effect, and to the Knowledge of the Company there does not exist any event, circumstance or condition (including the Transaction) that would cause (or would be reasonably likely to cause) any such insurance policy not to be in full force and effect. Except as set forth in Section 3.24 of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary has received during the past three years from any insurance carrier to which it has applied for any insurance or with which it has carried any insurance (i) any refusal of coverage or notice of limitation of coverage or any notice that a defense will be afforded with reservation of rights or (ii) any notice of cancellation or any other indication that any insurance policy is no longer in full force or effect or will not be reviewed or that the issuer of any insurance policy is not willing or able to perform its obligations thereunder. To the Knowledge of the Company no termination of, or premium increase, has been threatened with respect to, any of such policies.

3.25 Full Disclosure. The representations and warranties made by the Company (as modified by the Company Disclosure Schedule) in this Agreement, and the statements made in any exhibit, schedule or certificate furnished by the Company pursuant to this Agreement and taken as a whole, do not contain, or will not contain at the Closing Date, any untrue statement of a material fact, or omit or will omit at the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES OF BUYER

The Buyer represents and warrants to the Company that each of the statements contained in this ARTICLE 4 (including any Schedules hereto) is true and correct as of the date hereof and will be true and correct at and as of the Closing Date, as follows:

4.1 Organization. Each of the Buyers is, or will be prior to the Closing, a corporation duly organized, validly existing and is in good standing under the laws of the jurisdiction of its incorporation. Each of the Buyers has, or will have prior to the Closing, all requisite corporate power and authority to carry on its business as it is currently conducted and to own, lease and operate its properties where such properties are now owned, leased or operated.

4.2 Authority. Each of the Buyers, or will have prior to the Closing, has all requisite corporate power and authority to execute and deliver each Transaction Document delivered or to be delivered by the Buyers, as applicable, and to perform all of its obligations hereunder and thereunder. The execution, delivery and performance by each of the Buyers of each Transaction Document delivered or to be delivered by the Buyers, as applicable, and the consummation by the Buyers of the Transaction have been or will be duly authorized by all necessary and proper action on the part of the Buyers, respectively. This Agreement has been duly executed and delivered by the Buyer and, assuming the due authorization, execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Buyer, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights in general or by general principles of equity. Each other Transaction Document to be delivered by each of the Buyers will be duly executed and delivered by each of the Buyers and, when so executed and delivered, will constitute the legal, valid and binding obligation of the Buyers, enforceable against the Buyers in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights in general and by general principles of equity.

4.3 Noncontravention. Subject to the receipt of all required regulatory, administrative and Governmental Authorities and Consents, none of the execution, delivery or performance by the Buyers of any Transaction Document or the consummation by the Buyers of the Transaction does or will, with or without the giving of notice or the lapse of time or both, conflict with, or result in a breach or violation of, or a default under (i) the respective organizational documents of the Buyers, (ii) any applicable Law, or (iii) contravene, conflict with or result in a violation of, or result in a default under, or result in the acceleration or cancellation of any obligation under, or give rise to a right by any person to terminate, cancel, modify or amend in any respect its obligations under any Contract to which any of the Buyers is a party or by which any of them or their properties or assets are bound, (iv) or give any Governmental Authority or other Person the right to challenge the Transaction or to exercise any remedy or obtain any relief under, any legal requirement or any order, writ, injunction, judgment or decree to which the Buyers, or any of the assets owned or used by the Buyers, is subject, (v) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Authority the right to revoke, withdraw, suspend, cancel, terminate, modify or exercise any right or remedy or require any refund or recapture with respect to, any Grant or benefit given by any Governmental Authority or under applicable Law (or any benefit provided or available thereunder) or other permit, license, consent, authorization, Grant, benefit, or right that is held by any of the Buyers, (v) result in the imposition, creation or crystallization of any Lien upon or with respect to any asset or property owned, leased or used by the Buyers, or (vi) with the passage of time, the giving of notice, or the taking of any action by a third person, or any combination thereof, have any of the effects set forth in clauses (i) through (vi) of this Section, except, in each case, for such contraventions, conflicts, violations, breaches, accelerations, cancellations, revocations, withdrawals, suspensions, terminations, modifications, rights, remedies or Liens, which individually or in the aggregate would not delay, hinder or impair any of the Transactions.

4.4 Approvals. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority, is required by or with respect to any of the Buyers in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (A) the approvals set forth in Section 3.2(b), (B) the requirements of any Governmental Authority under applicable competition, antitrust or foreign investment or trade regulatory Laws, including the applicable requirements of the HSR Act, and (C) the approval, if applicable, of the Israeli Commissioner of Restrictive Trade Practices to the extent required pursuant to the Restrictive Trade Practices Act.

4.5 Available Funds. The Buyer has sufficient funds to enable it to consummate the Transactions.

4.6 Litigation. There is no suit, Action, or legal, administrative, arbitration, or other proceeding or governmental investigation pending, or to the best knowledge of the Buyer, threatened, against or affecting any of the Buyers or any of their respective officers or managers in their respective capacities as such at law or in equity, or before any Governmental Authority, which seeks to, or could, delay, hinder or impair any of the Transactions.

4.7 Brokers. Except for Citigroup Global Markets Inc., no broker, finder, investment banker, or any other third party is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or the Transaction Documents based upon arrangements made by or on behalf of the Buyer.

ARTICLE 5. COVENANTS

5.1 Conduct of Business. Except as contemplated by this Agreement or consented to by Buyer in writing (which consent shall not be unreasonably withheld or delayed), during the period from the date hereof and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Closing Date, the Company shall, and shall cause each Company Subsidiary to, carry on its business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and in material compliance with all applicable Laws (including the making of payments to the Acquired Companies' suppliers, vendors, etc., as such become due), and with respect to incurring any expense, cost or liability solely in accordance with and as permitted under the Budget and Operating Plan or otherwise in the ordinary course of business consistent with past practice, and to use its commercially reasonable efforts consistent with past practices and policies to (i) preserve intact its present business organization, (ii) keep available the services of its present officers and management level employees and (iii) preserve its relationships with customers, suppliers, distributors, licensors, licensees, brokers, agents, creditors and others with which it has material business dealings. Without limiting the generality of the foregoing, except as contemplated by this Agreement, during the period from the date hereof and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Closing Date, and with respect to incurring any expense, cost or liability, not permitted under or inconsistent with the Budget and Operating Plan or otherwise in the ordinary course of business consistent with past practice, without the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed), the Company shall not and shall not permit any Company Subsidiary to (unless required by Law, in each case after consultation with counsel and, to the extent reasonably feasible, prior written notification of at least five (5) days to Buyer) to do any of the following:

(a) accelerate, amend or change the period of exercisability of options or restricted stock, or reprice options granted under any employee, consultant, director or other stock plans or authorize cash payments in exchange for any options granted under any of such plans, other than as set forth in Schedule 5.1(a);

(b) transfer or license exclusively to any Person or entity or otherwise extend, amend or modify any rights to the Transferred Intellectual Property, or enter into any agreements or make other commitments or arrangements to grant, transfer or license to any Person future rights to any Transferred Intellectual Property, in each case other than entering into, amending or modifying licenses in the ordinary course of business consistent with past practices;

(c) purchase, redeem or otherwise acquire, directly or indirectly, any shares of capital stock of any Company Subsidiary (other than the Additional Sellers), other than such actions as are required in order to consummate the Transaction and give effect to the provisions of Schedule 1.1 (a) and Schedule 1.1(c);

(d) issue, deliver, sell, authorize, pledge or otherwise encumber or propose any of the foregoing with respect to any shares of stock of any Company Subsidiary or any securities convertible into or exercisable or exchangeable for shares of stock of any Company Subsidiary (other than the Additional Sellers), or subscriptions, rights, warrants or options to acquire any such shares or any securities convertible into or exercisable or exchangeable for such shares, or enter into other agreements or commitments of any character obligating it to issue any such shares or convertible securities;

(e) cause, permit or propose any amendments to the Formation Documents;

(f) (i) acquire or agree to acquire any equity interest in or a portion of the assets or property of any Person or division thereof, (ii) otherwise acquire or agree to acquire all or substantially all of the assets of any of the foregoing, or enter into any joint ventures, strategic partnerships or alliances, or (iii) invest in any third party; all of the above, other than such actions with respect to the Company Subsidiaries and Excluded Subsidiaries as are required in order to consummate the Transaction and give effect to the provisions of Schedule 1.1(a) and Schedule 1.1(c);

(g) make any capital expenditure, except for capital expenditures which, on a quarterly basis, are not in excess of the average quarterly capital expenditures over the last three quarters of 2004;

(h) except in the ordinary course of business consistent with past practice, (i) sell, lease, mortgage, pledge, license, encumber, convey, assign, sublicense or otherwise dispose of or transfer any properties or assets, other than the sale, lease, licensing, encumbrance, conveyance, assignment, sublicensing or disposition of property or assets in any single transaction or series of related transactions having a fair market value not in excess of an aggregate amount of $50,000, (ii) materially modify, amend or terminate any existing material lease, license or Contract affecting the use, possession or operation of any such properties or assets, or (iii) grant or otherwise create or consent to the creation of any material easement, covenant, restriction, assessment or charge affecting any owned real property or leased real property or any material part thereof;

(i) (i) except pursuant to Company Benefit Plans in existence prior to the date hereof, adopt or amend any material Company Benefit Plan, or (ii) enter into any agreement providing for the employment or consultancy of any person on a full-time, part-time, consulting or other basis or otherwise providing compensation or other benefits to any officer, director, employee or consultant, if the compensation to be paid and payable on an annualized basis to such person (x) will exceed $100,000 or (y) together with the compensation to be paid and payable on an annualized basis to all other such persons hired on or after the date hereof, will increase the Company's annual payroll as compared to its annual payroll as of the date of this Agreement by more than $1,000,000, and other than offer letters and agreements that are entered into in the ordinary course of business consistent with past practice with employees who are terminable "at will" with no longer than 30 day termination notice, and who are not officers of the Company, or amend any Employment Agreement; (iii) increase the salaries or wage rates or fringe benefits (including granting or increasing rights to severance or indemnification) (other than increases in the ordinary course of business consistent with past practice or as required by any existing employment agreement or collective bargaining agreements) of its directors, officers, employees or consultants except, in each case, as may be required by Law or any existing Company Benefit Plan; (iv) layoff any employee who is either a Key Employee or with the title of Vice President or higher of the Company or any Company Subsidiary (except for termination for "cause") or effect any reduction (which is material with respect to the Company's operations in a particular country) in workforce; or (v) enter into, or perform, any transaction (other than an immaterial transaction) with or for the benefit of any officer, director or other affiliate of the Company or any Company Subsidiary (other than in the ordinary course of business or pursuant to the agreements set forth in Section 3.18 of the Company Disclosure Schedule); provided however that notwithstanding the above, the Company may grant employees a special bonus in connection with the Transaction contemplated hereunder.

(j) modify, amend or terminate, in any material respect, any Contract or waive, delay the exercise of, release or assign any material rights or material claims thereunder;

(k) except as required by Law or by GAAP, revalue any of its assets or make any material change in accounting methods, principles or practices;

(l) enter into, renew or modify any Contracts that, had they been executed on or as of the date hereof, would have been required to be listed in Section 3.6 of the Company Disclosure Schedule;

(m) (i) except as required by Law or by any Governmental Authority, or as set forth in Section 5.1(m) of the Company Disclosure Schedule make any material Tax election or Tax accounting method change, or (ii) consent to any extension or waiver of any limitation period with respect to Taxes or (iii) other than in consultation in good faith with Buyer or as explicitly provided herein, engage in any discussions with any Tax authority relating to any Tax ruling, whether or not initiated prior to the execution of this Agreement;

(n) [reserved]

(o) pay, discharge, compromise, satisfy, cancel or forgive any debts or claims or rights (or series of rights, debts or claims) involving, individually or in the aggregate, consideration in excess of $50,000 except for regularly scheduled repayments under existing indebtedness;

(p) settle or compromise any pending or threatened suit, Action or claim which is material or which relates to the transactions contemplated hereby;

(q) apply for or accept any grants or other funding from the OCS or any other Governmental Authority, other than under currently outstanding applications disclosed on Section 3.19 of the Company Disclosure Schedule, or take any action or fail to take any action in material violation of, or that would adversely affect the terms and conditions of any grants or benefits received or receivable from any Governmental Authority, including without limitation the OCS and the Investment Center; or

(r) agree or commit to take any of the actions described in Sections 5.1(a) through 5.1(q) other than in accordance with the Budget and Operating Plan and in the amounts set forth therein.

Subject to compliance with applicable Law, from the date of this Agreement until the earlier of the termination of this Agreement in accordance with its terms or the Closing Date, the Company shall confer on a regular basis with one or more representatives of Buyers to report on operational matters that are material and other matters reasonably requested by Buyers. The Company shall promptly provide the Buyer with all filings made with any Governmental Authority in connection with this Agreement, the Transaction and the transactions contemplated hereby.

5.2 Investigation of the Company's Business by the Buyers. From the date hereof through the Closing Date, the Company will provide to the Buyers and their Representatives reasonable access during normal business hours to the properties, books, records, employees and Representatives of the Acquired Companies to make or cause to be made such investigation of the Acquired Companies and of the assets and liabilities and financial and legal condition of the Acquired Companies as the Buyers deems necessary or advisable, provided that any such investigation shall not interfere unnecessarily with normal operations of the Acquired Companies. The Company will furnish to the Buyers and their Representativessuch financial and operating data and other information with respect to the Acquired Companies and the assets and Liabilities of the Acquired Companies as the Buyers shall from time to time reasonably request. All information obtained by or on behalf of the Buyers pursuant to this Section shall be kept confidential in accordance with the provisions of the Non Disclosure Agreement, dated January 28, 2005, between the Company and the Buyer (the "NDA").

5.3 Commercially Reasonable Efforts.

(a) Subject to the terms and conditions of this Agreement and applicable Law, the Company and the Buyers will use their commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable Laws and regulations or otherwise to consummate and make effective the Transaction as soon as practicable, including such actions or things as any other party hereto may reasonably request in order to cause any of the conditions to such other party's obligation to consummate such transactions specified in ARTICLE 6 to be fully satisfied including without limitation (i) make all filings required by Law to be made by them in connection with the Transaction Documents or the consummation of the Transaction, and (ii) use their commercially reasonable efforts to obtain all Consents and orders of all Persons required to be obtained in connection with the execution, delivery and performance of the Transaction Documents and the consummation of the Transaction;.

(b) From time to time, as and when requested by any party to this Agreement, the other parties will execute and deliver, or cause to be executed and delivered, all such documents and instruments and will take, or cause to be taken, all such reasonable actions, as such other party may reasonably deem necessary or desirable to consummate the Transaction.

(c) Company will use its best efforts to fully identify to the Buyer and list in writing prior to the Closing which Company or Company Subsidiary is the owner of each item of Transferred Intellectual Property, and which item of Transferred Intellectual Property is related to ink manufactured in Israel and which item of Transferred Intellectual Property is related to ink manufactured in South Africa.

(d) Notwithstanding anything to the contrary contained in this Agreement, to the extent the sale, assignment, transfer, conveyance or delivery or attempted sale, assignment, transfer, conveyance or delivery to the Buyers of any Acquired Asset is prohibited by any applicable Law or would require any Governmental Authority or third-party authorizations, approvals, consents, or waivers and such authorizations, approvals, consents or waivers shall not have been obtained prior to the Closing Date, and the obtaining thereof is not a condition to the Closing, then following the Closing, and without limiting the provisions set forth in ARTICLE 5, the Company shall be deemed to hold the respective Acquired Asset and all rights and privileges with respect thereto as a trustee for the sole benefit of the Buyers and shall manage such Acquired Asset solely in accordance with instructions of the Buyers, and the parties shall use their respective commercially reasonable efforts, and cooperate with each other, to obtain promptly such authorizations, approvals, consents or waivers, including without limitation such Consents set forth in Schedule 5.3 (d). Pending such authorization, approval, consent, or waiver, (i) the parties shall cooperate with each other in any reasonable and lawful arrangements designed to provide to the Buyers the benefits of use of such Acquired Asset, and (ii) the Buyers shall bear all costs and expenses and Losses relating to the maintenance of such Acquired Asset. Once such authorization, approval, consent or waiver for the sale, assignment, transfer, conveyance or delivery of an Acquired Asset not sold, assigned, transferred, conveyed or delivered at the Closing is obtained, the Company shall promptly assign, transfer convey or deliver, or cause to be assigned, transferred, conveyed and delivered, such Acquired Asset to the Buyers for no additional consideration. To the extent that any such Acquired Asset cannot be transferred or the full benefits of use of any such Acquired Asset cannot be provided to the Buyers following the Closing, the Buyers and the Company shall enter into such arrangements for no additional consideration from the Buyers (including subleasing or subcontracting if permitted) to provide to the Buyers the operational equivalent of obtaining such authorization, approval, consent or waiver. Without limitation of the foregoing, in the event that at the Closing the registration of any Transferred Intellectual Property in the name of the Buyers at the relevant Governmental Authority was not yet completed and perfected then without limitation of any other rights of the Buyers, to the extent necessary to grant to the Buyers full and unrestricted use of such Transferred Intellectual Property, the Company hereby grants to the Buyers, effective as of the Closing and subject to any Third Party Licenses, an irrevocable, perpetual, royalty free, fully paid, worldwide, unrestricted, exclusive license to make any use or exploitation with respect thereto, including without limitation the right to grant sublicenses. In the event that any Acquired Asset was not duly transferred or assigned to the Buyers or its Affiliates at the Closing, and notwithstanding, the Closing was completed, then the Company shall take any action after the Closing, as reasonably requested by Buyers, to allow Buyers to enforce any rights or privileges of the Company under or with respect to such Acquired Assets, including pursuit of legal proceedings, solely for the benefit of and at the expense of Buyers, and the Company shall fully cooperate with Buyers in order to allow Buyers to achieve the desired result in this regard.

(e) To the extent possible and without additional cost to the Company, Company will add Buyer as beneficiaries to all insurance policiesof the Company related to the Acquired Assets or the Transferred Intellectual Property which stay in force and effect following the Closing Date (the "Business Insurance Policies"), provided the insurance company waives any right it might have against the Company for subrogation. In case Buyer is not added as a beneficiary to a Business Insurance Policy, Buyer shall be entitled to benefit from the rights of the Company under such Business Insurance Policies, and the Company shall take all commercially reasonable actions, at the reasonable direction of Buyer, in order to receive any amounts that are owed under any Business Insurance Policies related to Acquired Assets or the Transferred Intellectual Property. For avoidance of doubt, no Business Insurance Policy shall be required to be maintained after its currently scheduled expiration. All expenses incurred by the Company with respect to the foregoing, including reasonable fees for the time spent by the Company's employees, shall be borne and paid by Buyer, except that if proceedings for collection of funds under the Business Insurance Policy relate also to funds that are due to the Company with respect to any Excluded Assets or Excluded Liabilities, than such expenses shall be borne by the Company and Buyer pro rata based on the amount of insurance proceeds actually paid to each party.

(f) The Acquired Companies shall cooperate with Buyer in the review of regulatory matters affecting the Acquired Companies and, in particular, upon the reasonable request of Buyer, shall take such actions, implement such registrations, submit such permit applications and seek such approvals as may be required by Environmental Laws to ensure that the Acquired Companies and their products are in compliance with all Environmental Laws as of, and immediately after, the Closing in all countries in which those products are sold as of the Closing. The Company shall instruct the employee of the Company named in Schedule 5.3(f) to serve as the primary contact person during the period prior to the Closing for the Buyer on all matters related to compliance with Environmental Laws.

(g) Effective at the Closing, the Company and the Additional Sellers hereby constitute and appoint Buyers the true and lawful attorneys (separately and jointly) of the Company and the Additional Sellers, with full power of substitution, in the name of the Company, the Additional Sellers or Buyers, but on behalf of and for the benefit of Buyers and at Buyers' cost and expense: (i) to demand and receive from time to time any and all the Acquired Assets and to make endorsements and give receipts and releases for and with respect to the same and any part thereof; (ii) to institute, prosecute and settle any and all actions or proceedings that Buyers may deem proper in order to collect, assert or enforce any claim, right or title of any kind in or to the Acquired Assets; (iii) to defend or settle any or all actions or proceedings with respect to any of the Acquired Assets (other than actions or proceedings which the Company acknowledges and agrees in a written instrument signed by the Company and delivered to Buyers constitute Excluded Liabilities); and (iv) to do all such acts and things in relation to the matters set forth in the preceding clauses (i) through (iii) as Buyers shall deem necessary or desirable. The Company and the Additional Sellers hereby acknowledge that the appointment hereby made and the powers hereby granted are coupled with an interest and are not and shall not be revocable by it in any manner or for any reason. The Company and the Additional Sellers shall deliver to Buyers at the Closing an acknowledged power of attorney to the foregoing effect executed by the Company. Without limiting the foregoing, in the event that the Company or the Additional Sellers receive, at any time after the Closing, any payments related to the Business (including without limitation from any customer or under any Contract), the Company or the Additional Seller, as the case may be, shall promptly transfer such payment to the Buyer (or any Buyer Affiliate designated by Buyer). In the event that Buyer or any of its Affiliates receive, at any time after the Closing, any payments related solely to an Excluded Asset and not to the Business, the Buyer or any such Buyer Affiliate, as the case may be, shall promptly transfer such payment to the Company.

(h) In the event that during the period of 24 months following the Closing, any of the Buyers discover any Contract, Software, Copyright, Trademark or other item of Intellectual Property or other asset owned by the Company or an Additional Seller as of the Closing and used in conducting the Business prior to Closing (an "Additional Asset"), which is not included in the Acquired Assets or the Transferred Intellectual Property, then Buyers may request the Company or such Additional Seller in writing to license or transfer such Additional Asset, as applicable under this Section, to Buyers in accordance with the provisions hereunder, as if such item had been identified as an Acquired Asset or Transferred Intellectual Property under this Agreement, for no additional consideration. As soon as practicable after receipt by the Company, or such Additional Seller, from the Buyers of such request as aforesaid, the Company, or such Additional Seller, shall provide written confirmation (unless the Company, or such Additional Seller, in good faith believes that such Additional Asset should not be so treated) and, such item shall be deemed to have been transferred or licensed as described in this Section. If the Company or any Additional Seller so discovers any such Additional Asset, it shall notify Buyers and, at Buyers' written request, the Company or such Additional Seller shall be deemed to have licensed or transferred such Additional Asset to Buyers in accordance with the terms of this Section.

(i) Without limiting the foregoing, from and after the Closing Date, the Company and the Additional Sellers shall (at its own expense) use commercially reasonable efforts to do all things necessary, proper or advisable under applicable Laws, including signing and delivery any documents and instruments, as reasonably requested by the Buyers to put the Buyers in effective and registered possession, ownership and control of the Acquired Assets. No party nor any of its subsidiaries shall take any action that is intended to have the effect of, or is reasonably expected to have the effect of, delaying, impairing or impeding the receipt of any required approvals or the satisfaction of any condition in ARTICLE 6.

(j) Without limiting the foregoing, from and after the Closing, the Buyer shall provide the Company with commercially reasonable assistance, cooperation, access to personnel and information (at the expense of the requesting party) as reasonably requested by the Company in order to comply with any applicable Law or to defend against any claim that constitutes an Excluded Liability. Any information obtained under this Section 5.3(j) will be kept confidential as contemplated by Section 5.6 hereof, except as may be otherwise necessary in connection with any filing with any Governmental Authority pursuant to applicable Law.

(k) The Company shall use its best efforts, prior to the Closing, register any and all data bases required to be registered by it under applicable Law with the Israeli Registrar of Data Bases.

(l) Anything contained in this Agreement to the contrary notwithstanding, none of the parties to this Agreement or their Affiliates will be required to commence litigation or divest or hold separate any business or assets or limit or restrict its rights or ability to engage in any business (other than pursuant to Section 5.5) in connection with the consummation of the Transaction.

5.4 Non-Solicitation of Employees. For a period of two years from and after the Closing Date, without the prior written consent of the Buyer, the Company and its Controlled Affiliates will not solicit, hire or retain as an employee, independent contractor or consultant, any person employed by an Acquired Company on the date hereof or on the Closing Date and will not, and will cause its Controlled Affiliates not to, during such period, induce or attempt to induce any such employee to terminate his or her employment with an Acquired Company or the Buyers by resignation, retirement or otherwise. The term "solicit, hire or retain" shall not be deemed to include generalized searches for employees through media advertisements that are not focused on individuals that are employed by the Buyers or any of their Affiliates or successors.

5.5 Non-Compete.

(a) For a period of three years after the Closing Date, the Company and its Controlled Affiliates will not, directly or indirectly (on their own behalf or in the service or on behalf of others), without the written consent of the Buyer, enter into, engage in, manage, operate, control, invest or acquire any interest in, or otherwise engage or participate in, or own any beneficial interest in, any business engaged directly or indirectly in the Business, wherever located.

(b) The Buyers and the Company agree that, if any provision of this Section 5.5 should be adjudicated to be invalid or unenforceable, such provision shall be deemed deleted herefrom with respect, and only with respect, to the operation of such provision in the particular jurisdiction in which such adjudication was made; provided, however, that to the extent any such provision may be made valid and enforceable in such jurisdiction by limitations on the scope of the activities, geographical area or time period covered, the Buyers and the Company agree that such provision instead shall be deemed limited to the extent, and only to the extent, necessary to make such provision enforceable to the fullest extent permissible under the Laws and public policies applied in such jurisdiction.

(c) The covenants contained in this Section 5.5 shall be construed and enforced independently of any other provision of this Agreement or any other understanding or agreement between the Buyers and the Company, and the existence of any claim or cause of action of the Company against the Buyers, of whatever nature, shall not constitute a defense to the enforcement against the Company of the covenants contained in this Section 5.5.

5.6 Confidential Information.

(a) From and after the Closing Date, to the maximum extent permitted by applicable Law, all technical, marketing and other information relating to or included in the Acquired Assets, the Business or the Business Information shall at all times be and remain the sole and exclusive property of the Buyers, and the Buyers may freely use, disclose, transfer, sell or assign such information. At all times after the Closing Date, the Company and its directors, officers, employees, agents and Representatives shall maintain in strictest confidence, and shall not disclose to third parties or use for their benefit or for the benefit of any third party, any and all non public information concerning the Buyers, the Acquired Assets, the Business and the Business Information, except as may be required by Law.

(b) In the event that the Company, or any of its Affiliates or Representatives are required by Law to disclose any such information, the Company will promptly notify the Buyers in writing, to the extent possible under the circumstances pursuant to Law, so that the Buyers may seek a protective order or other motion to prevent or limit the production or disclosure of such information. If such motion has been denied, has not been promptly prosecuted or is pending and unresolved at the time disclosure of such information is required by Law, then the Person required to disclose such information may disclose only such portion of such information which (i) based on advice of such Person's outside legal counsel is required by Law to be disclosed (provided that the Person required to disclose such information will use all reasonable efforts to preserve the confidentiality of the remainder of such information) or (ii) the Buyer consents in writing to having disclosed. Such Person will not, and will not permit any of its Affiliates or its or their Representatives to, oppose any motion for confidentiality brought by the Buyer or any Acquired Company. Such Person will continue to be bound by its obligations pursuant to this Section 5.6 for any information that is not required to be disclosed, or that has been afforded protective treatment, pursuant to such motion.

(c) Without limitation of the foregoing, the NDA shall continue to be in full force and effect at any time after the date hereof.

5.7 Notification of Certain Matters. Between the date of this Agreement and the earlier of the Closing or termination of this Agreement, Buyers, on the one hand, and the Company, on the other hand, shall give prompt notice to the other of: (a) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of such party contained in this Agreement to be untrue or inaccurate at or prior to the Closing, and (b) any failure of such party to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder. Notwithstanding anything in the immediately preceding sentence to the contrary, the delivery of any notice pursuant to this Section 5.7 shall not (i) limit or otherwise affect any remedies available to the party receiving such notice or (ii) constitute an acknowledgment or admission of a breach of this Agreement. No disclosure by any party pursuant to this Section 5.7shall be deemed to amend or supplement the Company Disclosure Schedule or prevent or cure any misrepresentation, breach of warranty or breach of covenant.

5.8 Public Announcements. Except for the joint announcement of the execution and delivery of this Agreement, the timing and content of which have been mutually agreed by the parties hereto, no party hereto shall issue any press release or otherwise make any public announcement with respect to this Agreement, the Transaction or the other transactions contemplated hereby without first consulting with the Buyer and the Company and providing such party with reasonable opportunity to review and comment upon such press release or public announcement. Notwithstanding the foregoing, if such an announcement is required by applicable Law or any listing agreement with a national securities exchange or quotation system (including Nasdaq or the Tel Aviv Stock Exchange) the party required to make such announcement shall (to the extent feasible under the circumstances) (i) provide notice to and a copy of such as promptly as practicable in advance of such announcement and, use all reasonable efforts to consult with the other party and take the views of the other party with respect to such announcement into account prior to making such announcement.

5.9 Exclusive Dealings. Between the date hereof and the earlier of the Closing and the termination of this Agreement, the Company shall not (and the Company shall use reasonable efforts to cause its Representatives not to), directly or indirectly, take any of the following actions with any party other than the Buyers and their designees: (i) solicit, knowingly encourage, initiate or participate in any negotiations or discussions with respect to, any offer or proposal to acquire or license all or substantially all, or a significant portion, of Company's business, technologies or properties or any of Company's equity whether by merger, purchase of assets, equity purchase (including convertible securities), license, tender offer or otherwise (including any option or right with respect to any of the foregoing), or enter into any agreement providing for, or effect, any such transaction, (ii) disclose any information not customarily disclosed in the ordinary course of business to any person concerning Company's business, technologies or properties or afford to any person or entity including, but not limited to, financing parties (other than Bank Hapoalim B.M. and Bank Discount, in connection with existing requirements), access to its properties, books or records, (iii) assist or cooperate with any person to (x) make any proposal to purchase all or any portion of Company's equity or (y) license all or any material portion of Company's assets, or (iv) enter into any agreement or arrangement with any person providing for the acquisition or licensing of all or any significant portion of Company (whether by way of merger, purchase of assets, equity purchase, license, tender offer or otherwise). In the event that prior to the Termination Date, the Company shall receive, or shall become aware that any of their respective Representatives has received, any offer or proposal, directly or indirectly, of the type referred to in clause (i) or (iii) above, or any request for disclosure or access pursuant to clause (ii) above, Company shall notify the Buyer of such offer or proposal, within twenty-four hours thereof, and will cooperate with the Buyer by furnishing any information the Buyer may reasonably request with respect thereto. The Company agrees to immediately terminate any current discussions with third parties with respect to any of the foregoing and each represents that it has the right to so terminate any such discussions. Without limiting the foregoing, it is understood that any violation of the restrictions set forth above by any Representative of the Company, shall be deemed to be a breach of this Agreement by the Company.

5.10 Employee Matters.

(a) The Company shall provide such assistance to Buyers in the solicitation and hiring of the Business Employees, including but not limited to, the Israeli Company Employees and the Business Employees of the Additional Sellers (the "Foreign Company Employees"), as Buyers shall reasonably request.

(b) Prior to the Closing Date and subject to Buyers receiving proper evidence that each such employee has a legal right to work in his or her country of current employment, each Israeli Company Employee and Foreign Company Employee listed in Section 3.15(a) of the Company Disclosure Schedule shall be given an Offer Letter by Buyers. Each such Offer Letter will (a) be subject to and in compliance with Buyers' standard human resources policies and procedures in the relevant country, (b) offer employment in a manner that preserves the tenure such Business Employee accrued during his or her term of employment by the Company (or Company Subsidiary) for purposes of determining any benefits to be received by such Business Employee to the extent that service or length of employment is an applicable factor for determining benefits under any benefit plan of the Buyers, (c) provide that the offer of employment will be conditional on the completion of the transactions contemplated by this Agreement and that such offer of employment will be effective as of the Closing Date, and (d) provide for terms that, taken as a whole, are not less favorable than the terms of the relevant Business Employee's current terms of employment disclosed to Buyer in this Agreement or the schedules attached hereto.

(c) The Company shall pay such Continuing Israeli Employees and Continuing Foreign Employees all benefits, that such Continuing Israeli Employees and Continuing Foreign Employees may be eligible to receive under an Employment Agreement, a Company Benefit Plan or applicable Law, including, without limitation, all wages, bonuses, commissions, pay for other compensated absences and other remuneration (including mandatory or discretionary benefits) due to such Continuing Israeli Employees and Continuing Foreign Employees as of the close of business on the Closing Date, and shall further pay any related payroll deductions (such as employee benefit plan contributions and employment Taxes) with respect thereto, regardless of whether such amounts have been accrued on the books of the Company at the close of business on the Closing Date, but excluding such payments which are Assumed Liabilities and the funds for which will be transferred to Buyers at the Closing.

(d) Prior to the Closing Date, the Company shall (i) provide the Buyer with an account of all benefits accrued by the Continuing Employees as of the Closing Date and (ii) provide the Buyer with all books and records relating to contributions made by the Company on behalf of the Continuing Employees to any Company Benefit Plans.

(e) At the Closing, the Company shall assign and transfer to Buyers all its rights in all such Company Benefit Plans with respect to the relevant Continuing Israeli Employees and Foreign Company Employees, and such Company Benefit Plans shall be deemed Acquired Assets hereunder. Without derogating from the other provisions of this Section 5.10, at the Closing, the Company shall cash out and redeem any vacation days accumulated as of the Closing of any Continuing Employees in excess of vacation days that any such Continuing Employee is eligible for pursuant to his or her Employment Agreement in 1 year of employment, and the Continuing Employees will be permitted to carry over any remaining vacation balance outstanding as of the Closing under the Company's (or Company Subsidiary's) vacation programs (subject to any right that Buyer may have for redeeming and cashing out any additional accrued vacation).

(f) The Company shall be solely responsible for (A) claims of Continuing Employees and their eligible beneficiaries and dependents for workers compensation and unemployment compensation and claims under Company Benefit Plans that are incurred before the Closing Date and (B) claims relating to COBRA coverage, or similar statutory requirements in non-U.S. jurisdictions, attributable to "qualifying events" occurring on or before the Closing Date with respect to any Continuing Employees and their eligible beneficiaries and dependents. Buyers shall be solely responsible for (A) claims of Continuing Employees and their eligible beneficiaries and dependents for workers compensation and unemployment compensation and claims under the Acquired Company's and Buyers' welfare plans that are incurred on or after Closing Date and (B) claims relating to COBRA coverage, or similar statutory requirements in non-U.S. jurisdictions, attributable to "qualifying events" occurring on or after the Closing Date with respect to Continuing Employees and their beneficiaries and dependents. The Buyers' assumption of an Assumed Liability shall not be construed as indicating an obligation to maintain a particular benefit program or to pay a benefit in a particular form where such an obligation is not otherwise required by Law and except as specifically provided for herein, nothing in this Agreement shall be construed to require Buyers to continue any Company Benefit Plan or Employment Agreement or to prevent amendment, modification or termination of the current terms of employment of any Continuing Employee after the Closing.

(g) Except to the extent specifically required by Law, Buyers shall be under no obligation to continue to maintain any Company Benefit Plan or other employment-related policy, program or practice of any Company Subsidiary or, except with respect to Continuing Israeli Employees and to Continuing Foreign Employees, to recognize a Continuing Business Employee's years of service with any Company Subsidiary for purposes of any employee benefit program maintained by any Buyer. For the avoidance of doubt, and except as provided in Sections 3.15(a) or 3.15(g) of the Company Disclosure Schedule, Buyers shall grant Continuing Employees of Scitex Vision America Inc. credit for prior service with Scitex Vision America Inc. only for purposes of determining the rate of vacation accrual under Buyers' local U.S. vacation program.

(h) Effective as of no later than the day immediately preceding the Closing Date, Scitex Vision America Inc. shall terminate its group severance plans or policies and each of Acquired Companies and any Company ERISA Affiliate shall terminate any and all Company Benefit Plans intended to include a Code Section 401(k) arrangement (unless Buyer provides written notice to Company that such Company Benefit Plans shall not be terminated). Unless Buyer provides such written notice to Company, no later than three business days prior to the Closing Date, Company shall provide Buyer with evidence that such Company Benefit Plan(s) have been terminated (effective no later than the day immediately preceding the Closing Date).

(i) Without limitation to the foregoing, in the event that any Continuing Employee ceases to be employed by the Buyers after the Closing Date, the Buyers shall be solely responsible for any severance or other payments due to the employee as a result of such termination of employment.

5.11 Transition Planning; Transition. During the period between the signing of this Agreement and the earlier of the Closing or termination of this Agreement, the Company and Buyers shall cooperate with one another in creating joint plans for the transition of the Business and the Acquired Assets from the Company to Buyers at and after the Closing. The Company shall not take any action that is intended to have the effect of discouraging any lessor, licensor, user, customer, supplier, or other business associate of the Business from maintaining the same business relationship with Buyers after the Closing as it maintained with the Acquired Companies prior to the Closing. Following the Closing, the Company shall use reasonable efforts to refer all user and customer inquiries relating to the Business to Buyers.

5.12 Confidential Information known to Continuing Employees. The parties agree that confidential information of the Company related to the Business and known to the Continuing Employees is included in the Acquired Assets under this Agreement. Accordingly, to the extent a Continuing Employee hired by Buyers would, as a result of an employment or other agreement between the Company and that Continuing Employee, be restricted from disclosing confidential information to Buyers or from using information on Buyers' behalf or otherwise in connection with the Continuing Employee's employment by Buyers, the Company agrees to, and hereby does waive, in favor of Buyers, any right that it may have to enforce such restrictions and consents to Buyers' use and disclosure of such information for its own benefit and on its own behalf, without restriction.

5.13 Knowledge of Buyers. Any due diligence review, audit or other investigation or inquiry undertaken or performed by or on behalf of Buyers shall not limit, qualify, modify or amend the representations, warranties or covenants of, or indemnities by, the Company made or undertaken pursuant to this Agreement, irrespective of the knowledge and information received (or which should have been received) therefrom by Buyers.

5.14 Transfer Tax and Stamp Tax. Notwithstanding anything to the contrary herein, the Company shall be liable for, and hereby agrees to pay, any and all Taxes relating to any stamp tax due and payable by the Company or any Company Subsidiary, whether or not shown on any Tax Return, or any stamp tax claimed to be due and reasonably sought, by any Governmental Authority for any period (or portion of any period), or any actions taken or contracts executed, up to and including the Closing Date. Notwithstanding the above, each of the Company and the Buyer (or Buyer shall cause Buyer's Affiliate to) shall share equally, in any Transfer Taxes, including without limitation, any stamp tax imposed by the State of Israel or any other foreign Governmental Authority, in connection with the execution of this Agreement or any Transaction Document.

5.15 Purchase Price Allocation. The Buyer, the Company and Standard & Poor's shall work together so as to allocate the purchase price among the Acquired Assets by and as of the Closing Date. In the event of a disagreement between the Buyer and the Company as to any portion of such allocation or valuation which cannot be amicably resolved, Standard &Poor's shall have the final determination with respect thereto, and Buyer and Company agree to be bound by such determination. The Buyer shall provide the Company promptly following the receipt thereof with (i) copies of all documentation delivered by Standard & Poor's to the Buyer used or produced in the preparation of such valuation and allocation, subject to obtaining the approval of Standard & Poor's, and (ii) the final report of Standard & Poor's. The parties shall use commercially reasonable efforts to have the report of Standard & Poor's to be delivered no less than 14 days prior to the Closing.

5.16 Change of Name. From and after the Closing, the Company shall immediately cease using the Trademarks, the trade-name and Domain Name included in the Transferred Intellectual Property, and shall, within 180 days as of the Closing, cease to do business under a corporate name or trade name that incorporates such Trademarks or trade names or any marks or names substantially similar or confusingly similar thereto provided that the Company shall, within 30 days as of the Closing, make all such filings required in order to effect all the above covenants in this Section. Buyers shall be entitled to take all steps necessary for the removal of the name of the Company from any Register of Record of Trademark registered users in any office or agency of any government or organization, and the Company will render any assistance required by the Buyers in connection with such removal.

ARTICLE 6. CONDITIONS TO CLOSING

6.1 Conditions to Obligations of Each Party to Effect the Closing. The respective obligations of each party to this Agreement to effect the Transaction shall be subject to the satisfaction at or prior to the Closing Date of the following conditions, any of which may be waived, in writing, by mutual agreement of Buyer and the Company:

(a) No Order; Antitrust Approvals. No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Transaction illegal or otherwise prohibiting consummation of the Transaction. All material approvals and waiting periods under applicable antitrust or merger regulation laws, if any, required to be obtained or to have expired, as the case may be, prior to the Transaction in connection with the transactions contemplated hereby shall have been obtained or expired, as the case may be.

(b) Governmental Authority Approvals. All Governmental Authority approvals required for the consummation of the Transaction shall have been obtained including, without limitation, the approvals of the OCS, the Investment Center and, if applicable, the Israeli Commissioner of Restrictive Trade Practices.

6.2 Conditions to Obligations of the Buyers. The obligations of the Buyers to effect the Transaction are subject to the satisfaction or waiver by the Buyers at or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. (i) The representations and warranties of the Company set forth in Sections 3.8, 3.9, 3.10, and 3.12 are true and correct in all material respects on and as of the Closing, unless such representation is not true on and as of the Closing due to an inaccuracy as to which the Company has notified the Buyer in writing that such matter will be treated as an Excluded Liability, and (ii) all other representations and warranties of the Company set forth in ARTICLE 3 shall be true and correct in all respects on and as of the Closing, except where the failure to be so true and correct would not, individually or in the aggregate, have a Material Adverse Effect, (all of the above, other than those representations and warranties which were qualified by terms such as "material", "materially" or "Material Adverse Effect" which representations and warranties as so qualified shall be true and correct in all respects on and as of the Closing and except that any representation and warranty given as of a specific date need be true only as of such date).

(b) Performance of Obligations of the Company. Each and all of the covenants and agreements of the Company and the Additional Sellers to be performed or complied with pursuant to the Transaction Documents on or prior to the Closing Date shall have been fully performed and complied with in all material respects, and the Company shall have delivered to the Buyer a certificate signed by an officer of the Company confirming the foregoing as of the Closing Date.

(c) Litigation, Etc. No Action shall have been threatened in writing, instituted or pending (i) which is reasonably likely (A) to make illegal, or to delay or otherwise directly or indirectly restrain or prohibit, the consummation of the Transaction or to result in material damages in connection with the Transaction, (B) to prohibit ownership or operation by the Buyers or any Acquired Company of all or a portion of the Business or Acquired Assets or all or a portion of the Business or Acquired Assets of the Buyers or any of their Affiliates or to compel the Buyers or the Acquired Companies to dispose of or hold separately the Business or Acquired Assets to be sold, conveyed, transferred, assigned and delivered hereunder or the Business or Acquired Assets or all or a portion of the business or assets of the Buyers or any of their Affiliates as a result of the Transaction or (C) to impose limitations on the ability of the Buyers or any of their Affiliates effectively to exercise full rights of ownership of the Business and the Acquired Assets to be sold, conveyed, transferred, assigned and delivered hereunder or (ii) which otherwise has had a Material Adverse Effect.

(d) No Material Adverse Change. There shall not exist any condition, circumstance or state of facts, and there shall not have been any event, occurrence, change, development or circumstance, which has had or will have a Material Adverse Effect.

(e) Closing Deliverables. The Buyers shall have received all closing deliverables as set forth in Section 2.4 in form and substance acceptable to the Buyers.

(f) Intercompany Indebtedness. No Intercompany Indebtedness (other than Indebtedness owed to or by the Company or an Additional Seller, which is neither an Acquired Asset nor an Assumed Liability) shall exist as of the Closing. Any Indebtedness as of the Closing that is payable to the Company or any of the Additional Sellers by any of the Company Subsidiaries (other than the Additional Sellers) shall be included in the Acquired Assets.

(g) Trademark Rights. Parent shall have granted Buyer a perpetual license to certain trademarks, in accordance with the terms set forth in and the form of agreement attached hereto as Schedule 6.2(g), which agreement shall be in full force and effect on and as of the Closing.

(h) New Employment Arrangements. At least 75% of the employees of the Acquired Companies named in Schedule 6.2(h) (the "Key Employees"), and (i) seventy-five percent (75%) of all Administration (finance, IT, HR) Israeli Company Employees and Foreign Company Employees, (ii) seventy-five percent (75%) of all Operations Israeli Company Employees and Foreign Company Employees, (iii) seventy-five percent (75%) of all Marketing Israeli Company Employees and Foreign Company Employees, and (iv) seventy-five percent (75%) of all R&D Israeli Company Employees and Foreign Company Employees, shall have entered into employment arrangements with Buyers pursuant to their execution of an Offer Letter complying with Section 5.10(b)(d) which indicates that, conditioned upon the Closing, such employee agrees to be an employee of Buyers after the Closing, and shall be employees of the Company or the Additional Sellers immediately prior to the Closing.

(i) Release of Liens. The Company shall deliver a written confirmation and consent from each Person listed in the Company Disclosure Schedule as having any Lien over any of the Acquired Assets or any Person who as of the Closing Date shall have any such Lien, that such Lien has been removed and is no longer in effect as of the Closing.

(j) Termination of Certain Company Benefit Plans. Buyer shall have received from Company evidence that Scitex Vision America Inc. shall terminate its group severance plans or policies and any and all Company Benefit Plans intended to include a Code Section 401(k) arrangement have been terminated pursuant to resolution of Company or Company ERISA Affiliate's Board of Directors (the form and substance of which shall have been subject to prior review and approval of Buyer), effective no later than the day immediately preceding the Closing Date.

6.3 Conditions to Obligations of the Company. The obligations of the Company and the Additional Sellers to effect the Transaction are subject to the satisfaction or waiver by the Company at or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Buyers set forth in ARTICLE 4 shall be true and correct in all material respects on and as of the Closing Date (other than those representations and warranties which were qualified by terms such as "material", or "materially" which representations and warranties as so qualified shall be true and correct in all respects on and as of the Closing and except that each representation and warrantee given as of a specific date need be true only as of such date).

(b) Performance of Obligations of the Buyers. Each and all of the covenants and agreements of the Buyers to be performed or complied with pursuant to the Transaction Documents on or prior to the Closing Date shall have been fully performed and complied with in all material respects.

(c) Closing Deliverables. The Company shall have received all closing deliverables as set forth in Section 2.5(a) in form and substance acceptable to the Company.

ARTICLE 7. TERMINATION

7.1 Termination. This Agreement may be terminated and the Transaction abandoned at any time prior to the Closing Date:

(a) by the mutual written agreement of the Buyer and the Company;

(b) by written notice by the Buyer to the Company or by the Company to the Buyer, if the Closing Date shall not have occurred on or before January 31, 2006 (the "Termination Date"), except that neither the Buyer, on the one hand, nor the Company, on the other hand, may so terminate this Agreement if the absence of such occurrence is due to the failure of the Buyers, on the one hand, or the Company, on the other hand, to be in compliance with its obligations under this Agreement.

(c) by written notice by the Buyer to the Company or by the Company to the Buyer, if there shall be any Law that makes consummation of the Transaction illegal or otherwise prohibited or if any court of competent jurisdiction or other Governmental Authority shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the consummation of the Transaction, and such order, decree, ruling or other action shall not be subject to appeal or shall have become final and unappealable;

(d) By Buyer, if they are not in material breach of their obligations under this Agreement and there has been a material breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of the Company and (i) the Company is not using its commercially reasonable efforts to cure such breach, or has not cured such breach within 15 days, after notice of such breach has been give by Buyer to the Company; provided, *however*, that, no cure period shall be required for any such breach which by its nature cannot be cured and (ii) as a result of such breach, one or more of the conditions set forth in Section 6.1 or Section 6.2 would not be satisfied at or prior to the Closing;

(e) By the Company, if the Company is not in material breach of its obligations under this Agreement and there has been a material breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of Buyers and (i) Buyers are not using their commercially reasonable efforts to cure such breach, or has not cured such breach within 15 days, after notice of such breach has been give by the Company to Buyer; provided, *however*, that no cure period shall be required for any such breach which by its nature cannot be cured and (ii) as a result of such breach, one or more of the conditions set forth in Section 6.1 or Section 6.3 would not be satisfied at or prior to the Closing;

(f) By Buyer, if there shall have occurred any event or condition of any character that has had or is reasonably likely to have a Material Adverse Effect; or

7.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 7.1, this Agreement (other than with respect to Section 5.13, this Section 7.2, and ARTICLE 8, Section 9.4, Section 9.9 and any related definitional provisions which shall continue in effect) shall thereafter become void and have no effect, without any liability on the part of any party or its Representatives in respect thereof, except that nothing herein will relieve any party from Liability for any willful and material breach of any representation, warranty, covenant or agreement in this Agreement that occurred prior to the date of termination.

7.3 Amendment. Subject to applicable Law, this Agreement may be amended at any time by execution of an instrument in writing signed by all parties hereto.

7.4 Extension. At any time prior to the Closing Date, any party hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. Delay in exercising any right under this Agreement shall not constitute a waiver of such right.

ARTICLE 8. SURVIVAL AND INDEMNIFICATION

8.1 Survival of Representations and Warranties. The representations and warranties of the Company contained in this Agreement, or in any certificate or other instrument delivered pursuant to this Agreement, shall terminate on the second anniversary of the Closing Date (the "Survival Date"); provided, *however*, that Buyers' rights under Section 8.2(b)(2) hereof and any claim based on fraud shall survive until the expiration of the applicable statute of limitations. The representations and warranties of Buyers contained in this Agreement, or in any certificate or other instrument delivered pursuant to this Agreement, shall terminate at the Closing.

8.2 Escrow Fund; Indemnification. (a) (a) By virtue of this Agreement and as security for the indemnity provided for in this Section 8.2, at the Closing, the Company will be deemed to have received and deposited with the Escrow Agent the Escrow Amount without any act of the Company, such deposit of the Escrow Amount to constitute an escrow fund (the "Escrow Fund") to be governed by the terms set forth herein. The Escrow Fund shall be deposited into an interest bearing account and interest earned thereon will be held and distributed in accordance with this Section 8.2.

(b) Indemnification. The Company agrees to indemnify and hold Buyers and their respective officers, directors, employees and Affiliates (each, an "Indemnified Party" and collectively, the "Indemnified Parties") harmless against all claims, losses, liabilities, damages, deficiencies, costs and expenses, including reasonable attorneys' fees and expenses of investigation and defense (hereinafter individually a "Loss" and collectively "Losses") paid, incurred, accrued or sustained by the Indemnified Parties, or any of them, that are incident to, arise out of, in connection with, or relate to:

(1) any breach or inaccuracy of a representation or warranty of the Company contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement;

(2) any failure by the Company or an Additional Seller to perform or comply with any covenant or other agreement applicable to it contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement;

(3) any Excluded Assets and any Excluded Liability (whether absolute, accrued, contingent or otherwise) existing prior to or after the Closing or arising out of facts or circumstances related to the Excluded Asset or Excluded Liability, existing prior to or after the Closing, whether or not such liabilities, obligations or claims were known at the time of the Closing and whether or not it is ultimately determined that such liabilities are owed by the Company;

(4) any Liability of the Company or the Company Subsidiaries scheduled in Schedule 1.2(b) hereof (whether or not referenced in the Company Disclosure Schedule); or

(5) any Liability of the Company or the Company Subsidiaries scheduled in Schedule 8.3(b) or in Schedule 8.4(a), subject to the provisions of Section 8.3 or Section 8.4, as applicable.

(c) Deemed Losses. For the purposes of this ARTICLE 8, any Losses incurred in connection with the matters listed on Schedule 8.2(c), shall be subject to indemnification by the Company in the manner set forth in this Article 8.

(d) Basket. No Indemnified Party may recover any Losses unless and until one or more Officer's Certificates identifying a Loss or Losses in excess of $200,000 in the aggregate (the "Basket Amount") has or have been delivered to the Escrow Agent, in which case such Indemnified Party shall be entitled to recover all Losses so identified to the extent then available in the Escrow Fund. Notwithstanding the foregoing, Buyers shall be entitled to recover for, and the limitation set forth in the preceding sentence regarding the Basket Amount shall not apply as a threshold to, any and all claims or payments made with respect to (i) all Losses incurred pursuant to Section 8.2(c) hereof, or (ii) fraud or knowing or willful breach or inaccuracy of a representation or warranty or breach of a covenant contained herein.

(e) Escrow Period. Subject to the following requirements, the Escrow Fund shall be in existence immediately following the Closing and shall terminate at 5:00 p.m., local time, on the first business day after the thirtieth (30th) day after the Survival Date (the "Escrow Period"); provided that the Escrow Period shall not terminate with respect to the aggregate amount of Losses (the "Withheld Funds") (i) specified in any Officer's Certificate delivered to the Escrow Agent prior to the termination of the Escrow Period and (ii) for which indemnification in full has not been received pursuant to this ARTICLE 8 in satisfaction thereof (such Losses being referred to as "Unsatisfied Losses"). It is agreed between the parties that a sum of US$1,000,000 of the Escrow Amount shall be dedicated solely for the payment of any Taxes of the Company Subsidiaries (other than the Additional Sellers) due for the period beginning January 1, 2005 and ending at the Closing which have not been paid as of the Closing and which shall be paid by the Buyers after the Closing (the "Tax Escrow"). Buyer shall use commercially reasonable efforts to mitigate any Tax Liability of a Company Subsidiary relating to periods prior to the Closing, and shall consult with the Company in good faith prior to entering into any arrangement or agreement with any Governmental Authority with respect to such matter. The Tax Escrow shall be in existence immediately following the Closing and shall terminate on the first anniversary of the Closing Date ("Tax Escrow Survival Date"). In the event that on the Tax Escrow Survival Date, any funds shall remain in escrow out of the Tax Escrow, then such remaining funds shall be released to the Company promptly following the Tax Escrow Survival Date. In the event that the Tax Escrow is not sufficient to allow for the payment of all such Taxes, then any such Taxes in excess of the Tax Escrow shall be paid as follows: (i) 80% shall be borne by the Company by way of release of funds from the Escrow Amount to the Buyer, and (ii) 20% shall be paid by the Buyer (or a Buyer Affiliate). If the Company, by written notice to Buyer and the Escrow Agent within thirty (30) days of the termination of the Escrow Period (it being understood that any contest relating to any Officer's Certificate must be made within thirty (30) days of delivery of such Officer's Certificate), contests Buyers' determination of the existence or value of such Losses, the existence or value of such Losses shall be finally determined pursuant to the procedures set forth in Section 8.2(i) hereof.

(f) Distribution upon Termination of Escrow Period. Promptly after the expiration of the Escrow Period, the Escrow Agent shall deliver to the Company any funds remaining in the Escrow Fund, together with any interest earned thereon, except that the Escrow Agent shall retain the Withheld Funds in the Escrow Fund until the claim(s) to which they relate are resolved. Subsequently, Buyer shall notify the Company and the Escrow Agent promptly after the resolution of any impending claim specifying the amount of Losses in connection therewith for which no indemnification has been received pursuant to this ARTICLE 8 in satisfaction thereof. Upon receipt of such notice, the Escrow Agent will (i) distribute the respective Withheld Funds to the Buyer from the Escrow Fund equal to the amount of such Losses in accordance with the provisions of Section 8.2(g) hereof to the extent then available in the Escrow Fund; provided that the claim to which such Losses relate is not being contested pursuant to Section 8.2(h) hereof and (ii) promptly thereafter distribute to the Company the remaining respective Withheld Funds, together with any interest earned thereon, after giving effect to the distribution to Buyer in accordance with clause (i) immediately above.

(g) Claims Upon Escrow Fund. Upon receipt by the Escrow Agent at any time on or before the termination of the Escrow Period of an Officer's Certificate, the Escrow Agent shall, subject to the provisions of Section 8.2(h) hereof, deliver to Buyer, as promptly as practicable, an amount from the Escrow Fund equal to such Losses (the "Payment Amount").

(h) Objections to Claims against the Escrow Fund. At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such certificate shall be delivered to the Company, and for a period of thirty (30) days after such delivery, the Escrow Agent shall make no delivery to Buyer of any Escrow Amount pursuant to Section 8.2(g) hereof unless the Escrow Agent shall have received written authorization from the Company to make such delivery. After the expiration of such 30-day period, the Escrow Agent shall make delivery of the Payment Amount pursuant to Section 8.2(g); provided that no such payment or delivery may be made if the Company shall object in a written statement to the claim made in the Officer's Certificate, and such statement shall have been delivered to the Escrow Agent prior to the expiration of such 30-day period.

(i) Resolution of Conflicts. In case the Company shall object in writing to any claim or claims made in any Officer's Certificate to recover Losses from the Escrow Fund within thirty (30) days after delivery of such Officer's Certificate, the Company and Buyers shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Company and Buyer should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and, in the case of a claim against the Escrow Fund, shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to rely on any such memorandum and make distributions from the Escrow Fund in accordance with the terms thereof. If, after a good faith attempt to agree the Company and the Buyer are unable to agree on a resolution of the matter, the parties shall submit the matter to non-binding mediation which shall be conducted in Tel Aviv, Israel by a single, neutral advisor reasonably acceptable to the Buyer and the Company (the "Advisor"). The costs and expenses of both the mediation and the Advisor will be shared equally by the Company and the Buyer. The Advisor shall be an individual with at least ten (10) years experience in the mediation of business disputes. The mediation shall commence within 30 days after the date the parties mutually determined in writing that they were unable to reach resolution. The Advisor shall establish a procedure for reaching resolution which shall at least set forth rules and process for: (i) the exchange of documents and short narrative statements summarizing each party's position, (ii) any expedited discovery, (iii) the format for any hearings, meetings or discussions, and (iv) the period in which the process will be completed. At the conclusion of the mediation, the Advisor shall issue a final written report that will include his or her findings and conclusions, as well as recommendations for resolution. The parties agree to subsequently review the Advisor's final written report and to meet at least once within 30 days after the date of the Advisor's final written report to further attempt to reach good faith resolution based on this report. If within 30 days after the date of such first meeting the parties remain unable to reach resolution, then they shall be free to litigate the matter, in accordance with the provisions of Section 9.9.

(j) Third-Party Claims. (A) In the event Buyers become aware of a third-party claim relating to allegations of Intellectual Property infringement or challenging the rights of the Buyers to Intellectual Property Rights, for which indemnification may by sought under this ARTICLE 8, which Buyers reasonably believes may result in a Loss that is indemnifiable hereunder, Buyers shall notify the Company of such claim, and the Company shall be entitled, at its expense, to participate in, but not to determine or conduct, the defense of such claim. Delay or failure in so notifying the Company shall relieve the Company of its obligations under this ARTICLE 8 only to the extent, if at all, that the Company is adversely and materially prejudiced by reason of such delay or failure. If there is any such third-party claim that, if adversely determined would give rise to a right of recovery for Losses hereunder, then any amounts incurred or accrued in defense of such third-party claim, regardless of the outcome of such claim, shall be deemed Losses hereunder. Buyers shall have the right in their sole discretion to conduct the defense of such claim; provided that the Buyer shall not enter into any settlement agreement with respect to any such third party claim without obtaining the prior consent of the Company, which consent shall not be unreasonably withheld. In the event that, notwithstanding the preceding sentence, the Buyer shall enter into a settlement agreement without attempting to obtain the consent of the Company, or shall enter into a settlement agreement from which the Company has reasonably withheld its consent, the Buyer shall not be entitled to indemnification hereunder with respect to Losses suffered by the Buyer in connection with such third party claim. The Buyer shall keep the Company reasonably and promptly informed of material progress and developments in those aspects of the matter that relate to the Buyer's claim for indemnification hereunder and provide the Company with copies of all relevant documents and such other information in its possession as may be requested by the Company.

(B) In the event Buyers become aware of a third-party claim other than a claim relating to allegations of Intellectual Property infringement or challenging the rights of the Buyers to Intellectual Property Rights, for which indemnification may by sought under this ARTICLE 8, which Buyer reasonably believes may result in a Loss that is indemnifiable hereunder, Buyers shall notify the Company of such claim. Delay or failure in so notifying the Company shall relieve the Company of its obligations under this ARTICLE 8 only to the extent, if at all, that the Company is adversely and materially prejudiced by reason of such delay or failure. The Company may elect, by providing the Buyer with written notice to such effect within fourteen (14) days of receiving notice from the Buyer, to assume the conduct of any defense of such third party claim with counsel chosen by the Company that is reasonable acceptable to the Buyer, on the following terms: (i) the Company shall acknowledge to the Buyer at such time in writing its full liability for such third party claim and agree to indemnify the Indemnified Parties against all Losses, without regard to any limitations set forth in this ARTICLE 8 and regardless of whether there are sufficient funds in the Escrow Fund to cover the amount of such Losses that may be incurred in connection with such third party claim, including, without limitation, costs which an Indemnified Party may incur in taking any such action as the Company may require; and (ii) the Company shall keep the Buyer reasonably and promptly informed of the progress of the third party claim and provide the Buyer with copies of all relevant documents and such other information in its possession as may be requested by the Buyer. If the Company elects not to defend against, negotiate, settle or otherwise deal with any such claim which relates to any Losses indemnified against hereunder, the Buyer shall defend against, negotiate, settle or otherwise deal with such claim; provided that the Buyer shall not enter into any settlement agreement with respect to any such third party claim without obtaining the prior consent of the Company, which consent shall not be unreasonably withheld. In the event that, notwithstanding the preceding sentence, the Buyer shall enter into a settlement agreement without attempting to obtain the consent of the Company, or shall enter into a settlement agreement from which the Company has reasonably withheld its consent, the Buyer shall not be entitled to indemnification hereunder with respect to Losses suffered by the Buyer in connection with such third party claim. The foregoing notwithstanding, the Buyer shall be entitled to maintain or resume control of any such third party claim in the event that it reasonably determines at any time that the Company does not have the financial capability (taking into account the amount available in the Escrow Fund) to defend such claim and to fulfill its indemnification obligation hereunder in respect of such claim; any such decision by the Buyer to maintain or assume the defense of such claim shall not derogate from the indemnification obligations of the Company hereunder. If the Company shall assume the defense of any such third party claim, the Buyer may participate, at his or its own expense, in the defense of such third party claim; provided, however, that the Buyer shall be entitled to participate in any such defense with separate counsel at the expense of the Company if (i) so requested by the Company to participate or (ii) in the reasonable opinion of counsel to the Buyer a conflict or potential conflict exists between the Buyer and the Company that would make such separate representation advisable; and provided, further, that the Company shall not be required to pay for more than one such counsel for the Buyer in connection with any third party claim.

(C) In the event that the Company does not elect to assume the defense of a third party claim pursuant to the foregoing clause (B), or in the event that the Buyer exercises its right pursuant to the foregoing clause (B) to defend such third party claim notwithstanding any election to the contrary by the Company, then any amounts incurred or accrued in defense of such third-party claim, regardless of the outcome of such claim, shall be deemed Losses hereunder, if such third-party claim is such that if adversely determined it would give rise to a right of recovery for Losses hereunder. The Company shall be entitled, at its expense, to participate in, but not to determine or conduct, the defense of such claim. The Buyer shall keep the Company reasonably and promptly informed of material progress and developments in those aspects of the matter that relate to the Buyer's claim for indemnification hereunder and provide the Company with copies of all relevant documents and such other information in its possession as may be requested by the Company.

(D) The parties hereto agree to cooperate fully with each other in connection with the defense, negotiation or settlement of any third party claim, including providing reasonable access to personnel and information in connection with the defense of such claim or to minimize any Losses. Notwithstanding anything in this Section 8.2(j) to the contrary, with respect to any attorneys' fees incurred by an Indemnified Party in the defense of a third party claim, only 80% of such fees shall be considered Losses hereunder.

(k) Escrow as the Sole Remedy. Except as set forth in Section 8.2(j)(B) with respect to third party claims the defense of which is assumed by the Company, the Escrow Fund shall be the sole and exclusive source of satisfaction of any claim made by the Indemnified Parties for any Losses resulting from the matters set forth in this ARTICLE 8 and the liability of the Company under this Agreement in respect thereof to any Indemnified Party shall not exceed, in the aggregate, the Escrow Amount; provided, *however*, that nothing herein shall limit any remedy of an Indemnified Party for (i) fraud or (ii) Buyers' rights under Section 8.2(b)(2) hereof, and nothing herein shall limit the liability of the Company for any knowing or willful breach of any representation, warranty or covenant if the Transaction does not close.

(l) Materiality; No Right of Contribution. For the purpose of this ARTICLE 8 only, when determining whether there has been a breach or inaccuracy of any representation or warranty of the Company, any representation or warranty given or made by the Company that is qualified in scope as to materiality (including Material Adverse Effect) shall be deemed to be made or given without such qualification. There shall be no right of contribution from the Buyers with respect to any Loss claimed by an Indemnified Party.

(m) Treatment of Indemnification Payments. All indemnification payments under this Agreement shall be treated by the parties as an adjustment to the Purchase Price

(n) Net Losses. Notwithstanding anything to the contrary contained herein, the parties acknowledge that (i) any insurance proceeds that are actually obtained by the Indemnified Party with respect to Losses, (ii) any Tax benefit that is actually realized by the Indemnified Party arising from the facts and circumstances giving rise to such Losses and (iii) any recoveries that are actually obtained by the Indemnified Party from any third party shall be taken into account in calculation of the Losses incurred or suffered by the Indemnified Party to the extent the Indemnified Party's Losses could be reduced as a result thereof.

(o) Subrogation. After any indemnification payment is made to the Buyers pursuant to this Section 8.2, the Company shall, only to the extent of such payment, be subrogated to all rights (if any) of the Buyers against any third party in connection with the Losses to which such payment relates. Without limiting the generality of the preceding sentence, the Buyers, upon receiving an indemnification payment pursuant to the preceding sentence shall execute, upon the written request of the Company, any instrument reasonably necessary to evidence such subrogation rights.

8.3 Buyer Indemnification.

(a) The Buyer agrees to indemnify and hold the Company harmless against 50% of all Losses paid, incurred, accrued or sustained by the Company, that arise out of or relate to any of the Excluded Liabilities that are described in Section 1.2(b)(vii), 1.2(b)(ix) (other than with respect to such Liabilities set forth in Schedule 8.3(b)) or 1.2(b)(x), other than the liabilities that are set forth in Schedule 1.2(b); provided however, that Buyer's indemnification obligations hereunder shall in no event exceed, in the aggregate, US$1,000,000.

(b) In addition to the above, the Buyer agrees to indemnify and hold the Company harmless against 33.33% of Losses of up to US$6,000,000 paid, incurred, accrued or sustained by the Company, that arise out of or relate to the matter set forth in Schedule 8.3(b); provided however, that Buyer's indemnification obligations under this subsection (b) shall in no event exceed, in the aggregate, US$2,000,000, of which the first sum of up to US$1,000,000 shall be paid by the Buyer in addition to the Purchase Price hereunder, and the remaining US$1,000,000 shall be made from the Escrow Funds. In addition to the Buyer's indemnification obligations, Losses of up to US$5,000,000 that arise out of or relate to the matter set forth in Schedule 8.3(b) and that are not indemnified by Buyer under this subsection 8.3(b), shall be made from the Escrow Fund, by way of release of such amount of Escrow Funds to the Company. For the sake of clarity, any Losses that arise out of or relate to the matter set forth in Schedule 8.3(b) (excluding the indemnification payments by Buyer to Company in accordance with this subsection) shall be deemed Excluded Liabilities hereunder.

(c) For the avoidance of doubt, (i) Buyer's indemnification obligation under Section 8.3(a) and the indemnification obligation of up to US$1,000,000 from the Escrow Funds under Section 8.3(b) shall not be cumulative (i.e. the Buyer's indemnification obligations from the Escrow Fund shall not exceed an aggregate total of US$1,000,000), (ii) Buyer's aggregate indemnification obligations under this Section 8.3 shall in no event exceed, in the aggregate, US$2,000,000, and (iii) the aggregate amount that may be released from the Escrow Funds under Section 8.3(b) shall in no event exceed, in the aggregate, US$6,000,000 (or such smaller amount, if the Escrow Funds contain less than US$6,000,000 not due to be released to the Buyer or subject to a conflict as set forth in Section 8.2(i) at such time).

(d) Except as specifically set forth in Section 8.3(b), Buyer shall satisfy its indemnification obligations hereunder from the Escrow Funds, by way of release of such amount of Escrow Funds required for the indemnification hereunder to the Company. For the sake of clarity, any indemnification by Buyer from the Escrow Funds (and any other release of Escrow Funds to the Company under Section 8.3(b)) shall be on account of the Purchase Price and shall not require the Buyer to pay any additional sums, whether to the Escrow Fund or otherwise. Buyer shall use commercially reasonable efforts to mitigate any Liability set forth in this Section 8.3 above and specifically agrees that with respect to the Liability set forth in Schedule 8.3(b), not to agree to any settlement related to such Liability without the consent of the Company (not to be unreasonably withheld); provided that Buyer may settle any such claim if Buyer agrees to not use the Escrow Funds to pay the respective settlement and the settlement does not otherwise create any Liability on the Company. The Company hereby agrees and acknowledges that it will participate in 50% of any legal and consulting expenses of the Buyer incurred at any time after the Closing in connection with the settlement of the Liability set forth in Schedule 8.3(b) (or any other process for solving such Liability), which participation shall not exceed US$500,000 and which shall be a Deemed Loss under Section 8.2(c) and paid from the Escrow Fund.

(e) The Buyer's obligations under this Section 8.3 shall terminate on the Survival Date.

8.4 Indemnification in connection with the Additional Sellers.

(a) The parties agree that any Loss paid, incurred, accrued or sustained by the Buyers, that arise out of or relate to the matter set forth in Schedule 8.4(a) (which are deemed Assumed Liabilities hereunder) shall be allocated between the Buyer and the Company as follows: (i) 80% shall be borne by the Company by way of release of funds from the Escrow Amount to the Buyer, and (ii) 20% shall be paid by the Buyer (or a Buyer Affiliate), provided however, that the Company's obligations under this Section 8.4 shall not exceed the then-outstanding Escrow Amount, and Buyer's obligations under this Section 8.4 shall not exceed US$2,000,000 (unless the Losses thereunder exceed the then-outstanding Escrow Amount, in which case Buyer's obligations hereunder shall equal the amount of such Losses in excess of the Escrow Amount).

(b) The obligations of the parties under this Section 8.4 shall terminate on the Survival Date.

ARTICLE 9. GENERAL PROVISIONS

9.1 Assignment. No party to this Agreement will convey, assign or otherwise transfer any of its rights or obligations under any Transaction Document without the prior written consent of the Company (in the case of an assignment by the Buyers) or of the Buyers (in the case of an assignment by the Company), except that the Buyers may (without obtaining any consent) assign any of their respective rights, interests or obligations under any Transaction Documents, in whole or in part, to any Affiliate of the Buyers or to any successor to all or any portion of its business. No assignment of this Agreement will relieve the assigning party of its obligations hereunder.

9.2 Parties in Interest. This Agreement is binding upon and is for the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not made for the benefit of any Person not a party hereto, and no Person other than the parties hereto or their respective successors and permitted assigns will acquire or have any benefit, right, remedy or claim under or by reason of this Agreement, except that the Indemnified Parties will be entitled to the rights to indemnification provided to the Indemnified Parties hereunder.

9.3 Waiver; Remedies. No failure or delay on the part of the Buyers or the Company in exercising any right, power or privilege under any Transaction Document will operate as a waiver thereof, nor will any waiver on the part of the Buyers or the Company of any right, power or privilege under any Transaction Document operate as a waiver of any other right, power or privilege under any Transaction Document, nor will any single or partial exercise of any right, power or privilege thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege under any Transaction Document.

9.4 Fees and Expenses. Each of the Parties hereto shall bear the expenses incurred by it relating to the transactions contemplated by this Agreement, including without limitation fees and expenses of counsel, subject to such other arrangements as may be expressly set forth in the other documents executed or to be executed in connection with this Agreement. Notwithstanding the foregoing, fees and expenses relating to joint filings will be shared equally by the parties hereto.

9.5 Notices. All notices, requests, claims, demands and other communications required or permitted to be given under any Transaction Document shall be in writing and will be delivered by hand or telecopied or sent, postage prepaid, by registered, certified or express mail or reputable overnight courier service and will be deemed given when so delivered by hand or telecopied, or three business days after being so mailed (one business day in the case of overnight courier service). All such notices, requests, claims, demands and other communications will be addressed as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice in accordance with this Section 9.5:

If to the Buyers:

Hewlett-Packard Company
Inkjet Commercial Division
Avda.Graells, 501
08174-Sant Cugat del Valles
Barcelona, Spain

Attention: Enrique Lores, Vice President & General Manager
Fax: 34 93 582 2510

with copies to (which shall not constitute notice):

Hewlett-Packard Company
3000 Hanover Street
Palo Alto, CA 94304
Attention: General Counsel
Fax: (650) 857-2012

Hewlett-Packard Company
3000 Hanover Street
Palo Alto, CA 94304
Attention: Senior Vice President, Strategy and Corporate Development
Fax: (650) 852-8378

with a copy to (which shall not constitute notice):

Meitar Liquornik Geva & Leshem Brandwein
16 Abba Hillel Silver Road
Ramat-Gan 52506
Israel
Attention: Clifford M. J. Felig
Telecopy: 972-3-610-3111

If to the Company:

Scitex Vision Ltd.
5c Hatzoran Street,
P.O. Box 8743
Netanya Industrial Park,
Netanya, 42505 Israel
Attention: Chief Financial Officer
Fax: 972-9-982-4778

And Following the Closing:
Scitex Vision Ltd.
C/o: Scitex Corporation Ltd.
3, Azrieli Center, Triangular Tower
43rd Floor
Tel Aviv 67023, Israel
Attention: Chief Financial Officer
Fax: 972-3-607-5884

With a copy to (which shall not constitute notice):

Herzog, Fox & Neeman
Asia House
4 Weizmann Street
Tel Aviv 64239, Israel
Attention: Ehud Sol
Chaim Friedland
Fax: 972-3-696-6464

9.6 Captions; Currency. The article and section captions herein and the table of contents hereto are for convenience of reference only, do not constitute part of this Agreement and will not be deemed to limit or otherwise affect any of the provisions hereof. Unless otherwise specified, all references herein to numbered articles and sections are to articles and sections of this Agreement and all references herein to exhibits or schedules are to exhibits or schedules to this Agreement. Unless otherwise specified, all references contained in any Transaction Document, in any exhibit or schedule referred to therein or in any instrument or document delivered pursuant thereto to dollars or "$" shall mean United States Dollars.

9.7 Entire Document. This Agreement and the other Transaction Documents collectively constitute the entire agreement between the parties with respect to the subject matter hereof and this Agreement and the other Transaction Documents supersede all prior negotiations, agreements and understandings of the parties of any nature, whether oral or written, relating thereto.

9.8 Severability. If any provision of any Transaction Document or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions thereof, or the application of such provision to Persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby.

9.9 Governing Law; Jurisdiction This Agreement shall be governed by and construed in accordance with the laws of the State of Israel, without giving effect to the principles thereof relating to conflict of laws, applicable to agreements made and to be performed within such state. The competent courts of Tel Aviv-Jaffa shall have exclusive jurisdiction to hear all disputes arising in connection with this Agreement and no other courts shall have any jurisdiction whatsoever with respect to such disputes.

9.10 Schedules and Exhibits; Disclosure All schedules and exhibits attached hereto are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Capitalized terms used in any other Transaction Document or in the schedules or exhibits hereto or thereto but not otherwise defined therein will have the respective meanings assigned to such terms in this Agreement.

9.11 Counterparts. This Agreement may be executed in separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement.

9.12 Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of any Transaction Document, the party or parties who are or are to be thereby aggrieved will have the right of specific performance and injunctive relief giving effect to its or their rights under such Transaction Document, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies will be cumulative. The parties agree that any such breach or threatened breach would cause irreparable injury, that the remedies at law for any such breach or threatened breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived.

9.13 Construction; Interpretation. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

9.14 Other Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

ARTICLE 10. DEFINITIONS

10.1 Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Acquired Assets" means all of the assets required for the Business, including without limitation, the following:

(1) the Transferred Intellectual Property (whether or not included in the Financial Statements);

(2) the Business Information;

(3) all rights, benefits and privileges under the Acquired Contracts;

(4) all franchises, permits, licenses, agreements, waivers and authorizations from or with any Governmental Authority relating to the Business, to the extent transferable;

(5) all Inventory (whether or not included in the Financial Statements);

(6) all assets included on the Financial Statements, including, without limitation, all prepaid expenses, other than prepaid expenses of directors and officers liability insurance;

(7) all Fixtures and Equipment (whether or not included in the Financial Statements);

(8) all accounts and other receivables of the Company and any of the Company Subsidiaries (whether or not included in the Financial Statements); all claims, causes of action, choices in action, rights of recovery and rights of set off pertaining to or arising out of the Acquired Assets or the Assumed Liabilities;

(9) all assets related to the Business acquired by any of the Acquired Companies subsequent to the date hereof;

(10) all shares and other equity interests of the Company in all the Acquired Companies (other than the Additional Sellers), including, but not limited to, as set forth on Schedule 1.1(a);

(11) All of the goodwill associated with the Businessand the Trademarks included in the Transferred Intellectual Property;

(12) All bank accounts of the Company Subsidiaries (other than the Additional Sellers); and

(13) any and all rights to or arising from any of the foregoing; provided, however, for the avoidance of doubt, such rights shall not include any rights that constitute or that are derived from an Excluded Asset.

The term "Acquired Assets" does not include (i) the shares of Company or the Additional Sellers, (ii) Intercompany Indebtedness, and (iii) cash, Cash Equivalents and Restricted Deposits of the Company and the Company Subsidiaries, including those set forth on the Financial Statements. Cash shall be determined net of amounts necessary to cover outstanding checks (which are not otherwise stale) that have been mailed or otherwise delivered by the Company or a Company Subsidiary but have not cleared (such amount, the "Float"). The amount of the Float shall not be taken into account for purposes of calculating Net Working Capital.

(b) "Acquired Contracts" means (i) all agreements currently in effect for the licensing of any of the Products by the Acquired Companies to customers, and all other agreements, contracts and arrangements relating to the Business to which any of the Acquired Companies is a party, and are listed in Schedule 10.1(b) hereto or such other agreements and contracts relating to the Business entered into after the date hereof and prior to the Closing with the written consent of the Buyer (except such consent shall not be required for Contracts related to matters permitted under ARTICLE V), and (ii) all other agreements and contracts in effect as of the Closing to which any of the Acquired Companies is a party and are related directly or indirectly to the Acquired Assets or the Business (the "Other Contracts"), provided that any Other Contract of which the Buyers are made aware after the Closing Date shall become an Acquired Contract subject to the specific consent of the Buyer. Notwithstanding anything in the foregoing sentence to the contrary, the Company's directors and officers' insurance policy shall not constitute an Acquired Contract.

(c) "Acquired Companies" means the Company and all the Company Subsidiaries other than the Excluded Subsidiaries.

(d) "Action" means any legal, administrative, governmental or regulatory proceeding or other action, suit, proceeding, claim, arbitration, mediation, alternative dispute resolution procedure, inquiry or investigation by or before any arbitrator, mediator, court or other Governmental Authority.

(e) ;"Additional Asset" shall have the meaning as set forth in Section 5.3(h).

(f) "Additional Sellers" has the meaning set forth in the preamble to this Agreement.

(g) "Affiliate" means (i) in the case of an individual, each other member of such individual's Family and any Person or entity that is directly or indirectly Controlling, Controlled by or under common Control with such individual or any one or more members of such individual's Family; and (ii) in the case of any other Person, any Person or entity that is directly or indirectly Controlling, Controlled by or under common Control with such Person.

(h) "Agreement" means this Asset Purchase Agreement, including all Exhibits and Schedules hereto, as the same may be amended, modified or supplemented from time to time in accordance with its terms.

(i) "Approved Enterprise" shall have the meaning as set forth in Section 3.9.

(j) "Assignment and Assumption Agreement" means one or more Assignment and Assumption Agreements to be executed by the Buyers and the Company (or any of the Company Subsidiaries) at the Closing in the form of Exhibit A.

(k) "Assumed Liabilities" means (i) all Liabilities of the Company that are related to the Business other than Excluded Liabilities, and (ii) all Liabilities set forth in Schedule 1.2(b) (subject to the provisions of Article 8).

(l) "Basket Amount" shall have the meaning as set forth in Section 8.2.

(m) "Budget and Operating Plan" means the budget and operating plan attached hereto as Exhibit B for the operation of the Company and the Company Subsidiaries from the date hereof until the Closing Date as may be amended from time to time by the Company with the express prior written consent of the Buyer, which Budget and Operating Plan also includes a statement of a separate operational cash flow.

(n) "Business" shall mean all of the business of the Company, including all of the Company's business conducted through the Company Subsidiaries, as of or prior to the Closing.

(o) "Business Day" means any day other than a Saturday, Sunday or any other day on which banking institutions in the State of New York or the State of Israel are not open for the transaction of normal banking business.

(p) "Business Employees" means the employees, including officers, employed by any of the Acquired Companies on the date hereof and listed in Section 3.15(a) of the Disclosure Schedule and any additional employees to be employed by the Acquired Companies.

(q) "Business Information" means all books, records, files and documentation of the Acquired Companies in any media prepared, used or held for use by any Person, related directly or indirectly, in whole or in part, to the Business, the Acquired Assets or the Assumed Liabilities, including but not limited to, all business records, audit records, tangible data, computer software, electronic media and management information systems, disks, files, customer lists, supplier lists, blueprints, specifications, designs, drawings, operation or maintenance manuals, bids, personnel records, policy and instruction manuals and directories, all Products documentation, invoices, credit records, sales, market and promotional literature of any kind, tax, financial and accounting records and all other books and records relating to the Acquired Assets, the Assumed Liabilities and the Business. Notwithstanding the foregoing, Business Information shall not include corporate records of the Company and the Additional Sellers and such information that relates primarily to Excluded Assets or Excluded Liabilities.

(r) "Business Insurance Policies" shall have the meaning as set forth in Section 5.3(e).

(s) "Buyer" or "Buyers" has the meaning set forth in the preamble to this Agreement.

(t) "Capital Expenditure" shall have the meaning as set forth in Section 2.2.

(u) "Cash Equivalents" means:

(1) any evidence of third-party Indebtedness to the Company with a maturity of one year or less issued or directly and fully guaranteed or insured by an Approved Jurisdiction or any agency or instrumentality thereof, *provided* that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(2) checks, deposits, certificates of deposit or acceptances with a maturity of one year or less of any institution having combined capital and surplus and undivided profits (or any similar capital concept) of not less than $100 million (or the equivalent in another currency);

(3) commercial paper with a maturity of one year or less issued by a corporation (other than an Affiliate of the Company) organized under the laws of an Approved Jurisdiction and rated at least "A-1" by Standard & Poor's Ratings Service or "P-1" by Moody's Investors Service; and

(4) repurchase agreements and reverse repurchase agreements relating to marketable direct obligations issued or unconditionally guaranteed by the government of an Approved Jurisdiction maturing within one year from the date of acquisition.

For the avoidance of doubt, an investment in an investment fund which invests substantially all of its assets in investments described above in this definition or which is itself rated at least "AAA" or "A-1" by Standard & Poor's Ratings Service or "Aaa" or "P-1" by Moody's Investors Service constitutes a Cash Equivalent. For the purposes of this definition of "Cash Equivalents", "Approved Jurisdiction" means the United States of America, the State of Israel, the United Kingdom, Switzerland and any member nation of the European Union as presently constituted.

(v) "Closing" shall have the meaning as set forth in Section 2.3.

(w) "Closing Date" shall have the meaning as set forth in Section 2.3.

(x) "Closing Date Statements" shall have the meaning as set forth in Section 2.2.

(y) "Closing Date Purchase Price" shall have the meaning as set forth in Section 2.1(a).

(z) "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985.

(aa) "Code" means the U.S. Internal Revenue Code of 1986, as amended.

(bb) "Company" has the meaning set forth in the preamble to this Agreement.

(cc) "Company Benefit Plan" shall have the meaning as set forth in Section 3.15.

(dd) "Company Disclosure Schedule" shall have the meaning as set forth in ARTICLE 3.

(ee) "Company ERISA Affiliate" shall have the meaning as set forth in Section 3.15.

(ff) "Company Escrow Agreements" shall have the meaning as set forth in Section 3.10.

(gg) "Company Intellectual Property Rights" means any Intellectual Property Rights that are owned by or licensed to the Company or a Company Subsidiary.

(hh) "Company Leases" shall have the meaning as set forth in Section 3.8.

(ii) "Company Permits" shall have the meaning as set forth in Section 3.13.

(jj) "Company Registered Intellectual Property Rights" means Registered Intellectual Property Rights owned by the Company or a Company Subsidiary.

(kk) "Company Source Code" means, collectively, any software or any material portion or aspect of the software source code, or any material proprietary information or algorithm contained in or relating to any software source code, of any Company Intellectual Property Rights or any product or technology currently under development by Company or any Company Subsidiary.

(ll) "Company Subsidiary" or "Company Subsidiaries" shall have the meaning as set forth in Section 3.1.

(mm) "Consents" means consents, approvals, requirements, exemptions, orders, waivers, allowances, novations, authorizations, declarations, filings, registrations and notifications.

(nn) "Consultants" means the consultants, contractors and service providers, whether individuals or entities, engaged by the Acquired Companies on the date hereof and listed in Section 3.15(m) of the Disclosure Schedule.

(oo) "Consulting Agreement" means, with respect to the Acquired Companies, each consulting agreement as to which there are unsatisfied obligations (contingent or otherwise) between the Acquired Companies and any Consultants, as to which unsatisfied obligations (contingent or otherwise) of the Acquired Companies are outstanding.

(pp) "Continuing Business Employees" shall mean any Business Employee (other than Israeli Company Employees and Foreign Company Employees) who remains an employee of a Company Subsidiary at the Closing in accordance with his then existing Employment Agreement.

(qq) "Continuing Employees" shall mean the Continuing Business Employees, the Continuing Israeli Employees and the Continuing Foreign Employees.

(rr) "Continuing Foreign Employees" shall mean any Foreign Company Employee who becomes an employee of Buyer (or an Affiliate thereof) as a result of accepting an offer of employment from Buyer (or an Affiliate thereof) pursuant to the terms of an Offer Letter.

(ss) "Continuing Israeli Employees" shall mean any Israeli Company Employee who becomes an employee of Buyer (or an Affiliate thereof) as a result of accepting an offer of employment from Buyer (or an Affiliate thereof) pursuant to the terms of an Offer Letter.

(tt) "Control" (including, with correlative meanings, the terms "Controlling", "Controlled by" and "under common Control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or partnership interests, by contract, office or otherwise.

(uu) "Contracts" means, with respect to any Person, all agreements, undertakings, contracts, obligations, arrangements, promises, understandings and commitments (whether written or oral and whether express or implied) (i) to which such Person is a party, (ii) under which such Person has any rights, (iii) under which such Person has any Liability or (iv) by which such Person, or any of the assets or properties owned or used by such Person, is bound, including all license agreements, manufacturing agreements, supply agreements, purchase orders, sales orders, distributor agreements, sales representation agreements, warranty agreements, indemnity agreements, service agreements, employment and consulting agreements, guarantees, credit agreements, notes, mortgages, security agreements, financing leases, leases (including Leases), comfort letters, derivative agreements, confidentiality agreements, joint venture agreements, partnership agreements, binding open bids, powers of attorney, binding memoranda of understanding and binding letters of intent, including, in each case, all amendments, modifications and supplements thereto and waivers and consents thereunder.

(vv) "Copyrights" means any copyrights, copyrights registrations and applications therefor, and mask works and mask work registrations and applications therefor, and all other rights corresponding thereto anywhere in the world.

(ww) "Damages" means any and all losses, Liabilities, claims, damages, deficiencies, diminutions in value, fines, payments, Taxes, Liens, costs and expenses, whether asserted or reasonably expected to be asserted, fixed, absolute or contingent, matured or unmatured, accrued or unaccrued, liquidated or unliquidated or due or to become due, and whenever or however arising and whether or not resulting from third party claims. In addition and without limiting the foregoing, Damages also include the reasonable costs and expenses of any and all Actions or other legal matters; all amounts paid in connection with any demands, assessments, judgments, settlements and compromises relating thereto; interest and penalties with respect thereto; and costs and expenses, including reasonable attorneys', accountants' and other experts' fees and expenses, incurred in investigating, preparing for or defending against any such Actions or other legal matters or in asserting, preserving or enforcing an Indemnitee's rights hereunder.

(xx) "Domain Names" means the domain names used by, or obtained for use by the Company in the course of carrying on its business.

(yy) "Draft Closing Date Statements" shall have the meaning as set forth in Section 2.2.

(zz) "Draft Closing Capital Expenditure" shall have the meaning as set forth in Section 2.2.

(aaa) "Draft Closing Net Working Capital" shall have the meaning as set forth in Section 2.2.

(bbb) "Employment Agreement" means, with respect to the Acquired Companies, each employment agreement as to which there are unsatisfied obligations (contingent or otherwise) of the Acquired Companies or any Company ERISA Affiliate and each signing bonus, relocation, repatriation, expatriation, or similar agreement between the Acquired Companies or any Company ERISA Affiliate and any Business Employee, as to which unsatisfied obligations (contingent or otherwise) of the Acquired Companies or any Company ERISA Affiliate are outstanding.

(ccc) "Environmental Claim" shall have the meaning as set forth in Section 3.12.

(ddd) "Environmental Laws" shall have the meaning as set forth in Section 3.12.

(eee) "ERISA" shall have the meaning as set forth in Section 3.15.

(fff) "Escrow Agent" means the Person selected by the Buyer and the Company to act as escrow agent under the Escrow Agreement.

(ggg) "Escrow Agreement" means an escrow agreement by and among the Buyer, the Company and the Escrow Agent the form of Exhibit C to be attached hereto prior to the Closing.

(hhh) "Escrow Amount" shall have the meaning as set forth in Section 2.1(b).

(iii) "Escrow Fund" shall have the meaning as set forth in Section 8.2.

(jjj) "Escrow Period" shall have the meaning as set forth in Section 8.2.

(kkk) "Excess Reduction" shall have the meaning as set forth in Section 2.2.

(lll) "Excluded Assets" shall have the meaning as set forth in Section 1.1.

(mmm) "Excluded Liabilities" shall have the meaning as set forth in Section 1.2(b).

(nnn) "Excluded Subsidiaries" shall have the meaning as set forth in Section 1.1(c).

(ooo) "Family" of an individual includes (i) such individual, (ii) the individual's spouse, siblings, or ancestors, (iii) any lineal descendent of such individual, or their siblings, or ancestors or (iv) a trust for the benefit of any of the foregoing.

(ppp) "Financial Statements" shall have the meaning as set forth in Section 3.3.

(qqq) "Fixtures and Equipment" means all office equipment, telecom equipment and any material or machines, as well as all furniture, fixtures, furnishings, leasehold improvements, vehicles, computer and computer related hardware, equipment (including research and development equipment) and other tangible personal property used, owned or leased by the Acquired Companies, whether or not related to the Business, except to the extent included in the Excluded Assets, provided that any of the foregoing that is leased by Acquired Companies is subject to the terms and conditions of the applicable lease to the extent such lease was provided to the Buyer and is referred to in Section 3.8(a) of the Disclosure Schedule.

(rrr) "Foreign Company Employees" shall have the meaning as set forth in Section 5.10.

(sss) "Formation Documents" shall have the meaning as set forth in Section 3.1.

(ttt) "GAAP" shall have the meaning as set forth in Section 3.3.

(uuu) "General Assignment and Bill of Sale" shall mean those certain agreement(s) to be executed by the Company (or any of the Company Subsidiaries) and the Buyers at the Closing, the form of which is attached hereto as Exhibit D.

(vvv) "Governmental Authority" means, in any jurisdiction, including the State of Israel and the United States, any (i) national, federal, state, local, foreign or international government, (ii) court, arbitral or other tribunal, (iii) governmental or quasi-governmental authority of any nature (including any political subdivision, instrumentality, branch, department, official or entity) or (iv) agency, commission, authority or body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.

(www) "Grants" shall have the meaning as set forth in Section 3.19.

(xxx) "Hazardous Material" shall have the meaning as set forth in Section 3.12.

(yyy) "HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(zzz) "Incorporated Open Source Software" shall have the meaning as set forth in Section 3.10.

(aaaa) "Indemnified Party" shall have the meaning as set forth in Section 8.2.

(bbbb) "Indebtedness" means, other than current trade liabilities and suppliers' debt incurred in the ordinary course of business and payable in accordance with customary practices and other than Intercompany Indebtedness, (i) all mortgages, indentures, loans or credit agreements, security agreements or other agreements or instruments relating to the borrowing of money or extension of credit or for the deferred purchase price of property or services, (ii) any other indebtedness which is evidenced by a note, bond, debenture or similar instrument, (iii) all obligations under conditional sale or other title retention agreements relating to property purchased, (iv) capital lease or sale-leaseback obligations, (v) all liabilities secured by any Lien on any property, and (vi) any guarantee or assumption of any of the foregoing in clauses (i) through (v), or guaranty of minimum equity, capital, net worth, profitability or income or any make-whole or similar obligation with respect to itself, its subsidiaries or affiliates, or a third party.

(cccc) "Intellectual Property" means any or all of the following: (i) Copyrights whether registered or unregistered, moral rights, works of authorship including, without limitation, software programs, computer programs, source code and executable code, whether embodied in software, firmware or otherwise, documentation, designs, files, records, data and mask works, (ii) Patents whether registered or unregistered, inventions (whether or not patentable), know how, improvements, technology, methods, processes, tools and designs, (iii) proprietary and confidential information, trade secrets and know how, (iv) databases, data compilations and collections and technical data, (v) Trademarks whether registered or unregistered, (vi) domain name registrations, web addresses and sites, and (vii) all other intellectual property (whether registered or unregistered) and all applications and economic rights of authors and inventors, however denominated, for any such rights, anywhere in the world.

(dddd) "Intellectual Property Rights" means all rights in any Intellectual Property.

(eeee) "Intercompany Indebtedness" means any Indebtedness between any of the Acquired Companies and the Excluded Subsidiaries.

(ffff) "Inventory" means all inventory held for resale and all other raw materials, work in process, finished products, spares, wrapping, supply and packaging items related to the Business, except to the extent included in the Excluded Assets.

(gggg) "Investment Center" shall have the meaning as set forth in Section 3.2.

(hhhh) "IRS" means the United States Internal Revenue Service.

(iiii) "Israeli Company Employees" shall have the meaning as set forth in Section 3.15.

(jjjj) "Israeli Companies Law" means the Israeli Companies Law – 1999, together with the rules and regulations promulgated thereunder.

(kkkk) "Key Employees" means those employees of the Acquired Companies listed on Schedule 6.2(h).

(llll) "Knowledge" means the knowledge (including receipt of notice) of the Chief Executive Officer of the Company (Dov Ofer) and anyone reporting to the CEO, in each case after due inquiry, and the members of the Board of Directors of the Company.

(mmmm) "Laws" means all laws, statutes, constitutions, treaties, rules, regulations, standards and directives binding as a matter of law, ordinances, codes, judgments, rulings, orders, writs, decrees, stipulations, injunctions and determinations of all Governmental Authorities.

(nnnn) "Leases" means all leases, subleases, licenses, rights to occupy or use and other Contracts with respect to real, personal or mixed property, including, in each case, all amendments, modifications and supplements thereto and waivers and consents thereunder.

(oooo) "Liability" means any and all claims, debts, liabilities, obligations and commitments of whatever nature, whether asserted or reasonably expected to be asserted, known or unknown, fixed, absolute or contingent, matured or unmatured, accrued or unaccrued, liquidated or unliquidated or due or to become due, and whenever or however arising (including those arising out of any Contract or tort, whether based on negligence, strict liability or otherwise) regardless of whether the same would be required by GAAP to be reflected as a liability in financial statements or disclosed in the notes thereto.

(pppp) "Licenses" means all Consents, licenses, permits, certificates, variances, exemptions, franchises and other approvals or authorizations issued, granted, given, required or otherwise made available by any Governmental Authority.

(qqqq) "Lien" means any charge, claim, community property interest, equitable interest, lien, encumbrance, option, proxy, pledge, security interest, mortgage, right of first refusal, right of preemption, transfer or retention of title agreement, or restriction by way of security of any kind or nature, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

(rrrr) "Loss" or "Losses" shall have the meaning as set forth in Section 8.2.

(ssss) "Material Adverse Effect" means any effect, change, event, circumstance or condition which, individually or in the aggregate, has or could reasonably be expected to have a material adverse effect on (A) the business, assets (including intangible assets), prospects (but prospects is solely a part of this definition for purposes of the provisions of Section 6.2), cash flows, results of operations or financial condition of the Company and the Company Subsidiaries taken together as a whole, in each case whether or not covered by insurance, or (B) the ability of the Company to consummate the Transaction.

(tttt) "NDA" shall have the meaning as set forth in Section 5.2.

(uuuu) "Net Working Capital" shall have the meaning as set forth in Section 2.2.

(vvvv) "Net Capital Expenditure Target" shall mean a sum of US$1,700,000, which sum is based on the Closing Date being October 31, 2005 and which sum shall be adjusted on a pro rata basis in the event that the Closing Date is on a date other than October 31, 2005, as mutually agreed between the Company and Buyer.

(wwww) "Net Working Capital Target" shall mean a sum of US$35,600,000.

(xxxx) "NIS" means New Israeli Shekel, the lawful currency of the State of Israel.

(yyyy) "Notice of Dispute" shall have the meaning as set forth in Section 2.2.

(zzzz) "OCS" shall have the meaning as set forth in Section 3.2.

(aaaaa) "Offer Letter" shall mean an offer letter of employment on Buyers' standard form or similar document in accordance with applicable law.

(bbbbb) "Officer's Certificate" shall mean a certificate signed by any Indemnified Party (or in the case of an Indemnified Party that is not a natural Person, an officer thereof): (i) stating that such Indemnified Party has paid, sustained, incurred, or accrued, or reasonably anticipates that it will have to pay, sustain, incur, or accrue Losses, and (ii) specifying in reasonable detail the individual items of Losses included in the amount so stated and the basis for such Losses or anticipated Losses, and the nature of the misrepresentation or breach of warranty to which such item is related.

(ccccc) "Ordinance" shall mean the Israeli Income Tax Ordinance [New Version] – 1961.

(ddddd) "Owned Property" shall have the meaning as set forth in Section 3.8.

(eeeee) "Parent" means Scitex Corporation Ltd., a company incorporated under the laws of the State of Israel.

(fffff) "Patents" means all United States, European, Israeli and other patents, designs, ornamental and utility models and applications therefor and all reissues, divisions, re-examinations, renewals, extensions, provisionals, continuations and continuations-in-part thereof, and equivalent or similar rights anywhere in the world in inventions and discoveries including without limitation invention disclosures.

(ggggg) "Payment Amount" shall have the meaning as set forth in Section 8.2.

(hhhhh) "Permitted Liens" shall have the meaning as set forth in Section 3.8.

(iiiii) "Person" means any individual, firm, partnership, joint venture, trust, corporation, limited liability entity, unincorporated organization, estate or other entity (including a Governmental Authority).

(jjjjj) "Privacy Obligations" shall have the meaning as set forth in Section 3.17.

(kkkkk) "Products" means all products sold by the Acquired Companies including, without limitation, the products listed in Exhibit E hereto.

(lllll) "PTO" means the United States Patent and Trademark Office.

(mmmmm) "Purchase Price" means an aggregate of US$ 230,000,000 subject to adjustment as set forth in Section 2.2.

(nnnnn) "Registered Intellectual Property Rights" means all Patents (including registrations and applications to register), Trademarks (including registrations and applications to register), Domain Names (including registrations and applications to register) and Copyrights (including registrations and applications to register).

(ooooo) "Representatives" means, with respect to any Person, such Person's Affiliates, directors, officers, employees, agents, consultants, advisors and other representatives, including legal counsel, accountants and financial advisors.

(ppppp) "Restricted Deposits" means cash that is held at a bank that can not be accessed or released and whose sole purpose is to secure and provide the Company with a credit line.

(qqqqq) "Seller Indemnified Party" shall have the meaning as set forth in Section 8.3.

(rrrrr) "Shares" means Ordinary Shares, NIS 0.01 par value per share, of the Company.

(sssss) "Software" shall mean any and all computer software and code, including assemblers, applets, compilers, source code, object code, data (including image and sound data), design tools and user interfaces, in any form or format, however fixed including source code listings and documentation.

(ttttt) "Survival Date" shall have the meaning as set forth in Section 8.1.

(uuuuu) "Tax" shall have the meaning as set forth in Section 3.9.

(vvvvv) "Tax Escrow" shall have the meaning as set forth in Section 8.2(e).

(wwwww) "Tax Return" shall have the meaning as set forth in Section 3.9.

(xxxxx) "Technology" shall mean all technology, information related to, constituting or disclosing, any technology, and all tangible copies and embodiments of technology in any media, including all know-how, show-how, techniques, trade secrets, inventions (whether or not patented or patentable), algorithms, routines, Software, files, databases, works of authorship or processes

(yyyyy) "Termination Date" shall have the meaning as set forth in Section 7.1.

(zzzzz) "Third Party License Agreements" means the license agreements listed in Section 3.6(a)(1) of the Disclosure Schedule relating to the Transferred Intellectual Property.

(aaaaaa) "Trademarks" means trademarks and service marks, trade names, brand names, corporate names, logos, slogans, trade dress, and other words, designations, labels, symbols, designs, colors, color combinations or product configurations.

(bbbbbb) "Trade Practices Act" has the meaning set forth in Section 3.2.

(cccccc) "Transaction" means the transactions contemplated by the Transaction Documents.

(dddddd) "Transaction Documents" means this Agreement and all other instruments, certificates and agreements delivered or required to be delivered by Sellers, the Company, the Buyers or any of their Representatives pursuant to this Agreement.

(eeeeee) "Transaction Expenses" means all fees and expenses incurred by the Company in connection with or related to this Agreement, the Transaction Documents or the Transaction.

(ffffff) "Transferred Intellectual Property" means any and all of the rights, titles and interest in registered and unregistered Intellectual Property, used, licensed or owned by the Acquired Companies, related directly or indirectly, in whole or in part, to the Business, including without limitation all Company Intellectual Property Rights, all Company Registered Intellectual Property Rights, Company Source Code, Software, provided that with respect to any Transferred Intellectual Property identified in Section 3.10(c) of the Disclosure Schedule as being subject to any Third Party License Agreement, then such Transferred Intellectual Property is subject to the terms and conditions of the relevant Third Party License Agreements.

(gggggg) "Transfer Taxes" shall mean all sales, use,, gross receipts, excise, registration, duty, transfer and other similar taxes and governmental fees.

(hhhhhh) "Transferred Technology" shall mean all Technology owned or transferable by the Acquired Companies related to the Business or the Acquired Assets, including all Technology listed on Exhibit F. To the extent that any Software constitutes Transferred Technology, all versions and releases of such Software, and Software from which such Software was derived, in both source and object code form, shall be included as Transferred Technology

(iiiiii) "Unsatisfied Losses" shall have the meaning as set forth in Section 8.2.

(jjjjjj) "Withheld Amounts" shall have the meaning as set forth in Section 2.2.

(kkkkkk) "Withheld Funds" shall have the meaning as set forth in Section 8.2.

10.2 Terms Generally. The definitions in Section 10.1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The words "herein", "hereof" and "hereunder" and words of similar import refer to this Agreement (including the Exhibits and Schedules to this Agreement) in its entirety and not to any part hereof unless the context shall otherwise require. All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Unless the context shall otherwise require, any references to any agreement or other instrument or statute or regulation are to it as amended and supplemented from time to time (and, in the case of a statute or regulation, to any successor provisions). Any reference to any supranational, national, federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. Any reference in this Agreement to a "day" or a number of "days" (without explicit reference to "Business Days") shall be interpreted as a reference to a calendar day or number of calendar days. If any action is to be taken or given on or by a particular calendar day, and such calendar day is not a Business Day, then such action may be deferred until the next Business Day.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

Scitex Vision Ltd.

By: _____

Name:
Title:

Tech Ink (Pty) Ltd.

By: _____

Name:
Title:

Kovacs Investments 183 (Pty) Ltd.

By: _____

Name:
Title:

Kovacs Investments 319 (Pty) Ltd.

By: _____

Name:
Title:

Hewlett-Packard Company

By: _____

Name:
Title:

FIRST AMENDMENT TO THE
ASSET PURCHASE AGREEMENT

THIS FIRST AMENDMENT TO THE ASSET PURCHASE AGREEMENT (the "Amendment") is entered into effective as of November 1, 2005 by and among (i) Hewlett-Packard Company (the "Buyer"), (ii) Scitex Vision Ltd., a private company organized under the laws of the State of Israel (the "Company"), and (iii) Tech Ink (Pty) Ltd., Kovacs Investments 183 (Pty) Ltd. and Kovacs Investments 319 (Pty) Ltd., companies incorporated under the laws of South Africa (the "Additional Sellers").

W I T N E S S E T H:

WHEREAS, the parties have entered into that certain Asset Purchase Agreement dated August 11, 2005 (the "Agreement"); and

WHEREAS, the parties wish to amend certain provisions in the Agreement as set forth herein.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and for other good and valuable consideration, the parties agree as follows:

1. Definitions

Unless otherwise defined herein, capitalized terms used in this Amendment shall have the meaning ascribed to them under the Agreement.

2. Swfe D&S BVBA

Without derogating from the provisions of the Agreement, the parties specifically agree that any Liability in connection with, arising from or relating to, Swfe D&S BVBA, including without limitation, any Tax Liability that may have been assumed by Scitex Vision Europe N.V. prior to the Closing, shall be deemed an Excluded Liability under the Agreement.

3. Transaction Expenses

Clause (ii) of Section 1.2(b) of the Agreement shall be amended and replaced with the following:

"(ii) all of the Company's (and the Additional Sellers') Liabilities with respect to costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby, including the Transaction Expenses, as well as any cost or liability incurred by any of the Acquired Companies in order to facilitate the transfer of the Acquired Assets at the Closing and which is not specifically listed in the Assumed Liabilities,"

4. Section 2.2(h)

The following clause (h) shall be added to Section 2.2 of the Agreement:

"(h) The Closing Date Statements will include a calculation of cash (for purposes of this Section 2.2(h) "cash" is defined as cash per the Company Subsidiaries' bank statements excluding the Float) and Cash Equivalents and Restricted Deposits, as well as any Indebtedness assumed by the Buyers. In the event there is an excess of such cash and Cash Equivalents and Restricted Deposits over such Indebtedness, then the Buyer will pay to the Company (and/or the Additional Sellers, in accordance with Section ý5.15) any such excess by wire transfer of immediately available funds to an account designated by the Company, such payment to be made simultaneously with any payment or amendment to the Purchase Price, in accordance with the other provisions of this Section 2.2 above. In the event there is a deficit of such cash and Cash Equivalents and Restricted Deposits over such Indebtedness, then the Company shall pay such deficit to the Buyers by wire transfer of immediately available funds to an account designated by the Buyer, such payment to be made simultaneously with any payment or amendment to the Purchase Price, in accordance with the other provisions of this Section 2.2 above. Any payments to be made under this Section 2.2(h) shall not be made from the Withheld Amounts or the Escrow Amount."

5. Section 5.10(e)

Section 5.10(e) of the Agreement shall be deleted and replaced in its entirety as follows:

"(e) At the Closing, the Company shall assign and transfer to Buyers all its rights in all such Company Benefit Plans with respect to the relevant Continuing Israeli Employees and Foreign Company Employees, and such Company Benefit Plans shall be deemed Acquired Assets hereunder.

Without derogating from the other provisions of this Section 5.10, at the Closing, the following shall apply with respect to all accumulated vacation days of the Continuing Employees employed by Scitex Vision America Inc.: (X) the Company shall, prior to the Closing, cash out and redeem any vacation days accrued as of the Closing by each such Continuing Employee in excess of the maximum number of vacation days that each such Continuing Employee is eligible to accrue with respect to his or her first year of employment with the Buyer pursuant to the Buyer's vacation policy in effect as of the Closing (such maximum number of vacation days is referred to as the "Buyer Maximum Number of Vacation Days"), and (Y) each such Continuing Employee will be permitted to carry over any remaining accrued vacation days outstanding as of the Closing and not cashed out and redeemed pursuant to the preceding clause (X) up to the Buyer Maximum Number of Vacation Days (subject to any right that Buyers may have for redeeming and cashing out any additional accrued vacation). With respect to all other Continuing Employees, the Company shall not be required to cash out or redeem any vacation days accrued by any such Continuing Employee as of the Closing, and any such Continuing Employee will be permitted to carry over any accrued vacation days balance outstanding and not cashed out or redeemed by the Company as of the Closing under the Company's (or Company Subsidiary's) vacation programs (subject to any right that Buyer may have for redeeming and cashing out any additional accrued vacation)."

6. Section 5.15 Purchase Price Allocation

Section 5.15 of the Agreement shall be deleted and replaced in its entirety as follows:

"The Buyer, the Company and Duff and Phelps shall work together so as to allocate the identifiable intangible assets of the Purchase Price and establish an allocation methodology for the goodwill portion of the Purchase Price among the Acquired Assets by and as of the Closing Date. In the event of a disagreement between the Buyer and the Company as to any portion of such allocation or valuation which cannot be amicably resolved, Duff and Phelps shall have the final determination with respect thereto, and Buyer and Company agree to be bound by such determination. The Buyer shall provide the Company promptly following the receipt thereof with (i) copies of all documentation delivered by Duff and Phelps to the Buyer used or produced in the preparation of such valuation and allocation, subject to obtaining the approval of Duff and Phelps, and (ii) the final report of Duff and Phelps. The parties shall use commercially reasonable efforts to have the report of Duff and Phelps to be delivered no less than 14 days prior to the Closing."

7. Purchase Price

Notwithstanding anything to the contrary in the Agreement, the parties agree that any value added tax due in connection with the Closing Date Purchase Price to be paid to the Company (but not to the Additional Sellers) shall not be paid at the Closing, but shall be paid within 30 days following the Closing, against delivery by the Company of a value added tax invoice (to the extent required by Law).

8. Hold Separate Agreement

The parties agree that in connection with that certain Hold Separate Agreement entered into on the date hereof, the parties hereby waive any condition to Closing in connection with the subject matter thereof.

9. Disclosure Schedules

Attached hereto as "Exhibit A" are modifications to the Company Disclosure Schedule in respect of matters arising or events occurring after the date of the Agreement but prior to the Closing. The attached does not modify or qualify the representations and warranties of the Company (including the schedules thereto) as of the date of the Agreement, as presented in the Agreement (including the schedules thereto) on the date thereof.

10. Additional Sellers

In connection with the liquidation of any of the Additional Sellers following the Closing, the parties agree as follows:

10.1. The Additional Sellers shall not commence any liquidation proceedings (as hereinafter defined) in the Republic of South Africa prior to 6 months following the Closing. For purposes of this Section 10, the term "commence any liquidation proceedings" shall mean the lodging with the Registrar of Companies of the Republic of South Africa of any resolution by an Additional Seller for the voluntary liquidation of such Additional Seller.

10.2. Upon the expiration of the 6-month period specified in Section 10.1 above, in the event of the Company or any of the Additional Sellers deciding to commence liquidation proceedings in relation to any of the Additional Sellers, the Company will, prior to the commencement of such liquidation proceedings, automatically and without the need for any further action or documentation, cede and assume all representations, warranties, obligations, agreements and covenants of the Additional Sellers under the Agreement and any representations and warranties so assumed by the Company shall be deemed to be provided by the Company on behalf the Additional Sellers.

10.3. Subject to such assumption by the Company as provided for in Section 10.2 above, the Buyer hereby consents to the liquidation of the Additional Sellers, commencing at any time 6 months after the Closing without the need for any further action or documentation by the Buyer in connection therewith.

10.4. The parties hereto agree that the resolution of any Additional Seller to pay a dividend in anticipation of liquidation or the actual payment of such dividend shall not, in and of itself, constitute a commencement of liquidation proceedings for purposes of this Section 10.

11. <u>Buyer Representations</u>

The first sentence in Section 4.1 of the Agreement shall be amended and replaced with the following:

"4.1 Organization. Each of the Buyers is, or will be prior to the Closing, a corporation duly organized, validly existing and is in good standing (where such concept exists) under the laws of the jurisdiction of its incorporation."

12. General Provisions

12.1. Entire Agreement

Except as set forth in this Amendment, all other terms and conditions of the Agreement shall remain unchanged. This Amendment shall be deemed for all intents and purposes as an integral part of the Agreement. The Agreement and this Amendment constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, between the parties hereto with respect to the subject matter hereof.

12.2. Further Assurances; Interpretation

Each of the parties shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Amendment and the intentions of the parties as reflected hereby.

12.3. Counterparts

This Amendment may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

– Signature page to follow –

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first above written.

Tech Ink (Pty) Ltd.

By: _____

Name:
Title:

Scitex Vision Ltd.

By: _____

Name:
Title:

Kovacs Investments 319 (Pty) Ltd.

By: _____

Name:
Title:

Kovacs Investments 183 (Pty) Ltd.

By: _____

Name:
Title:

Hewlett-Packard Company

By: _____

Name:
Title:

EXHIBIT 8

LIST OF SUBSIDIARIES

The following table lists the significant subsidiaries (direct or indirect) of Scailex Corporation Ltd. ("Scailex") and their respective jurisdiction of incorporation, as of the date of Scailex's Annual Report on Form 20-F filed herewith:

LEGAL AND BUSINESS NAME*	JURISDICTION
Scailex Vision (Tel Aviv) Ltd.	Israel
Jemtex InkJet Printing Ltd.	Israel

EXHIBIT 12.1

CERTIFICATION

(Certification of CEO of the Registrant pursuant to Rule 13a-14(a)
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Raanan Cohen, certify that:

1. I have reviewed this annual report on Form 20-F of Scitex Corporation Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: June 28, 2006

/s/ Raanan Cohen

Raanan Cohen
President and Chief Executive Officer

EXHIBIT 12.2

CERTIFICATION

(Certification of CFO of the Registrant pursuant to Rule 13a-14(a)
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Yahel Shachar, certify that:

1. I have reviewed this annual report on Form 20-F of Scitex Corporation Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/ Yahel Shachar

Dated: June 28, 2006

Yahel Shachar
Chief Financial Officer

EXHIBIT 13.1

CERTIFICATION

(Certification of CEO of the Registrant pursuant to Rule 13a-14(b)
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report of Scitex Corporation Ltd. (the "Company") on Form 20-F for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Raanan Cohen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2006

/s/ Raanan Cohen

Raanan Cohen
President and Chief Executive Officer

EXHIBIT 13.2

CERTIFICATION

(Certification of CEO of the Registrant pursuant to Rule 13a-14(b)
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report of Scitex Corporation Ltd. (the "Company") on Form 20-F for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Yahel Shachar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2006

/s/ Yahel Shachar

Yahel Shachar
Chief Financial Officer

EXHIBIT 14(a)(1)

[PricewaterhouseCoopers Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Registration No. 33-34233, Registration No. 33-46861, Registration No. 33-87614, Registration No. 33-97622, Registration No. 33-97624 and Registration No. 33-39364) of Scailex Corporation Ltd. of our report dated March 19, 2006, relating to the financial statements of Scailex Corporation Ltd., which appears in this From 20-F.

Tel-Aviv, Israel
June 28, 2006

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers International Limited

EXHIBIT 14(a)(2)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 33-34233, Registration No. 33-46861, Registration No. 33-87614, Registration No. 33-97622, Registration No. 33-97624 and Registration No. 33-39364) of Scailex Corporation Ltd., of our Report dated February 26, 2006, with respect to the financial statements of Jemtex Ink Jet Printing Ltd. as of December 31, 2005.

/s/ Ziv Haft
Ziv Haft
Certified Public Accountants
BDO member firm

Tel Aviv Israel

June 27, 2006

EXHIBIT 14(a)(3)

Chaikin, Cohen, Rubin & Gilboa.

Atidim Technology Park, Bldg. 4,
P.O.B. 58143 Tel-Aviv 61580, Israel
Tel: 972-3-6489858 Fax: 972-3-6489946
E-mail: accounting@ccrcpa.co.il

Certified Public Accountants (Isr.)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the inclusion in the Annual Report on Form 20-F of Scailex Corporation Ltd. ("Scailex") for the fiscal year ended December 31, 2005 (the "Annual Report"), and to the incorporation by reference in the Registration Statements of Scailex on Form S-8 (Registration No. 33-34233, Registration No. 33-46861, Registration No. 33-87614, Registration No. 33-97622, Registration No. 33-97624 and Registration No. 33-39364), of our Report dated March 2, 2005, with respect to the financial statements of Objet Geometries Ltd. as of December 31, 2004.

Sincerely Yours,
/s/ Chaikin, Cohen, Rubin & Gilboa
Chaikin, Cohen, Rubin & Gilboa
Certified Public Accountants (Isr.)

Tel-Aviv, Israel
June 28, 2006

EXHIBIT 14(a)(4)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in Registration Statement Nos. 33-34233, 33-46861, 33-87614, 33-97622, 33-97624, and 33-39364 of Scailex Corporation Ltd. (formerly Scitex Corporation Ltd.) ("Scailex") on Form S-8 of our report on the financial statements of Scitex Vision America, Inc. (a wholly owned subsidiary of Scailex Vision (Tel-Aviv) Ltd. (formerly Scitex Vision Ltd.)) dated February 7, 2005, appearing in this Annual Report on Form 20-F of Scailex for the year ended December 31, 2005.

/s/ Frazier & Deeter, LLC

Frazier & Deeter, LLC

Atlanta, Georgia, United States

June 26, 2006