EMBLAZE

2008 ANNUAL REPORT & ACCOUNTS

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

CONTENTS

CHAIRMAN STATEMENT & CHIEF EXECUTIVE'S REVIEW

FINANCIAL HIGHLIGHTS FOR THE PERIOD ENDING 31 DECEMBER 2008:

Growth Arm - Formula:

- Continued strong growth despite the global slowdown;
- Revenues increased to $590.8 million ($378.9 for the nine months consolidated in 2007);
- Operating income increased to $30.4 ($17.2 for the nine months consolidated in 2007).

Innovation Arm:

- Continued investment in the Monolith and EMOZE projects;
- Loss of $27.8 million in 2008 mostly from the investment in Monolith and EMOZE according to plans;
- The Monolith device is expected to be launched in 2009 with cellular operators worldwide.

Consolidated Results:

- Revenue totaled $595.6 million (2007: $387.3 million);
- Net loss amounted to $27.1 million (2007: $3.2 million);
- Total assets amounted to $639.3 million as at 31 December 2008 (2007: $695.2 million);
- Continued the divestment of non-core businesses with the completion of sale in May 2008 of the entire holding in Orca Interactive;
- Maintained a strong balance sheet, supported by good working capital management.

OPERATIONAL REVIEW

2008 was a challenging year. Virtually every area of the global economy was impacted by one of the most volatile economic environments we have seen in decades.
Despite the global economic volatility, we have managed to maintain our group as a strong mix of mature, profitable, cash generating businesses under the Formula group ("Formula" or the "Growth arm") together with a number of exciting technology businesses that we believe to have excellent prospects for creating significant shareholder value (the "Innovation arm").
We plan to launch the Monolith – our next generation mobile handset in the second half of 2009 which we believe has the potential to dramatically enhance the position of the Company.

GROWTH ARM

The Group's Growth arm, Formula, continued to increase its revenues and profits throughout 2008 as a whole and all Formula subsidiaries reported revenue growth together with positive cash flow and operating profits.
The Group began consolidation of Formula in Q2 2007. Revenues of the Group's Growth arm for the year ended 31 December 2008 totaled $590.8 million compared to $378.9 million in the nine months ended 31 December 2007 with operating income in 2008 of $30.4 million compared to $17.2 million in the nine months ended 31 December 2007.

The table below summarises the 2008 performance of Formula in comparison to its 2007 twelve months performance (selected items):

Formula - Financial Highlights (audited)	Twelve months ended December 31,		
	2008	2007	
	US$ in thousands		% of change
Revenues	590,807	493,350	19.75
Gross profit	138,544	124,240	11.51
Operating income	33,373	27,235	22.54
Income (loss) from continuing operation	11,869	12,461	(4.75)
Income from discontinued operations	-	24,798	-
Net income	11,869	37,259	(68.14)

The steady growth of Formula since the acquisition of its controlling stake by Emblaze is the direct result of efforts invested by Emblaze. The Emblaze management has been highly involved in the strategy formation and implementation throughout the Formula group and played an integral in achieving the improvement demonstrated across the Formula group.

The achievements of Formula since the acquisition of its controlling stake (50.1%) by Emblaze are demonstrated below:

Formula consolidated results from continuing operations - 2006 vs. 2008 (US$000)

	2006	2008	% Difference
Revenues:	416,807	590,807	41.7
Operating Profits:	10,097	33,373	230.5
Net Profit (Loss):	(492)	11,869	N/A

Formula consolidated balance sheet (selected items) – December 31 2006 vs. December 31, 2008 (US$000)

	31 December 2006	31 December 2008	% Difference
Cash & Short term investments:	132,486	156,760	18.3
Shareholders' Equity:	153,290	169,937	10.9

The Emblaze management team has been integral in achieving this improvement. The achievements included the following:

- increased revenues in all subsidiaries;
- closed down loss making projects;
- improved control over costs;
- moved Sapiens to profitability after years of heavy losses and improved its cash position significantly;
- moved Magic to profitability after years of heavy losses; and
- improved Matrix's profitability

During 2008 Formula increased its holdings in Magic to 58.19% and in Sapiens to 70.4%

INNOVATION ARM

The innovation activities, mainly Emblaze Mobile and EMOZE, represent investments of the Company in research and development. We believe there is high potential for Emblaze to increase shareholder value as a result of these investments.

Both activities are in very advanced stages of development: the Monolith is expected launch and to go into production in the second half of 2009 and Emoze is already offering its solutions world-wide with first flow of revenues from operators and other users.

THE MONOLITH PROJECT

Following five years of research, Emblaze Mobile, a wholly owned subsidiary of the Group, has embarked on an ambitious project to design the ultimate holistic mobile device – the Monolith. Emblaze Mobile signed contracts in 2007 with Japanese giants Sharp and ACCESS to build, manufacture, and globally market the new device. In addition, Emblaze Mobile is partnering with over 20 third-party mobile technology vendors, all of whom are the leading innovators in their specific field of mobile ingenuity. Together, Emblaze Mobile, is creating what is aimed to be the most sophisticated and revolutionary device in the market.

The driving principle behind this futuristic project is to create an integrated communications device with a unique user interface and graphics design, the likes of which has never been seen in the industry. This Linux based device is not a mere phone, but rather an application centric device that acts as a full blown media and communications center. Built upon a brand new mobile software platform, the Monolith seamlessly integrates telephony and messaging, personal information management, push-technology information and media, mobile office access, GPS navigation and location based services, web browsing, mobile media player, and more.

The Monolith is designed as a true ARPU (Average Revenues per User) driving machine that is so needed these days by operators combining built-in services such as music store, family tracker, BlackBerry™-like push-email and more in a manner never to date done by any other vendor. Operators have for years been seeking value added services to increase ARPU in addition to air-time, but so far have not made much progress. Together with the Monolith device, we intend to provide operators with a bundled package of services that enables the operators to generate recurring revenues per user in the form of monthly fees, in addition to any previous payments by the user.

Product development is now in its final stage. Emblaze Mobile has already presented working samples to leading operators and has received excellent responses. The Company is currently in various stages of negotiations with the top ranked global operators for sizeable orders. Commencement of production by Sharp to fulfill such potential orders from operators is expected in the second half of 2009.

The Group strongly believes in this project and expects that once Sharp commences manufacturing to supply Monolith orders from operators, Emblaze Mobile will start generating substantial revenues and profits for the Company.

EMOZE

EMOZE Ltd., a 95% subsidiary of Emblaze, is a provider of a BlackBerry™-type service of Push e-mail for the masses and for small and mid-size enterprises.

EMOZE supports nearly all leading operating systems (Symbian, WindowsMobile and Java) and has recently released its first social community messaging solution for Facebook. This achievement extends EMOZE's reach as any Facebook member can now communicate not only from his/her PC but also from any mobile handset they own.

EMOZE provides its service world-wide and is already generating revenues from operators, value added resellers and individual users. Management expects EMOZE to break-even before the end of 2009.

There are approximately 1.4 billion email users world-wide; many of them would like to have their emails pushed to their handsets. We estimate that today only around 30 million email users are provided with such a service. The Board therefore considers EMOZE to present an excellent opportunity to create shareholder value through its efficient technology and competitive pricing.

ZONE-IP

ZONE-IP Ltd. (LSE:ZIP) is a 65% held subsidiary of Emblaze and holds all of the issued shares of Emblaze VCON Ltd., which is engaged in the development and deployment of high-performance, end-to-end videoconferencing solutions over IP and ISDN networks for enterprises of all sizes.

The world of video conferencing is changing from the traditional video conferencing meeting rooms to personal computers in organisations. This change will create a new paradigm for using video conferencing in medium to large corporations. With its new desk top solutions, Emblaze VCON is well placed to lead this market. The current turmoil in the financial markets is producing a trend towards cutting corporate travel costs in favour of video conferencing solutions.

The contribution of the principal divisions to the Emblaze Group is presented in the table below (selected items):

Emblaze Group - Financial Highlights US$ in thousands	Twelve months ended December 31, 2008			
	Growth Activity	Innovation Arm	Unidentified	Consolidated
Revenues	590,807	4,810	-	595,617
Gross profit	137,966	3,524	-	141,490
Operating income (loss)	30,439	(32,203)	-	(1,764)
Income (loss) from continuing operation	3,322	(30,628)	(2,620)	(29,926)
Income from discontinued Operations	-	2,862	-	2,862
Net income (loss)	3,322	(27,766)	(2,620)	(27,064)

OUTLOOK

The positive momentum in the Group's Growth business is continuing. Formula and its subsidiaries are not operating in a vacuum and therefore they are not immune to the global economic crisis. However, thanks to the implementation of our strategy, we believe that Formula and its subsidiaries are well prepared to navigate through the troubled waters of the current global environment as well as to explore new acquisitions, compatible with its strategy and current portfolio companies. The activity of the Innovation arm is closely monitored in order to mitigate the risks. We expect that in 2009 our investments in the Innovation Arm, in particular the Monolith, will come to fruition.

BOARD OF DIRECTORS

Naftali Shani, Chairman

Naftali Shani (61) is one of the four founding partners of Emblaze. Prior to founding Emblaze, he served as General Manager of Bartrade Ltd. (a subsidiary of Bank Leumi, one of Israel's leading banks), dealing with trade finance and counter-trade worldwide, and as General Manager of the Israeli Chemical Company, Pazchem. Prior to this, Mr Shani was the Treasurer and Controller of the Israeli Prime Minister's Office.

Guy Bernstein, Chief Executive Officer

Guy Bernstein (41) joined Emblaze as Chief Financial Officer and member of the Board of Directors in April 2004 and was appointed Chief Executive Officer in December 2006. Prior to joining Emblaze, Mr Bernstein served as Chief Financial and Operations Officer of Magic Software Enterprises (NASDAQ: MGIC), a position he held since 1999. At Magic, Mr Bernstein's responsibilities included the overseeing of all finance operations, legal and M&A worldwide including, budget planning, sales forecasting, board and SEC reporting and investor relations. Guy played a key role in Magic's corporate second offering raising US$100 million in 2000. He also acted as the Interim CEO for Magic's subsidiaries: MSE Israel Ltd. and Coretech Consulting Group, turning them around to profitability. Guy joined Magic from Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, where he acted as senior manager from 1994 to 1997. Mr Bernstein is a Certified Licensed Public Accountant and holds a BA in Accounting and Economics from Tel-Aviv University. Mr. Bernstein acts as CEO of Formula Systems (1985) Ltd., a subsidiary of Emblaze, since January 2008 and holds a director position in several companies within the Emblaze Group.

Eli Reifman, Executive Director

Eli Reifman (39) is one of the four founding partners of Emblaze. Mr. Reifman is the CEO of Emblaze Mobile in charge of developing the Monolith – next generation mobile handset. Mr Reifman served as Chief Executive Officer of the Company since September 2000 until 2006. Before founding Emblaze, he was the head of the Technical Development Department and acting head of all production in the Training Development Center of the Israeli Defense Force, where he was responsible for producing high-end military simulators. In parallel to his business activities, Mr Reifman is a regular lecturer at BA and MBA courses to Israeli and International students and is involved with promoting social education agenda in Israel via his memberships at various nonprofit organizations.

Ilan Flato, Non-Executive Director (A) (R)

Ilan Flato (53) joined the Board of Directors of Emblaze in April 2006. Until 2004, Mr. Flato served as the VP for planning, economics & online banking in United Mizrahi Bank and as the Chief Economist of the bank, where he was responsible for strategic & business planning and all aspects of online banking. Between 1992 and 1996, Mr Flato served as the Economic Advisor to the Prime Minister of Israel. His responsibilities included participation in government meetings, membership of the economic delegation to peace talks with the Palestinians in Paris and membership of the board of directors of El-Al (Israel Airlines & Israel Aircraft Industry). Prior to this position, Mr Flato served in the Treasury Office as the deputy director of the budget department, responsible for the budgets of various governmental offices. In addition, Mr. Flato served as a member of the board of directors of several government owned companies. Mr Flato has a BA in Economics and Work Relationships from the Tel-Aviv University and Master in Law from the Bar-Ilan University.

Shimon Laor, Non-Executive Director

Shimon Laor (42) served as the Chief Financial Officer of Emblaze until April 2000, also directing the operations and legal departments. Since then he has served as a non-executive director on the Emblaze Board and has been engaged in private business initiatives. Mr Laor also serves as a non-executive on the board of directors of Zone-IP Ltd. (LSE:ZIP), a 65 per cent subsidiary of the Company. Prior to joining Emblaze in August 1995, Mr Laor served as an economist at the Head Office of the Foreign Currency Division of the First International Bank in Israel.

Zvi Shur, Non-Executive Director (A) (R)

Zvi Shur (73) joined the Board of Directors of Emblaze in September 2007. Until 2002, Mr Shur served as the General Manager of the Israeli Diamond Manufacturers Association, a position he had held since 1983. Between the years 1982 and 1983, Mr Shur served as the General Controller of Tadiran, an electronics concern after serving in the Israeli Defense Force in a wide scope of duties for almost 30 years. His most recent post in the Israeli Defense Force was as Head of the Budget Department at the Ministry of Defense and Financial Advisor to the Chief of Staff, with the rank of Brigadier General. Between the years 1982 and 2005, Mr Shur served as non-executive director of over 20 Israeli companies engaged in a variety of businesses from manufacturing to financial. In 2003, Mr. Shur founded Shur Zvi Consulting and is an active member of management of the Maccabia village and Maccabi World Union. Mr Shur holds a Bachelor of Science in Electrical Engineering and a Masters of Science Industrial and Management Engineering

Nahum Admoni, Non-Executive Director (A) (R)

Nahum Admoni (80) joined the Board of Directors of Emblaze in September 2008. Mr. Admoni currently serves as director of Universe Security Group Ltd., a private company, a position he has held since July 2003. In addition, Mr. Admoni has served as a member of the Board of Governors of the Ben Gurion University since 1998. Between the years 1989 and 1994, Mr. Admoni served as the chief executive officer of Mekorot, the Israel National Water Company. Prior to this, Mr. Admoni served as the head of the Israel Secret Intelligence Service (the “Mossad”) between the years 1982 and 1989. Previous directorships held by Mr. Admoni include ECI Telecom Ltd., a NASDAQ traded company until September 2007, where he served as a director between May 1998 and September 2000, Sunfrost Ltd., listed on the Tel Aviv Stock Exchange, where he served as external director under the Israeli Companies Law between September 2005 and September 2008, Housing & Construction Holding Company Ltd., a member of the Arison Group and listed on the Tel Aviv Stock Exchange, where he served as a director between August 1996 and November 2006, Discount Investment Corporation Ltd., listed on the Tel Aviv Stock Exchange, where he served as external director under the Israeli Companies Law between December 1999 and December 2004, The Israel Electric Corporation Ltd., an Israeli government corporation listed on the Tel Aviv Stock Exchange, where he served as a director between July 2000 and August 2003, Mishkan Bank Ltd., a private bank, where he served as a director between March 2000 and August 2003 and Bank Hapoalim, where he served as a director between June 1998 and December 1999. Mr. Admoni holds a BA and MA in Political Science from the University of California in Berkeley.

Hadas Gazit-Kaiser, Chief Financial Officer (retired in January 2009)

Hadas Gazit Kaiser (33) joined the Emblaze Group as VP Finance in 2005 and was appointed Chief Financial Officer and member of the Board of Directors in December 2006. Prior to joining Emblaze, Mrs. Gazit Kaiser was a member of TTI Telecom International (NASDAQ:TTIL) team for two years where she came after acting as a manager at Ernst & Young Global (Kost, Forer Gabbay & Kasierer). Mrs Gazit Kaiser is a Certified Licensed Public Accountant and holds a BA in Economics and Accounting and an MBA in Finance, both from the Tel-Aviv University.

Bertrand Faure-Beaulieu, Non-Executive Director (A) (R)
(retired in September 2008)

Bertrand Faure-Beaulieu (43) joined the Board of Directors of Emblaze in August 2005. He is a graduate of ESSEC Business School and has a background in banking and risk management. Mr Faure-Beaulieu began his career in corporate banking and then spent four years looking after political risk management with Glencore, a leading commodities trading company. In 1993, Mr Faure-Beaulieu became a co-founder of Trafigura, a commodities trading and recycling group, which grew to over 600 people in four years with annual revenues in excess of US$6 billion. After leaving Trafigura in 1997, Mr Faure-Beaulieu became an independent consultant and long-term investor, playing active roles in the early financing stages of companies. In 1999 Mr Faure-Beaulieu founded Vielife Ltd., a UK based company that became a leading global provider of corporate health and productivity solutions. Mr Faure-Beaulieu acted as CEO for Vielife until 2002, when he stepped up to the position of executive chairman, a role he held until the company was sold to Cigna in 2007.

A Member of the Audit Committee
R Member of the Remuneration Committee

CORPORATE GOVERNANCE

Incorporated in Israel, Emblaze Ltd. ("Emblaze" or the "Company") is listed on the Official List of the London Stock Exchange and the board of directors of Emblaze (the "Board") has therefore decided, as a matter of best corporate practice, that the Company will comply, so far as practical, with the main provisions of the Combined Code on Corporate Governance (the "Code").

The following statement of corporate governance reflects the position of the Company as at 31 December 2008.

THE BOARD

The Board is responsible for the Company's corporate governance policy. It recognises the importance of high standards of integrity and consistently seeks to apply the provisions set out in the Code.

The Company is controlled through its Board of Directors whose main roles are to:

- create value for shareholders;
- provide leadership of the Company;
- approve the Company's strategic objectives;
- ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives; and
- operate within a framework of effective controls which enables the assessment and management of principal business risks

The Board is responsible for approving overall Company strategy and financial policy, acquisition and investment policy and major capital expenditure projects. It also appoints and removes members of the Board and Board Committees, reviews recommendations of the Audit Committee, Remuneration Committee and Nomination Committee, and the appointment of the independent auditor. It also reviews the financial performance and operation of each of the Company's businesses.

The Board sets the standards and values of the Company and much of this has been embodied in the Company's Code of Conduct and Ethics and Human Rights Policy which can be found on the Company's website, www.Emblaze.com. The Code of Conduct and Ethics applies to all Directors, officers and employees of the Company. The Company's Code of Conduct and Ethics contains provisions under which employees can report violations of company policy or any applicable law, rule or regulation. The current procedure provides for information to be given anonymously or by named employees under conditions of confidentiality. Those employees who come forward and give their name are assured that they will receive the full protection and no retaliation will take place.

The Board is responsible for the Company's corporate governance policy. It recognises the importance of high standards of integrity and consistently seeks to apply the provisions set out in the Code.

The Board has delegated to the CEO responsibility for the day-to-day management of the Company subject to certain financial limits above which Board approval is required as well as limitation of certain transaction involving Company assets for which Board approval is required.

The Board consists of a non-executive Chairman, a Chief Executive Officer, a Chief Financial Officer (until end 2008), an executive director and four non-executive directors, one of whom, Mr Ilan Flato, is the senior non-executive director. Together with their different financial, commercial, technical and operational expertise, the directors bring with them a wide range of experience to the Company.

During the year ended December 2008, the Board comprised the following members:
Mr. Naftali Shani, the non-executive Chairman
Mr. Guy Bernstein, the Chief Executive Officer
Mr. Eli Reifman, an executive-director
Ms. Hadas Gazit-Kaiser, the Chief Financial Officer[1]
Mr. Shimon Laor, a non-executive director
Mr. Bertrand Faure Beaulieu, a non-executive director[2]
Mr. Ilan Flato, a non-executive director
Mr. Zvi Shur, a non-executive director
Mr. Nahum Admoni, a non-executive director[3]

There is a clear division of responsibility between the Chairman and the CEO, with neither having unfettered powers of decision with respect to substantial matters. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate matters to enable them to participate effectively in Board decisions. The Chairman, Naftali Shani, is also chairman of EMOZE Ltd., a 95% subsidiary of the Company and Chairman of Formula Systems (1958) Ltd., a 50.1% subsidiary of the Company. Whilst these are important appointments, the Board believes that the Chairman continues to be able to carry out his duties and responsibilities effectively for the Company.

Directors are subject to re-election at every Annual General Meeting (with the exception of the External Directors, as further described below). The Board has the power at any time, and from time to time, to appoint additional directors (either to fill any vacancy or as additional directors) provided that the number of directors does not exceed the maximum permitted by the Company's articles of association.

Each of the directors has a service agreement with the Company. Details of the terms of the service agreements are set out in the Report on Directors' Remuneration.
While there is no formal process in place, the performance and effectiveness of each director is assessed on an on-going basis by the other members of the Board.

On appointment, Non-Executive Directors receive a range of information about the Company which aims to provide an understanding of the Company as a whole, including its strategy, structure, geographic spread of operations, financial position, markets, products, technologies and people, as well as their legal responsibilities as Directors. There is in place a procedure whereby the directors may, in furtherance of their duties, take independent legal and financial advice, at the Company's expense.

[1] retired in January 2009
[2] retired in September 2008
[3] joined in September 2008

The interests of the Directors as respectively reported to the Company in the share capital of the Company as at 31 December 2008 are shown below:

	Number of ordinary shares	% of issued and outstanding share capital
Eli Reifman	17,353,000	15.53%
Naftali Shani	15,482,784	13.86%
Shimon Laor	100,000	0.09%
Guy Bernstein	268,045	0.24%
Hadas Gazit[4]	37,500	0.03%

BOARD MEETINGS

The Board meets on a regular basis to discuss the overall direction and strategic plan of the Company. The Board also monitors the Company's budget, performance and achievements.
Prior to each Board meeting, each director receives background materials related to the matters for discussion at the meeting. Once a year, a budget is discussed and approved by the Board for the following year. All directors are properly briefed on progress with respect to matters discussed at Board meetings and further information requested by a director is made available.

Attendance by each individual director at Board and principal Committee meetings held during 2008:

Meetings held in 2008	Board	Audit
	15	6
Meetings attended:		
Naftali Shani	15	n/a
Eli Reifman	13	n/a
Guy Bernstein	15	n/a
Hadas Gazit-Kaiser[1]	14	n/a
Shimon Laor	15	n/a
Bertrand Faure Beaulieu[2]	2	0
Ilan Flato	15	6
Zvi Shur	13	6
Nahum Admoni[3]	6	2

Notes
n/a = not applicable (where a director is not a member of a committee)

During the year, other directors have attended meetings of the Audit Committee by invitation. These details are not included in the table above. On the occasion when a director cannot attend a meeting, he will normally make his views on the agenda items known prior to the meeting to the Chairman or to another director or, in respect of Committee meetings, to the Chairman of the respective Committee.

[4] shares sold on January 08, 2009

INDEPENDENCE

The Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board’s decision taking. The Code states that the board of directors should determine whether a director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director’s judgment. The Board has considered the independence of its non-executive directors in line with the principles of the Code (section A.3.1) and, following careful consideration, assessed the independence of the non-executive directors as set out below.

The non-executive Chairman, Naftali Shani, one of the founding shareholders of Emblaze, holds approximately 14% of the issued and outstanding shares of the Company and is therefore not considered under the Code to be independent. However, the Board has determined that Mr. Shani is performing his chairmanship obligations on an independent basis.

The Board has determined that the non-executive directors, Ilan Flato, Zvi Shur and Nahum Admoni all meet the Code’s independence requirements, as they are independent of the Company’s executive management and free from any material business or other relationship with the Company (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the Company). Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of its independent judgment.

Shimon Laor holds Company shares and options. However, the Board believes that the modest number of shares and options that he holds does not affect his independence and in any event, the Board is satisfied that there is sufficient independent representation on the Board.

The Company’s non-executive directors meet together from time to time in the absence of management.

The Israeli Companies Law requires the Company to appoint two "External Directors" who meet certain statutory criteria of independence. Under Israeli law, the initial term of an External Director is three years and the term may be extended for one additional three-year period. Mr. Zvi Shur was appointed for a first three-year term as an external director at the Company’s Annual General Meeting held on September 11, 2007. The second external director is Mr. Ilan Flato, who was appointed for a first three-year term at the Annual General Meeting held on April 20, 2006.

BOARD COMMITTEES

The Board has established Audit, Remuneration and Nomination Committees. The duties of these committees are set out in formal terms of reference and the Board is satisfied that these terms conform with best corporate governance practice. The terms of reference for all Board committees can be found on the Company's website at www.Emblaze.com
The Company Secretary is Secretary to all Board committees.

AUDIT COMMITTEE

Under the Israeli Companies Law, the audit committee must have at least three members, including all external directors, and neither the Chairman of the Board, nor any person who is employed by or provides services to the Company nor any person having control over the Company (or any relative of such control person) may be a member of the Audit Committee.
The Audit Committee comprises three independent non-executive directors: Ilan Flato who was appointed to the Committee in April 2006 and became chairman of the Committee in September 2007, Zvi Shur who was appointed in September 2007 and Nahum Admoni who was appointed in September 2008, replacing Bertrand Faure Beaulieu. The Board has determined that all three members of the Audit Committee are independent for the purposes of the Combined Code. The members bring wide-ranging financial, commercial and management experience to the work of the Audit Committee.
The Chairman of the Committee, Ilan Flato, has previously held a number of senior financial management positions. Hence, the Board has determined that Ilan Flato is a 'financial expert' as that term is defined under the Israeli Companies Law, having recent and relevant financial and accounting knowledge and experience.

The Audit Committee meets at least twice a year and on other occasions when circumstances require. The quorum for a meeting of the Committee is two members. The Company's financial team and representatives from the independent auditor and the internal auditor attend meetings under a standing invitation. The Chairman of the Board, the CEO and other directors are able to attend meetings of the Committee under the practice that any Director may attend any meeting of a Committee of the Board, provided that they have no conflict of interest in respect of business to be discussed. It is usual practice for the CEO to attend meetings of the Audit Committee. The Company Secretary is Secretary to the Committee. Six meetings were held during the year 2008.

In accordance with its terms of reference, the Audit Committee is required to oversee the relationship with the Company's external auditors, to review the Company's preliminary results, interim results and financial statements and to monitor compliance with statutory and listing requirements for any exchange on which the Company's shares are quoted. It reviews the Company's internal control and risk management as well as the Company's cash investment policy. The Audit Committee also review the arrangements by which the Company's employees may, in confidence, raise concerns about improprieties in matters of financial reporting and other matters (commonly referred to as "whistle-blowing" procedures).

The Code and the Israeli Companies Law require the Company to ensure a sound system of internal control to safeguard shareholders investments and the Company's assets. Such system should cover all material controls – financial, operational, compliance and risk management. To comply with this provision, the Board appointed an internal auditor, who is responsible for examination of the Company's internal controls and reviewing their effectiveness. All the recommendations provided

by the internal auditor are presented to the Audit Committee for review and evaluation. The Audit Committee then recommends the required measures, if any, to the Board of directors for final decision and execution.
The following issues have been reviewed by the internal auditor at the request of the Audit Committee during 2008:

- Human resource and salary managements
- Company's holdings in subsidiaries and related companies

The Company's auditors are Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. For the year ended 31 December 2008, the Board of Directors of the Company has determined the audit remuneration of its auditors at a level of US$130,000. In addition, the auditors were entitled to remuneration of approximately US$12,000 in relation to non-audit consultancy.

REMUNERATION COMMITTEE

Under the Israeli Companies Law, at least one external director must be a member of the Remuneration Committee. The members of the Remuneration Committee of the Company are Ilan Flato, Zvi Shur and Nahum Admoni who replaced Bertrand Faure Beaulieu in September 2008.
In accordance with its terms of reference, the Remuneration Committee approves the remuneration of all of the Company's senior executives and is responsible for making recommendations to the Board on the Company's framework of executive remuneration and for determining on behalf of the Board the remuneration package for each executive director.
The remuneration of non-executive directors is determined by the entire Board. No director participates in Board discussions on, or votes on matters relating to, their own remuneration.

STOCK OPTION PLANS

It is the policy of the Company to grant share options under its employee share option schemes to all of its full time employees in a manner that is consistent with that of other similar companies with whom Emblaze competes for recruitment and retention of staff, and which incentivises and rewards loyalty and high performance.
Options to acquire the Company's shares are granted in addition to other forms of remuneration. The price at which shares may be acquired is the higher of the fair market value at the date of grant or the average of 30 days trading prior to the grant date. The exercise of options granted is generally phased over four years. The grant or exercise of options may be linked to performance criteria.

On June 28, 2001 the Company's shareholders approved the Company's Global Option Plan. The Company reserved 10,000,000 registered (i.e. authorised) but unissued ordinary shares of the Company for the purpose of this option plan. On June 9, 2003 the shareholders approved the consolidation of the Geo Interactive Media Group Ltd. 1999 Stock Option Plan ("1999 Plan") with the Emblaze Ltd. 2001 Global Stock Option Plan ("2001 Plan") so as to treat shares reserved for allotment under the 1999 Plan as being reserved for allotment under the 2001 Plan (but without prejudice to the actual terms and conditions of each grant previously made under the 1999 Plan). The reason for the consolidation was that, following the adoption of certain amendments to Israeli tax laws, rules and regulations, grants under the 1999 Plan did not comply with such amendments. Therefore, the available pool of options under the 1999 Plan was transferred to the 2001 Plan. On August 31, 2006 the Shareholders approved an additional reserve of 13,000,000 registered (i.e. authorised) but unissued ordinary shares of the Company for the purpose of the Global Option Plan. The Company's 2001 Global Stock Option Plan will lapse in June 2011.

PENSION PLANS

The Company makes contributions for all of its employees to a pension fund and severance account, in amounts of 5% and 8.33%, respectively, of the employees' salary In addition, the Company contributes up to 2.5% of the employees' salary to disability insurance.

NOMINATION COMMITTEE

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. Under the Israeli Companies Law, at least one external director must be a member of the Nomination Committee. Until September 2008, the committee was chaired by Naftali Shani, Chairman of the Board and although the majority of members of the committee comprised from independent non-executive directors, the Board has resolved that the committee should comprise only of all independent directors. Therefore, since September 2008, the nomination committee is chaired by Zvi Shur and its other members are Ilan Flato and Nahum Admoni, who replaced Bertrand Faure Beaulieu in September 2008. The Nomination Committee's principal function is to regularly review the structure, size and composition of the Board (including the skills, knowledge and experience required of directors) and to make recommendations to the Board as to any changes required

RELATIONS WITH SHAREHOLDERS

The Company places a high degree of importance on maintaining good relationships and communications with both institutional and private investors and ensures that shareholders are kept informed of significant Company developments

The Company welcomes dialogue with its shareholders and communicates with them through timely announcements, its interim and annual reports and through the Company's website, which is regularly updated. Regular meetings are held with institutional investors and the Company encourages the direct approach of its senior management by shareholders for questions and clarifications on the Company's business activities. Further, as senior non-executive director, Ilan Flato is available to shareholders.

The Company's annual general meeting is also used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's annual general meetings in order to take advantage of the opportunity to ask questions of the directors. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration, including the approval of the annual report and accounts. Proxy votes are announced after each proposed resolution is voted on by a show of hands.

Notice of general meetings and related documentation are (subject to certain exceptions) sent to shareholders at least 35 days in advance of such meeting.

SHAREHOLDERS RIGHTS

The Company's issued share capital is comprised of ordinary shares of NIS 0.01 each. The total issued share capital of the Company as at December 31, 2008 is 140,578,154 of which, 111,718,432 ordinary shares are outstanding.

MAJOR SHAREHOLDINGS

Voting rights notified under the Disclosure and Transparency Rules of the UKLA as at 31 December 2008 are set out in the table below:

	Number of Shares	**% of total voting rights**
Fortissimo Capital Management Ltd	17,966,558	16.08
Eli Reifman	17,353,000	15.53
Schroders plc	16,964,792	15.22
Naftali Shani	15,482,784	13.86
Donald L. Sturm & Sturm Family Foundation	9,900,797	8.86
AXA S.A and its group of companies	5,378,737	4.825

CORPORATE SOCIAL RESPONSIBILITY

Emblaze recognises the obligations it has towards those with whom it has dealings, including its staff, customers, suppliers, shareholders and the community as a whole. More information on the Company's approach to these matters can be found in the Company's Ethics and Environmental Policies, which are available on the Company's website at www.Emblaze.com

Although the Company is not a manufacturing industrial company, our activities do have an impact on the environment as a result of the use of electricity, generation of waste as well as business and local travelling. Emblaze endeavours to take steps to minimise the impact of the Company's operations on the environment in a responsible and appropriate manner with the aim to provide a safe and healthy workplace for all employees. As such, the main guiding principles of our policy focuses on minimising waste generation and preventing pollution, reducing energy consumption and encourage recycling. In leading general environmental good practice, Emblaze will:

- continue to comply with environmental laws, regulations and industry standards of the countries in which we conduct business;
- continue to maintain its offices "smoke-free". There are only restricted outdoor areas where employees may smoke;
- continually seek to improve its environmental performance;
- minimise the consumption of energy and water used in our facilities;
- reduce, re-use and, wherever is environmentally practicable, recycle consumables and dispose of non-recyclable items in an environmentally acceptable manner.
- where possible, procure resources and services from suppliers who have a sympathetic approach to the environment; and
- carefully plan the business flights of its staff in order to maximise utilisation of each travel.

REPORT ON DIRECTORS' REMUNERATION

As it is incorporated outside the United Kingdom, the Company is not obliged to include in its Annual Report and Accounts a report to shareholders on directors' remuneration. Nonetheless, as part of its commitment to best corporate practice, the Board has decided to issue this report, which has been prepared in accordance with UK Listing Rules and the Code.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The Company's executive remuneration policy is to set total remuneration at levels designed to attract, motivate and retain high quality executives of appropriate ability, experience and integrity to manage the affairs of the Company. In formulating its remuneration policy, the Remuneration Committee is mindful of the competitive pressures inherent in the sector in which it operates. It is the Company's policy that remuneration components, except base salaries which are determined in accordance with compared companies, are related to the financial performance of the Company.
Each of the directors has a service contract with the Company, providing a notice provision of a maximum of six months.

REMUNERATION OF EXECUTIVE DIRECTORS

In December 2006, the Board has resolved to make few organizational changes to include the move of Eli Reifman from the post of chief executive officer of the Company to be replaced by Guy Bernstein, who until then was the chief financial officer of the Company.
Eli Reifman serves as chief executive officer of Emblaze Mobile Ltd., a fully owned subsidiary of the Company. In October 2007, and since most of his time and efforts were dedicated to Emblaze Mobile, the Board has resolved to assign Eli Reifman's remuneration to Emblaze Mobile. Therefore, Eli Reifman's salary and social benefits are paid in total by Emblaze Mobile. Nevertheless, due to the fact that Eli Reifman's remuneration are paid by a fully owned private company of Emblaze, the Board and the remuneration committee of the Board deem Eli Reifman as an executive director of the Company itself and therefore, his remuneration package is provided in the table below.

Guy Bernstein, chief executive officer of the Emblaze since December 2006, was appointed in January 2008 to become chief executive officer of Formula Systems (1985) Ltd., a 51.67 per cent. subsidiary of Emblaze, in parallel to his executive position with the Company. Due to the fact that the majority of Guy Bernstein's time and attention is devoted to Formula, his remuneration is borne by Formula since December 2008 in accordance with an agreement he has entered into with Formula. Therefore, from 2009 onwards, the Company will no longer bear any of the costs related to Guy Bernstein's employment as Company CEO, except for the options he was granted in the past, on which he will continue to accrue vesting as long as he is a director of the Company, as determined in his respective option agreements.

In January 2009, Hadas Gazit-Kaiser moved from the post of chief financial officer and member of the board of directors of the Company to become the chief financial officer of Magic Software Enterprises Ltd. (NASDAQ: MGIC), a subsidiary of Formula Systems (1985) Ltd in the Emblaze group of companies.

EXECUTIVE DIRECTORS - REMUNERATION PACKAGES FOR THE YEAR 2008 (IN THOUSANDS OF US$)

Name	Salary	Bonus	Insurance and/ or pension plan	Educational fund	Other	Total
Eli Reifman	281	-	28	4	61	374
Guy Bernstein	455	-	-	-	-	455
Hadas Gazit- Kaiser	131	44	14	4	46	240

EXECUTIVE DIRECTORS - SHARE OPTIONS

EMBLAZE STOCK OPTION PLAN

	Number of options	Exercise Price	Cancelled	Outstanding	Option Expiry	Vesting Schedule
Eli Reifman	4,000,000[1]	£1.32	0	4,000,000	June 09, 2013	Fully vested as of July 5, 2005
	4,400,000[1]	£2.00	2,750,000[2]	1,650,000	August 31, 2016	Between year-end 2006 and year-end 2010, according to performance criteria set by the Board[2]
	4,300,000[1]	£2.50	2,687,500[2]	1,612,500	August 31, 2016	
	4,300,000[1]	£3.00	2,687,500[2]	1,612,500	August 31, 2016	
Guy Bernstein	160,000[1]	£1.1677	0	160,000	April 01, 2014	4 equal annual installments
	240,000[1]	£1.422	0	240,000	Dec. 14, 2014	4 equal semi-annual installments
	1,650,000[1]	£0.755	0	1,650,000	May 31, 2017	Quarterly over a period of 4 years
Hadas Gazit-Kaiser[3]	40,000[1]	£1.45	0	40,000	Oct. 11, 2015	4 equal annual installments
	150,000[1]	£0.7525	0	150,000	May 07, 2017	4 equal annual installments
	150,000[1]	NIL	0	112,500	May 07, 2017	4 equal annual installments

Notes:

[1]) Options under the Emblaze 2001 Global Stock Option Plan.

[2]) Of the total 13,000,000 options granted to Eli Reifman pursuant to shareholders approval on June 29, 2006, a total of 8,125,000 options were forfeited as of December 31, 2008 as a result of not meeting performance criteria set by the Board.

[3]) Retired in January 2009 to take the position of CFO of Magic Software Enterprises Ltd. a subsidiary of Formula Systems in the Emblaze group of companies. In Accordance with the terms of the Company's stock option plan, the options granted to Hadas Gazit-Kaiser did not expire upon termination of her employment by the Company and will continue to vest so long as she continues to be employed by or render services to any affiliate of the Company.

SUBSIDIARIES STOCK OPTION PLAN

	Subsidiary	Number of options	Exercise Price	Outstanding	Option Expiry	Vesting Schedule
Naftali Shani	EMOZE Ltd.	1,080,000	$0.163	1,080,000	Sept. 11, 2013	Fully vested as of Sept. 11, 2007
Eli Reifman	Emblaze Mobile Ltd.	1,297,375	$1.55	1,297,375	June 30, 2017	4 equal annual installments Options become exercisable subject to performance criteria set by the Board

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is set by the Remuneration Committee and approved by the Audit Committee and the Board of Directors, subject to the approval of the annual general meeting.

Non-executive directors and the Chairman are entitled to fees of £20,000 per annum, paid quarterly. These fees have been determined with reference to available information on the fees paid to non-executive directors in other companies of broadly similar size, market cap and complexity. Non-executive directors are also entitled to reimbursement of reasonable out-of-pocket expenses.

Non-executive directors have service contracts with the Company under which, each non-executive director is subject to re-election at each annual general meeting. The two external directors are appointed, as required by Israeli law, for a term of three years and may be appointed for one additional three-year term.
None of the directors is involved in any discussion with the Board or any committee of the Board relating to their own remuneration, nor do they participate in any vote on their remuneration by the Board or any committee of the Board.

NON-EXECUTIVE DIRECTORS - SHARE OPTIONS

EMBLAZE STOCK OPTION PLAN

	Number of options	Outstanding	Exercise Price	Exercise Period		Vesting Schedule
				From	Until	
Shimon	50,000[1]	50,000	£0.47	March 01, 1999	March 01, 2009	Fully vested as of March 01, 2003
Laor[2]	200,000[1]	200,000	£1.075	Sept. 08, 1999	Sept. 08, 2009	Fully vested as of Sept. 08, 2003

Notes:
[1]) Options under the Emblaze 1999 Stock Option Plan.
[2]) Was an executive of the Company until 2000 and was granted options at the time of employment. Also holds 100,000 Company shares previously exercised from an option granted to him at the time of his employment.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of

EMBLAZE LTD.

We have audited the accompanying consolidated balance sheets of Emblaze Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and 2007, 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, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, which statements reflects total assets constituting approximately 53% and 55% of total consolidated assets as of December 31, 2008 and 2007, respectively, and total revenues constituting 85% and 78% of total consolidated revenues for the years ended December 31, 2008 and 2007, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries referred to above, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 2008 and 2007, the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with generally accepted accounting principles in the United States.

Tel-Aviv, Israel
April 30, 2009

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2007	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 172,456	$ 122,197
Short-term investments (Note 4)	56,900	48,377
Trade receivables (including unbilled receivables of $27,208 and $27,377 as of December 31, 2007 and 2008, respectively)	141,922	159,508
Other receivables and prepaid expenses (Note 6)	37,220	17,309
Inventories	5,887	5,320
Assets held for sale and assets of discontinued operations (Note 3(f))	17,307	31
Total current assets	431,692	352,742
LONG-TERM RECEIVABLES AND INVESTMENTS (Note 7)	25,481	20,983
SEVERANCE PAY FUND	37,599	39,047
PROPERTY AND EQUIPMENT, NET (Note 8)	16,297	15,716
GOODWILL (Note 9)	130,734	154,757
OTHER ASSETS, NET (Note 10)	53,443	56,022
Total assets	$ 695,246	639,267

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

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2007	December 31, 2008
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 60,689	$ 60,011
Short-term liabilities to banks and others (Note 11(a))	34,284	13,014
Other payables and accrued expenses (Note 13)	77,727	103,311
Liability due to activities acquisition (Note 12)		6,954
Liabilities held for sale and liabilities of discontinued operations (Note 3(f))	9,726	483
Convertible debt (Note 14)	3,524	5,157
Total current liabilities	185,950	188,930
LONG-TERM LIABILITIES		
Convertible and non-convertible debts (Note 14)	71,880	56,004
Liabilities to banks and other (Note 15)	23,685	16,640
Deferred tax liability	5,764	6,819
Other long term liabilities	4,287	1,216
Liability due to acquisition of a business operation	-	1,010
Accrued severance pay	44,002	51,518
Total long-term liabilities	149,618	133,207
MINORITY INTEREST	208,602	190,556
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)		
SHAREHOLDERS' EQUITY: (Note 17)		
Share capital:		
Ordinary shares of NIS 0.01 par value - Authorized: 200,000,000 shares at December 31, 2007 and 2008; Issued: 140,578,154 shares at December 31, 2007 and 2008; Outstanding: 111,476,687 and 111,718,432 shares at December 31, 2007 and 2008, respectively	416	416
Additional paid-in capital	470,891	470,716
Treasury stock, at cost	(76,433)	(75,654)
Accumulated other comprehensive income	4,993	6,951
Accumulated deficit	(248,791)	(275,855)
Total shareholders' equity	151,076	126,574
Total liabilities and shareholders' equity	$ 695,246	$ 639,267

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2006	**2007**	**2008**
Revenues (Note 19)	$ 7,629	$ 387,276	$ 595,617
Cost of revenues	4,071	288,327	454,126
Gross profit	3,558	98,949	141,491
Operating expenses:			
Research and development, net	5,571	13,742	33,157
Selling and marketing	7,185	36,681	50,153
General and administrative	6,634	43,474	59,945
Total operating expenses	19,390	93,898	143,255
Operating Income (loss)	(15,832)	5,051	(1,764)
Financial income (expenses) (Note 20(a))	5,830	(3,873)	(7,097)
Other income (expenses) (Note 20(b))	(3,600)	7,408	(885)
Income (loss) before taxes on income	(13,602)	8,586	(9,746)
Taxes on income (Note 18)	-	718	4,339
Income (loss) before minority interest and equity earnings (loss)	(13,602)	7,868	(14,085)
Equity in earnings (losses) of affiliated companies, net	327	528	(216)
Minority interest	2,174	(11,400)	(15,625)
Loss from continuing operations	(11,101)	(3,004)	(29,926)
Gain (loss) from discontinued operations, net (Note 3(f))	1,262	(232)	2,862
Net loss	$ (9,839)	$ (3,236)	$ (27,064)
Basic and diluted loss per share:			
From continuing operations	$ (0.09)	$ (0.03)	$ (0.27)
From discontinued operations	0.01	0.00	0.03
Net loss per share	$ (0.08)	$ (0.03)	$ (0.24)
Weighted average number of shares used in computing basic and diluted loss per share	123,595,330	111,476,440	111,522,295

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury Stock, at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive income (loss)	Total
Balance as of January 1, 2006	416	463,848	(7,381)	(2,187)	(235,716)		218,980
Repurchase of shares from related parties, net	-	-	(70,953)	-	-		(70,953)
Issuance of shares upon exercise of stock options	-	49	182	-	-		231
Issuance of shares upon business combinations, net	-	1,139	1,711	-	-		2,850
Debt security from related party	-	2,500	-	-	-		2,500
Share based compensation expense	-	864	-	-	-		864
Comprehensive loss:							
Unrealized gains from available-for-sale marketable securities, net	-	-	-	1,905	-	$ 1,905	1,905
Foreign currency translation adjustments	-	-	-	(46)	-	(46)	(46)
Net loss	-	-	-	-	(9,839)	(9,839)	(9,839)
Total comprehensive loss						$ (24,762)	
Balance as of December 31, 2006	416	468,400	(76,441)	(328)	(245,555)		146,492
Issuance of shares upon exercise of stock options	-	(1)	8	-	-		(70,953)
Tax benefits related to exercise of options in a subsidiary	-	243	-	-	-		231
Increase of investment due to decrease in percentage in holding in a development stage subsidiary	-	1,897	-	-	-		2,850
Share based compensation expense	-	352	-	-	-		2,500
Comprehensive loss:							864
Unrealized gains from available-for-sale marketable securities, net	-	-	-	752	-	$ 752	
Foreign currency translation adjustments	-	-	-	4,569	-	4,569	1,905
Net loss					(3,236)	(3,236)	(46)
							(9,839)
Total comprehensive income						$ 2,085	
Balance as of December 31, 2007	416	$ 470,891	$ (76,433)	$ 4,993	$ (248,791)		$ 151,076
Issuance of shares upon exercise of stock options		(803)	803				-
Purchase of treasury stock			(24)				(24)
Tax benefits related to exercise of options in a subsidiary		58					58
Share based compensation expense		570					570
Comprehensive loss:							
Realized gains and unrealized losses from available-for-sale marketable securities, net				(961)		$ (961)	(961)
Foreign currency translation adjustments				2,919		2,919	2,919
Net loss					(27,064)	(27,064)	(27,064)
Total comprehensive loss						$ (25,106)	
Balance as of December 31, 2008	416	$ 470,716	$ (75,654)	$ 6,951	$ (275,855)		$ 126,574

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	**2007**	**2008**
Cash flows from operating activities:			
Net loss	$ (9,839)	$ (3,236)	(27,063)
Less: loss (gain) from discontinued operations	(1,262)	232	(2,862)
Loss from continuing operations	(11,101)	(3,004)	(29,925)
Depreciation and amortization	639	11,459	14,632
Capital gain from sale of intangible assets	-	-	(1,616)
Amortization of marketable debt securities premiums and accretion of discounts, net	511	380	608
Share based compensation expense	300	577	570
Share based compensation expense of subsidiaries	461	577	1,768
Net loss on sales of marketable securities, decrease in value of marketable securities and changes in accrued interest, net	778	2,019	6,016
Impairment of investment in marketable securities and others	1,244	4,215	2,970
Equity (gain) losses, net	(327)	(528)	216
Revaluation of long term loans and deposits, net	-	708	(129)
Other income and capital losses (gains), net	2,356	(8,580)	65
Minority interests	(2,174)	11,400	15,624
Decrease (increase) in trade receivables, other receivables and prepaid expenses and inventories	6,863	(3,730)	(1,581)
Increase (decrease) in trade payables, other payables and accrued expenses , accrued severance pay, net and other long term liabilities	2,491	(15,437)	13,361
Changes in deferred tax, net	-	(1,903)	(2,218)
Other	205	(349)	728
Net cash provided by (used in) operating activities from continuing operations	2,246	(2,196)	21,089
Net cash provided by (used in) operating activities from discontinued operations	18,601	(10,429)	(2,170)
Net cash provided by (used in) operating activities	20,847	(12,625)	18,919
Cash flows from investing activities:			
Purchase of property and equipment	(395)	(3,176)	(4,310)
Proceeds from sale of intangible assets	-	-	1,622
Proceeds from sale of property and equipment	54	108	1,011
Investment in (proceeds from) short-term bank deposits and deposits held in escrow	396	5,899	(1,570)
Investment in short-term marketable securities	(111,945)	(27,391)	(7,249)
Proceeds from sales, calls and maturity of marketable securities	197,633	77,718	16,999
Investment in long-term marketable securities	(12,994)	(2,680)	(250)
Proceeds from (investment in) long-term bank deposits and restricted deposits	3,751	(10,233)	-
Capitalization of software development and other costs of subsidiaries	-	(4,355)	(6,683)
Purchase of minority interest in subsidiaries	-	(4,368)	(16,983)
Proceeds from sale of subsidiary's operations	-	-	170

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	**2007**	**2008**
Proceeds from realization of investment in BluePhoenix Solutions Ltd.	-	62,279	-
Investment in loans to affiliated and other companies	(1,215)	(2,319)	(1,157)
Payments to former stockholders of subsidiary in respect to a purchase liability			(5,973)
Cash paid for the acquisition of subsidiaries thereof , net of cash acquired	-	(5,305)	(13,633)
Purchase of intangible assets by subsidiaries	-	(499)	
Payment for acquisition of Formula	(84,414)	-	-
Cash acquired in conjunction with the acquisition of Formula , net of cash paid	-	88,865	-
Other investments	-	-	(756)
Net cash provided by (used in) investing activities from continuing operations	(9,129)	174,543	(38,762)
Net cash provided by (used in) investing activities from discontinued operations	2,038	11,447	25,081
Net cash provided by (used in) investing activities	(7,091)	185,990	(13,681)
Cash flows from financing activities:			
Proceeds from exercise of stock options in subsidiaries	-	1,626	876
Proceeds from exercise of stock options	257	7	-
Issuance of convertible debt in a subsidiary	-	64,602	-
Dividend to minority shareholders in subsidiaries	-	(3,498)	(10,683)
Short-term borrowing and bank credit, net	44,759	(37,793)	(20,928)
Repayment of long-term loans in subsidiaries	-	(61,717)	(10,855)
Receipt of long-term loans in subsidiaries	-	13,000	(628)
Issuance of ordinary shares in a subsidiary to minority shareholders, net	-	14,898	-
Deposits - SWAP deal in a subsidiary	-	(1,040)	-
Repayment and repurchase of debts in a subsidiaries	-	(7,818)	(18,128)
Purchase of treasury stock in a subsidiary by a subsidiary thereof	-	3,017	
Purchase of treasury stock	(70,953)	-	(24)
Net cash (used in) financing activities from continuing operations	(25,937)	(14,716)	(59,764)
Net cash provided by financing activities from discontinued operations	713	7	-
Net cash (used in) financing activities	(25,224)	(14,709)	(60,370)
Effect of exchange rate on cash of continuing operations	-	3,517	2,481
Effect of exchange rate on cash of discontinued operations	(966)	-	-

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	**2007**	**2008**
Increase (decrease) in cash and cash equivalents from continuing operations	(32,820)	161,148	(75,562)
Increase (decrease) in cash and cash equivalents from discontinued operations	20,386	1,025	22,911
Cash and cash equivalents from continuing operations at the beginning of the year	15,238	10,784	172,456
Cash and cash equivalents from discontinued operations at the beginning of the year	9,872	1,892	2,393
Cash and cash equivalents from continuing operations at the end of the year	$ 10,784	$ 172,456	$ 122,197
Cash and cash equivalents from discontinued operations at the end of the year	$ 1,892	$ 2,393	$ 1

	Year ended December 31,		
	2006	**2007**	**2008**
Supplemental disclosure of cash flow information:			
(a) Cash paid during the year for:			
Interest	$ 599	$ 6,322	$ 5,983
Income taxes	$ -	$ 5,109	$ 5,207
(b) Significant non cash activities (see Note 3(e)6):			
Sale of a subsidiary	$ -	$ 16,000	$ -
(c) Acquisition of Formula (see Note 3(a)1):			
Working capital, excluding cash and cash equivalent	$ -	$ (11,991)	$ -
Other long term assets and investments	-	(70,053)	-
Investment in Formula	-	86,575	-
Goodwill	-	(117,387)	-
Other intangible assets	-	(47,781)	-
Minority interest	-	159,677	-
Other long term liabilities	-	89,825	-
Cash acquired, net of amount paid	$ -	$ 88,865	$ -

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

NOTE 1:- GENERAL

Organization and business:

Emblaze Ltd. ("Emblaze" or "the Company") is an Israeli corporation. The Company's shares are traded on the London Stock Exchange ("LSE") under the symbol BLZ.

The Company operates in two principal business segments, namely Growth and Innovation.

The Growth segment relates to the development, production and marketing of information technology ("IT") solutions and services controlled under the Company's holding of 51.67% in Formula Systems (1985) Ltd., a NASDAQ and Tel Aviv Stock Exchange ("TASE") listed company, ("Formula") (see also Note 3(a)1). Formula holds the following subsidiaries:

Matrix IT Ltd. ("Matrix") (TASE: MTRX) is an integration and information technology services company. As at December 31, 2008, Formula held 50.20% of the issued share capital of Matrix.

Magic Software Enterprises Ltd. ("Magic") (NASDAQ & TASE: MGIC) develops, markets and supports composite application development and deployment platforms with a service-oriented architecture (SOA), including application integration and business process management (BPM), with existing and legacy systems. As at December 31, 2008, Formula held 58.19% of the issued share capital of Magic.

Sapiens International Corporation N.V. ("Sapiens") (NASDAQ & TASE: SPNS) is a global provider of IT solutions that modernize business processes and enable insurance organizations and other companies to adapt quickly to changes. As at December 31, 2008, Formula held 70.40% of the issued share capital of Sapiens.

NextSource Inc. ("NextSource") is a private wholly owned subsidiary of Formula. NextSource designs, develops and implements web-based, high quality, innovative human capital management solutions.

The Innovation segment relates to research and development of technology for advanced wireless and cellular solutions and products. This segment includes the following subsidiaries:

Emblaze Mobile Ltd. ("Emblaze Mobile") is a wholly owned subsidiary of the Company and a designer of advanced mobile devices.

ZONE-IP Ltd. ("ZONE-IP") (LSE: ZIP) is a holding company for IP related technologies, currently holding Emblaze VCON Ltd. ("EVC"), a provider of wireless video communications technologies and conferencing solutions for operators and enterprise markets over IP networks (see also Note 3(a) 2).

EMOZE Ltd. ("EMOZE") is a provider of Push email and Personal Information Management ("PIM") synchronization to mobile users. The service is provided globally and to any device.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

a. Use of estimates:

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

b. Financial statements in U.S. dollars:

The Company's management believes that the U.S. dollar is the primary currency of the primary economic environment in which the Company and certain of its subsidiaries operate. Thus, the functional and reporting currency of the Company and certain of its subsidiaries is the U.S. dollar.

Accordingly, amounts in currencies other than U.S dollars have been translated as follows in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation":

Monetary balances - at the exchange rate in effect on the balance sheet date.

Revenues and expenses - at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses from the re-measurement mentioned above are reflected in the statement of operations in financial expenses (income), net.

For those subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Related translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and the subsidiaries in which the Company has a controlling voting interest. Inter-company balances and transactions have been eliminated upon consolidation. The minority interest amount adjusts the consolidated net income (loss) to reflect only the Company's share in the earnings or losses of any subsidiary.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

The significant subsidiaries held directly by the Company as of the balance sheet date whose accounts are consolidated in continuing operation are:

	December 31,		
	2006	2007	2008
	% of outstanding share capital		
Formula	-	50.1	51.67
ZONE-IP	64.84	64.84	64.84
Emblaze Mobile	100	100	100
EMOZE	100	95	95
Emblaze Inc (inactive)	100	100	100

d. Business combination:

Business combinations are accounted for using the purchase method of accounting. Under the purchase method of accounting, the results of operations of the acquired business are included from the date of acquisition. The costs of acquisition, including transactions costs, are allocated to the underlying net assets of each acquired company in proportion to their respective fair values. Any excess of the purchase price over estimated fair values of the identifiable net assets acquired has been recorded as goodwill.

Gains arising from issuance of common or in substance common shares by subsidiaries to third parties are recorded as income in the consolidated statements of operations, unless the issuing company is a development stage company for which the gain from issuance is accounted for as an equity transaction.

e. Cash equivalents:

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

f. Short-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months but less than one year. Short-term bank deposits are presented at their cost, including accrued interest.

g. Marketable securities:

The Company and its subsidiaries account for investments in marketable debt and equity securities in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date.

Debt and equity securities that are classified as available-for-sale are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

In accordance with SFAS No. 115, the Company and its subsidiaries have classified certain of their marketable debt securities as trading securities. Trading securities are held for resale in anticipation of short-term market movements. Under SFAS No. 115, marketable securities classified as trading securities are stated at the quoted market prices at each balance sheet date. Gains and losses (realized and unrealized) related to trading securities, as well as interest on such securities, are included as financial income or expenses as appropriate.

FASB Staff Position ("FSP") No. 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investment" ("FSP 115-1") provides guidance for determining when an investment is considered impaired, whether impairment is other-than temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment decreased below its cost in other-than temporary manner. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value.

Interest income resulting from investments in structured notes is accounted for under the provision of Emerging Issue Task Force No. 96-12, "Recognition of Interest Income and Balance Sheet Classification of Structured Notes" ("EITF No. 96-12"). Under EITF No. 96-12, the retrospective interest method should be used for recognizing interest income.

h. Provision for Doubtful Accounts:

The provision for doubtful accounts is determined with respect to specific receivables, where, in the opinion of the Company and its subsidiaries' management, their collectability is doubtful. The provision for doubtful accounts as of December 31, 2008 and 2007 amounted to $ 4,788 and $ 4,809 respectively.

i. Long-term bank deposits:

Bank deposits with maturities of more than one year are included in long-term receivables and investments, presented at their cost.

j. Investments in affiliates:

The Company and its subsidiaries account for investments in affiliates in which it has the ability to exercise significant influence over the operating and financial policies using the equity method of accounting in accordance with the requirements of Accounting Principle Board 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB No. 18"). Profits on inter-company sales, not realized outside the group, are eliminated.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

k. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	%
Computers and peripheral equipment	6-33
Buildings	2-4
Motor vehicles	15
Office furniture and equipment	6-15
Leasehold improvements	the shorter of the term of the lease or the economic life of the assets

l. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of a business acquired over the fair value of identified net assets acquired.

Goodwill is not amortized for financial reporting purposes. Instead, the Company is required, annually (or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable) to test for impairment of goodwill using a two-phase process. The first phase screens for impairment; while the second phase (if necessary) measures impairment. In the first phase of impairment testing, goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. An impairment loss is recognized if the carrying amount of goodwill exceeds its implied fair value.

The Company has selected December 31 as the date on which it performs its annual goodwill impairment test. At December 31, 2008, the market capitalization of two reporting units was below their carrying value. The Company determined the fair value of these reporting units using the Income Approach, which utilizes a discounted cash flow model. The discounted cash flow calculations use projections that are based on management's estimations, judgments and assumptions related to revenue, gross profit, operating expenses, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions that are inherent in developing the discounted cash flow model. The Company evaluates the reasonableness of the fair value calculations of its reporting units by reconciling the total of the fair values of all of its reporting units to the total market capitalization, and adjusting for an appropriate control premium.
Goodwill related to equity method investees is not amortized but the investment is tested for impairment under the provisions of APB 18.

As of December 31, 2008, 2007 and 2006, no material impairment was identified.

Intangible assets are being amortized using the straight-line method over their estimated useful life as follows:

	Amortization period in years
Acquired technology	4-15
Customer relationships	5-9
Brand name	13

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

m. Software Development Costs:

Development costs of software, which is intended for sales that are incurred after the establishment of technological feasibility of the relevant product, are capitalized. Technological feasibility is determined when detailed program design is completed and verified in accordance with the provisions of SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed".

Software development costs incurred before technological feasibility has been established are charged to the statement of operation as incurred.

Amortization of capitalized software development costs begins when the product is available for general release to customers. Annual amortization is calculated according to the higher of the straight-line method over the remaining useful life of the product or based on the ratio of current gross revenues to current and anticipated future gross revenues. At present, amortization is computed under the straight-line method, mainly over a period of 3-5 years. During the year ended December 31, 2008 certain subsidiaries capitalized software development costs aggregating $ 6,683 (nine months ended December 31, 2007- $ 4,355) and amortized capitalized software development costs aggregating $ 7,200 (nine months ended December 31, 2007- $ 4,333).

Management estimates that the total capitalized costs do not exceed the net realizable value of the software products. In the event that unamortized software development costs exceed the net realizable value of the products, they are written down to net realizable value. During each of the three years in the period ended December 31, 2008 no impairment was recorded.

n. Impairment of long-lived assets other than goodwill:

The Company and its subsidiaries' long-lived assets are reviewed for impairment in accordance with SFAS No. 144 " Accounting for the Impairment or Disposal of Long-Lived Assets" 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. Assets to be disposed of by way of sale are reported at the lower of the carrying amount or fair value less costs to sell. During 2006, 2007 and 2008, no material impairment losses were recognized in continuing operations.

o. Income taxes:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income tax.

p. Revenue recognition:

Revenues derived from direct software license agreements are recognized in accordance with Statement of Position (SOP) 97-2 "Software Revenue Recognition" (as amended by SOP 98-4 and SOP 98-9), upon delivery of the software when collection is probable, where the license fee is otherwise fixed or determinable, and when there is persuasive evidence that an arrangement exists.

When a project involves significant modification of software, revenue is generally recognized according to the percentage of completion method. Under this method, estimated revenue is generally accrued based on costs incurred to date as a percentage of the total updated estimated costs.

The arrangements, which include multiple elements, usually consist of software products and Post Contract Support (PCS).
In addition there are certain arrangements where the Company sells software and consulting services. Consulting service fees are determined based on time invested.

For these multiple elements, SOP 97-2 requires that the fair value of each component in a multiple element arrangement will be determined based on the vendor's specific objective evidence (VSOE) for that element, and revenue is allocated to each component based on its fair value.

SOP 98-9 requires that revenue be recognized under the "residual method" when VSOE does not exist for all the delivered elements, VSOE of fair value exists for all undelivered elements, and all other SOP 97-2 criteria are met. Under the residual method, any discount in the arrangement is allocated to the delivered elements.

The specific objective evidence for the PCS is established by the price charged on separate PCS renewal contracts. The VSOE for the consulting services is established by the price charged on other time based consulting service contracts where no sale of other elements is involved, considering, among other things, the territory where the service is performed, the size of the customer, the quantity of the purchased services and the professional expertise of the consultants. The revenue associated with the delivered elements is recognized using the residual method discussed above. Revenue allocated to the PCS is recognized ratably over the term of the PCS.

The Company recognizes revenues from consulting fees with respect to projects billed on a time and material basis, based on the number of hours performed.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

The Company recognizes revenues from projects as follows:

Revenue from projects billed on a time and material basis and from fixed fee contracts is recognized in accordance with SOP 81-1 "Accounting for Performance of Construction - Type and Certain Production - Type Contracts", using contract accounting on a percentage of completion method, on the basis of the relationship between actual costs incurred and the total costs that are expected to be incurred over the duration of the contract. Provision is made for estimated losses on uncompleted contracts in the period in which such losses first become evident. As of December 31, 2008, no such estimated losses were identified.

Revenues from consulting services, consisting of billable hours for services provided, are recognized as the services are rendered.
Revenues from maintenance and training contracts are recognized ratably over the contract period.

Revenues from sale of hardware are recognized when the merchandise is delivered to the customer, provided no significant vendor obligations remain.
Some of the Company's contracts include client acceptance clauses. In these contracts, in determining when revenue can be recognized, when an acceptance clause exists, the Company considers, among other things, its history with similar arrangements, the customer's involvement in the progress, and the existence of other service providers and the payment terms.
There are no rights of return, price protection or similar contingencies in the Company's contracts.

Deferred revenue includes unearned amounts received under maintenance contracts and amounts received from customers but not yet recognized as revenues. Payments for maintenance fees are generally made in advance and are nonrefundable.

Tax collected from customers and remitted to government authorities (including VAT) are presented in statement of operation on a net basis.

q. Concentrations of credit risks:

The majority of the Company and its subsidiaries' cash and cash equivalents and marketable securities are invested in dollar and dollar-linked investments, and in Shekels. The cash is deposited in major banks in Israel, Europe and the U.S. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and, therefore, bear low risk. The Company's marketable securities consist of investment-grade corporate bonds, U.S. government agency securities, Sovereign bonds and structured notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

The Company and its subsidiaries' trade receivables are derived mainly from sales to large organizations located mainly in Europe, North America and Israel. The Group performs ongoing credit evaluations of its customers and has established an allowance for doubtful accounts based upon factors relating to the credit risk of specific customers and other information. In certain circumstances, the Company and its subsidiaries' may require letters of credit, other collateral or additional guarantees. From time to time, the Company and its subsidiaries' sell certain of its accounts receivable to financial institutions, within the normal course of business. Where receivables are sold without recourse to the Company, the relevant receivable is de-recognized and cash recorded. Where receivables are sold with full or partial recourse to the Company and its subsidiaries', the receivable is not de-recognized and a liability reflecting the obligation to the financial institution is recorded within financial debts until the Company's liability is discharged through the financial institution receiving payment from the customer.

The provision for doubtful accounts is charged to general and administrative expenses and amounted to $ 0, $ 689 and $ 1,114 in the years 2006, 2007 and 2008, respectively.

SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 140), establishes a standard for determining when a transfer of financial assets should be accounted for as a sale. Certain underlying conditions must be met for the transfer of financial assets to qualify for accounting as a sale. The transfers of financial assets are typically performed by the sale of receivables to a financial institution.
The agreements, pursuant to which a certain subsidiary sells its trade receivables, are structured such that the subsidiary (i) transfers the proprietary rights in the receivable from the subsidiary to the financial institution; (ii) legally isolates the receivable from the subsidiary's other assets, and presumptively puts the receivable beyond the legal reach of the subsidiary and its creditors, even in bankruptcy or other receivership; (iii) confers on the financial institution the right to pledge or exchange the receivable; and (vi) eliminates the subsidiary's effective control over the receivable, in the sense that the subsidiary is not entitled and shall not be obligated to repurchase the receivable other than in case of failure by the subsidiary to fulfill its commercial obligation.

r. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)").

The Company recognizes compensation expense for the value of equity based payments, which has straight-line vesting, over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

The Company estimates the fair value of stock options granted using the Binomial method option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are expected stock price volatility and the suboptimal exercise factor. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending at the date of grant. The suboptimal exercise factor represents the influence on the period that the Company's stock options are expected to be outstanding and was determined based on past exercise employee behavior. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term to the contractual life of the options.

The fair value of the employee stock options was based on the following assumption:

	2006	2007
Expected volatility	31%-41%	45%-55%
Risk-free interest rate	4.9%	4.5%-4.9%
Dividend yield	0%	0%
Suboptimal exercise factor	1.5	1.5
Annual forfeiture rate	8.8%	0%-15%

There were no grants of options to the Company's employees during the year 2008.

See also Note 17.

s. Severance pay:

The Company and its Israeli based subsidiaries' liabilities for severance pay (for those who elected not to be included under section 14 of the Severance Pay Law -1963), are calculated pursuant to Israeli 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 and its Israeli subsidiaries' liabilities for all of their employees are fully provided by monthly deposits with insurance policies and by an accrual.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation, pursuant to Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial losses.

The Company's and its Israeli subsidiaries agreements with some of its employees, specifically state, in accordance with section 14 of the Severance Pay Law -1963, that the Company's contributions for severance pay shall be instead of severance compensation. Upon release of the policy to the employee, no additional liability exists between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee.

The expenses in respect of severance pay for the years ended December 31, 2008, 2007 and 2006 were $7,900, $ 7,300 and $ 300, respectively

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

t. Fair value of financial instruments:

The carrying amounts of the Company and its subsidiaries' financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their generally short maturities.

Effective January 1, 2008, the Company and its subsidiaries' adopted SFAS 157, "Fair Value Measurements" and, effective October 10, 2008, adopted FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.
Level 3- Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.
Refer to Note 5 for FAS 157 disclosures.

u. Advertising expenses:

Advertising expenses are charged to the statement of operations, as incurred. Advertising expenses for the years ended December 31, 2006, 2007 and 2008 were $ 87, $ 4,178 and $ 5,600, respectively.

v. Basic and diluted net loss per share:

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

w. Derivatives activities:

Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not designated as part of a hedged transaction must be adjusted to fair value through income.

The Company uses derivatives to hedge certain cash flow foreign currency exposures, in order to further reduce the Company's exposure to foreign currency risks. The Company's forward and put options contracts did not qualify as hedging instruments under SFAS 133.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

Put options which were granted to minority interest during 2007 in a subsidiary have been measured in fair value pursuant to EITF 00-06 "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary". Changes in the fair value are reflected in the consolidated statements of operations as financial income or expense.
In addition, during 2007 the Company's subsidiary engaged in swap to exchange interest which was linked to the CPI. This Swap deal did not qualify as a hedging instrument under SFAS 133. Changes in the fair value are reflected in the consolidated statement of operation as financial income or expense. In December 2008 this subsidiary entered into another swap deal for approximately $ 52,604, which also did not qualify as a hedging instrument (see also Note 14).

x. Comprehensive income (loss)

The Company accounts for comprehensive income (loss) in accordance with SFAS No. 130, "Reporting Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of comprehensive income (loss) relate to gain and loss on foreign currency translation adjustments and unrealized gain and loss on available-for-sale marketable securities.

y. Discontinued operations

Under SFAS 144, when a component of an entity, as defined in SFAS 144, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal should be classified as discontinued operations and the assets and liabilities of such component should be classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the Company's consolidated operations and the Company will no longer have any significant continuing involvement in the operations of the component.

z. Treasury stock:

The Company repurchases its ordinary shares from time to time on the open market and holds such shares as treasury stock. The Company accounts for the repurchases of its ordinary shares in accordance with Accounting Principles Board No. 6, "Status of Accounting Research Bulletins" ("APB No. 6"). The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

aa. Impact of recently issued accounting standards:

1. In December 2007, the FASB issued SFAS No. 141 (revised 2008), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The impact of SFAS 141R on the Company's consolidated results of operations and financial condition will depend on the nature and size of acquisitions, if any, subsequent to the effective date.

2. In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, and an amendment of ARB No. 51". SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the non controlling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 will have significant impact on its consolidated financial statement except for reclassification of minority interest to equity.

3. In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157". The Staff Position defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amends the scope of Statement 157. As described in Note 2u, the Company adopted Statement 157 and the related FASB staff positions except for those items specifically deferred under FSP No. FAS 157-2. The Company does not expect the adoption of FAS 157 for certain nonfinancial assets and nonfinancial liabilities, excluding those that are recognized or disclosed in the financial statements at fair value on a recurring basis, to have a material impact on its financial position, results of operations or cash flows.

4. In April 2009, the FASB issued FSP, No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, or the FSP. The FSP is intended to provide greater clarity to investors about the credit and noncredit component of other-than-temporary impairment event and to more effectively communicate when an other-than-temporary impairment event has occurred. The FSP applies to fixed maturity securities only and requires separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell the security and it is more likely than not that an entity will not have to sell the security before recovery of its cost basis, it must recognize the credit component of other-than-temporary impairment in earnings and the remaining portion in other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continue)

Upon adoption of the FSP, an entity will be required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings accumulated other comprehensive income. The FSP is effective for fiscal and interim periods ending after June 15, 2009. The Company is currently evaluating the impact of adopting the FSP.

5. In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP 157-4. FSP 157-4 provides additional authoritative guidance to assist both issuers and users of financial statements in determining whether a market is active or inactive, and whether a transaction is distressed. The FSP is effective for fiscal and interim periods ending after June 15, 2009. The Company does not expect the adoption of FSP 157-4 to have a material impact on our consolidated financial position and results of operations.

6. In March 2008, the FASB issued Statement 161 "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161") an amendment to FASB No. 133. This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why and entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. The Company does not expect the adoption of SFAS 161 to have a material impact on its financial position, results of operations or cash flows.

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES

a. Business combinations and acquisitions:

1. Acquisition of Formula

On November 20, 2006, the Company consummated the purchase of an aggregate of 4,406,237 Ordinary shares of Formula representing approximately 33.4% of the issued and outstanding share capital of Formula, from FIMGold Limited Partnership ("FIMGold"), for an aggregate purchase price of $ 70,500 ($ 16 per share). Following the transaction, the Company was granted an option to purchase up to additional 325,000 Ordinary shares of Formula, constituting approximately 2.46% of the share capital of Formula, from the President and a director of Formula, at a price per share of $ 16. Concurrently, the President and director of Formula had an option to sell to Emblaze, through December 31, 2007, such number of Ordinary shares of Formula, at a price per share of $ 16.

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

Between September 2006 and until December 2006, the Company purchased an aggregate of 1,184,183 Ordinary shares of Formula in various private transactions, at an aggregate purchase price of approximately $ 13.

On March 30, 2007 the Company exercised its right to purchase from the President and director of Formula 325,000 Ordinary shares of Formula for a purchase price of $ 16 per share.

On March 30, 2007 Emblaze completed a special tender offer for the purchase of additional 695,780 Ordinary shares of Formula at a price per share of $ 13.3.

As a result of the above, the Company's holding in Formula as of March 30, 2007 increased to 50.1%.

The total purchase price of Formula was composed as follows:

Cash paid in 2007	$	14,454
Acquisition related costs	$	896
Balance of investment in Formula as of March 30, 2007	$	86,575
Total acquisition price	$	101,925

Acquisition related transaction costs include investment banking fees, legal and accounting fees and other external costs directly related to the acquisition.

The acquisition of Formula was accounted for under the purchase method of accounting. The accounts of Formula were consolidated with those of the Company, commencing March 30, 2007, which was the day the Company effectively gained control over Formula.

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

The estimated fair values of the identifiable assets acquired and liabilities assumed as of March 30, 2007 are as follows:

Current assets	$ 263,119
Long-term investments	56,939
Property and equipment	15,325
	335,383
Capitalized software development costs	25,439
Customer relationships	5,895
Acquired technology	4,021
Brand name	2,666
Deferred tax	7,185
Goodwill	117,387
Deferred expenses and other intangible assets	4,955
	167,548
Total assets acquired	502,931
Liabilities assumed:	
Credit and long-term loans from banks and others	96,492
Trade payables, other payables and accrued expenses and severance pay	125,706
Debenture	15,386
Deferred tax	3,745
Minority interest	159,677
Total liabilities assumed	401,006
Total acquisition price	$ 101,925

In performing the purchase price allocation, the Company considered, among other factors, the intention for future use of acquired assets, analyses of historical financial performance and estimates of future performance of Formula's products. The fair value of intangible assets was based on a valuation completed by a third party valuation firm using an income approach and estimates and assumptions provided by management. The following table sets forth the expected useful life of the identified intangible assets of Formula:

Customer relationships	Amortized over 7-9 years
Developed technology	Amortized over 5-7 years
Brand name	Amortized over 13 years

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life.

The Company recorded a deferred tax liability on the purchase date for the difference between the assigned values and the tax bases of the net assets acquired in the acquisition.

Unaudited pro forma results:

The following represents the unaudited pro forma results of operations giving effect to the acquisition of Formula as if the acquisition had been consummated on January 1, 2006 and 2007:

	Year ended December 31, Unaudited Total consolidated	
	2006	2007
Revenues	$ 492,440	$ 520,891
Net loss	$ (7,409)	$ (3,061)
Basic and diluted loss per share	$ (0.06)	$ (0.03)

In December 2008, the Company increased its holding in Formula to 51.67% in consideration of $1,121.

2. Investment in ZONE-IP (formerly known as Ki-Bi Technologies Ltd.):

On May 31, 2006, ZONE-IP entered into a conditional agreement to acquire the entire issued share capital of EVC for a consideration of 60% of the enlarged issued share capital of ZONE-IP (30,592,652 Ordinary shares) ("the Acquisition").

On July 12, 2006, the shareholders of ZONE-IP approved the Acquisition as required by the AIM rules. Immediately after, the Company purchased an additional 4,165,631 Ordinary shares of ZONE-IP in consideration for $ 1,500 in cash and issuance of 600,000 Ordinary shares of the Company. In addition, the Company exercised its call option under an option agreement executed between the Company and certain shareholders of ZONE-IP to purchase 2,958,574 Ordinary shares of ZONE-IP in consideration for 482,935 Ordinary shares of the Company. Following these transactions, the Company's interest in ZONE-IP reached 64.84%. The original operation of Ki-Bi Mobile Technologies Ltd. was discontinued at the time of the transaction.

Other-than-temporary impairments of the investment in ZONE-IP were recorded in the consolidated statements of operations, in the year ended 2006 and 2008 in the amount of $ 1,405 and $ 336, respectively.
The losses were recorded in the line item "Other income (expenses)" in the consolidated statements of operations.

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

3. In 2008 a subsidiary Matrix purchased all the shares of TACT Computers and Systems Ltd. for an aggregate consideration of $12,500. The sellers are entitled to additional consideration to be calculated as per the difference between the calculation of TACT's value in 2008 as per the formula agreed upon (based on the agreed upon multiple of the operating profit), subject to the execution of agreed upon adjustments and calculations, and the consideration paid on the date of completion. At this time a commitment has been incurred for an additional contingent consideration of approximately $6,500.

a) The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of purchase:

Current assets	$ 9,615
Property and equipment	299
Goodwill	10,535
Customer related intangible asset	1,884
Total tangible and intangible assets acquired	22,333
Current liabilities	8,465
Other long-term liabilities	1,372
Total liabilities assumed	9,837
Net assets acquired	12,496
Cost of investment	
Cash paid	$ 12,496

b) The following presents unaudited pro forma summary information as if the acquisition of TACT Computers and Systems Ltd. had occurred on January 1, 2008 and on January 1, 2007.

The pro forma information, which is provided for informational purposes only, is based on historical information and does not necessarily reflect the results that would have occurred, not is it necessarily indicative of future results of operations of the consolidated entity.

	Year ended December 31, Unaudited Total consolidated	
	2008	**2007**
Revenues	$ 607,652	$ 415,083
Net loss from continued operations	$ (26,920)	$ (15,743)
Basic and diluted loss per share	$ (0.24)	$ (0.14)

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

b. Sale of BluePhoenix Solution LTD. ("BluePhoenix")

In June 2007, Formula sold its entire holding in BluePhoenix to a number of international institutional investors at a price per share of $ 8, representing total consideration of $ 64,000 in cash. The Company recorded a capital gain of $ 6,500, representing its portion in the gain, which is included in the line item "Other income (expenses)".

c. Private placement in Sapiens

In June 2007, Sapiens entered into a private placement investment transaction with several institutional investors, private investors and Formula for an aggregate gross investment amount of $ 20,000 (excluding finders' fees and out of pocket expenses), $ 6,500 of which was invested by Formula. Sapiens issued to the investors an aggregate of 6,666,667 Ordinary shares (of which 2,166,666 Ordinary shares were issued to Formula), at a price per share of $ 3, reflecting a premium of approximately 25% above the trading price of Sapiens' Ordinary shares (as of the date that the board of directors of Sapiens approved the investment). Emblaze recorded a gain in the amount of $ 2,562 that is included in the line item "Other income (expenses)" as a result of the decrease in its percentage of holdings in Sapiens.

d. Issuance of non-convertible debentures by Matrix

In August 2007, Matrix completed an offering of debentures in an aggregate principal amount of approximately $ 62,000 (see also Note 14). The debentures were sold to institutional and other investors in Israel.

e. Issuance of Ordinary shares by EMOZE

In November 2007, EMOZE issued to a third party an aggregate of 1,436,378 Ordinary shares at a price per share of $ 1.39. As EMOZE was considered a development stage company at the date of issuance, the unrealized gain in the amount of $ 1,897 was recorded as additional paid in capital.

f. Discontinued operations:

The financial statements for the reported periods include discontinued operations in respect of the following businesses: (1) Adamind Ltd. (2) Ki-Bi Mobile Technologies Ltd. (3) Orca Interactive Ltd. ("Orca") (4) GTD (5) Advanced Answers on Demand Holding Corporation ("AAOD").

The Company's consolidated balance sheets as of December 31, 2007 and 2008 reflect the assets and liabilities of all the businesses above as assets and liabilities held for sale and assets and liabilities of discontinued operations. The results of operations and cash flows of the above businesses are presented as discontinued operations as provided under SFAS No. 144 for all periods presented.

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

1. Adamind

On March 31, 2006, the Company sold its entire holding of 17,735,000 Ordinary shares in Adamind through a placing to institutional investors at a price per share of £1.1. The Company recorded a net gain on the sale of $ 16,800.

Summarized selected financial information of the discontinued operations of Adamind is as follows:

	Year ended December 31, 2006
Revenues	$ 6,152
Capital gains from disposal	$ 16,855
Net income	$ 15,893

2. Ki-Bi Mobile Technologies Ltd.

In April 2006, the board of directors of ZONE-IP decided to scale down the Ki-Bi card operations. Discontinued expenses of $ 531 were recorded in of the year ended December 31, 2006. Summarized selected financial information of the discontinued operations of Ki-Bi is not provided due to immateriality.

3. Orca

In March 2008, Viaccess S.A., a wholly owned subsidiary of France Telecom SA, entered into a merger agreement with Orca to acquire all of its shares.
The acquisition consideration consists of an amount of $ 13,000 plus Orca's net cash as of the closing, representing consideration of approximately $ 12,900 for the Company.
On April 9, 2008, the Company increased its holding in Orca to 61.97%. The closing of the merger took place on May 19, 2008. As a result of the closing, the Company has disposed its entire holdings in Orca.

Accordingly, the Orca business has been treated as discontinued operations in the financial statements for all periods presented.

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

The carrying amounts of the major classes of assets and liabilities of Orca included as assets and liabilities held for sale are as follows:

	2007
Current assets held for sale:	
Cash and cash equivalents, short-term deposit, and short-term marketable securities	$ 11,696
Trade receivables	835
Other receivables and prepaid expenses	537
Total current assets held for sale	$ 13,068
Long-term assets held for sale:	
Long-term investments and other long-term receivables	$ 2,461
Property and equipment, net	244
Goodwill and other intangible assets	1,492
Total long-term assets held for sale	$ 4,197
Total assets held for sale	$ 17,265
Current liabilities of assets held for sale:	
Trade payables	$ 499
Other payables and deferred income	3,927
Total current liabilities of assets held for sale	4,426
Long-term liabilities of assets held for sale:	
Accrued severance pay	116
Minority interest	4,680
Total long-term liabilities of assets held for sale	4,796
Total liabilities of assets held for sale	$ 9,222

Summarized selected financial information of the discontinued operations of Orca is as follows:

	Year ended December 31,		
	2006	2007	2008
Revenues	$ 3,339	$ 6,388	$ 2,296
Capital gains from disposal	$ -	$ -	$ 5,539
Net income (loss)	$ (2,877)	$ (2,621)	$ 2,862

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

NOTE 3:- BUSINESS COMBINATIONS, SIGNIFICANT TRANSACTIONS AND SALE OF BUSINESSES (continue)

4. GTD

At the beginning of 2007, the Company decided to discontinue its mobile trading and distribution business operated by GTD. The main reason for this decision was the genesis of working capital deficiency that resulted from a withholding of approximately £8.8 million ($ 16,160) of VAT reclaims during 2006 by Her Majesty Revenue and Customs (the British Revenue & Customs) ("the HMRC"). The withholding of VAT reclaims by the HMRC was not specifically targeted at GTD but rather represent a part of general measures applied by the HMRC in its battle against VAT fraud exposed within the mobile telephone handset sector in which GTD operated. The Company has concluded that a resolution of this issue was unlikely to be achieved in the near future. As a result of the action taken by the HMRC, GTD ceased its business activities and an administrative receiver was appointed to GTD in May 2007.

Summarized selected financial information of the discontinued operations of the trading and distribution business is as follows:

	Year ended December 31,	
	2006	2007
Revenues	$ 343,839	$ -
Net loss	$ (11,754)	$ (70)

5. AAOD

On December 30, 2007, Magic sold its wholly-owned subsidiary, AAOD, a Florida corporation that develops and markets application software targeted at the long-term care industry, to Fortissimo Capital ("Fortissimo") for $ 17,000. Fortissimo paid to Magic $ 1,000 of the sale price in December 2007 and the remaining $ 16,000 at the beginning of 2008. As part of the transaction, Magic entered into a three year license agreement with AAOD according to which AAOD will continue to sell Magic's products, as an OEM partner, in consideration for $ 3,000, to be paid quarterly over three years starting in 2008.

Summarized selected financial information of the discontinued operations of AAOD is as follows:

	Nine months ended December 31, 2007
Revenues	$ 9,154
Capital gains from disposal	$ 8,966
Net income	$ 2,459

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

NOTE 4:- SHORT-TERM INVESTMENTS

	Interest rate December 31, 2008	December 31, 2007	December 31, 2008
	%		
Trading securities		$ 32,050	$ 40,432
Available-for-sale marketable securities		15,215	5,598
Restricted marketable securities		7,511	-
Short-term deposits	3.12%	155	1,952
Restricted deposits	0.63%	1,969	395
Total		$ 56,900	$ 48,377

a. Marketable securities

1. The following is a summary of marketable securities which are classified as available-for-sale marketable securities and restricted marketable securities:

	December 31, 2007			December 31, 2008		
	Amortized cost	Unrealized gain (loss)	Market value	Amortized costs	Unrealized gain (loss)	Market value
Government debentures	$ 1,216	$ 58	$ 1,274	$ 952	$ 59	$ 1,011
Marketable securities	13,067	58	13,125	2,916	(1,104)	1,812
Equity fund	249	(47)	202	118		118
Corporate debentures	7,532	565	8,125	2,635	22	2,657
Total	$ 22,064	$ 634	$ 22,726	$ 6,621	$ (1,023)	$ 5,598

An other-than-temporary impairment on available for sale marketable securities was recorded in the consolidated statements of operations in the years ended 2006, 2007 and 2008 in the amounts of $ 0, 1,788 and $ 1,656, respectively.

Since the Company has the ability and intent to hold certain investments until a recovery of fair value, the Company does not consider these investments to be other than temporarily impaired as of December 31, 2008. In addition, these securities have been in a continuous unrealized losses position for a period not more than 12 months.

2. The estimated fair value of available-for-sale debt securities as of December 31, 2008, by contractual maturity, is as follows:

	December 31, 2008 Cost	December 31, 2008 Market value
Available-for-sale:		
Matures in one year	$ 1,750	$ 1,746
Matures in two to five years	1,260	1,289
Matures in more than five years	577	633
Total	$ 3,587	$ 3,668

3. The restricted marketable securities are to secure credit bank loan.

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

NOTE 4:- SHORT-TERM INVESTMENTS (continue)

b. Restricted deposits

The Company pledges bank deposits mainly to cover bank guaranties in respect of an office rental agreement.

NOTE 5:- FAIR VALUE MEASURMENTS

In accordance with SFAS 157, the Company measures its marketable securities and derivatives instruments at fair value. Marketable securities are classified within Level 1. This is because these assets are valued using quoted market prices. Embedded derivatives, derivatives instruments and certain debentures are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The Company's financial assets measured at fair value on a recurring basis, excluding accrued interest components; consisted of the following types of instruments as of December 31, 2008:

	Fair value measurements using input type			
	Level 1	**Level 2**	**Level 3**	**Total**
Auction rate securities	$ 7,500			$ 7,500
Marketable securities:				
Trustee funds	169	-	-	169
Shares	2,125	845	-	2,970
Government and corporate debentures -	42,774	505	-	43,279
Derivative instruments	-	938		938
Equity Fund	118	-	-	118
Total Financials Assets	$ 42,686	$ 2,288	$ -	$ 54,974
Embedded derivatives	-	900	-	900
Total Financials Liabilities	$ -	$ 900	$ -	$ 900

NOTE 6:- OTHER RECEIVABLES AND PREPAID EXPENSES

	December 31,	
	2007	**2008**
Government authorities	$ 7,217	$ 3,324
Prepaid expenses and advances to suppliers	8,415	8,209
Employees	606	663
Deferred tax	2,709	2,976
Receivable due upon sale of a subsidiary (see also Note 3(f)6)	16,000	-
Other	2,273	2,137
Total	$ 37,220	$ 17,309

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

NOTE 7:- LONG-TERM RECEIVABLE AND INVESTMENTS

	December 31, 2007	December 31, 2008
Available for-sale marketable securities	$ 6,402	$ 505
Deposits	10,975	13,218
Restricted deposits	1,440	1,339
Investment in other affiliates	3,792	3,694
Other investments and long-term receivables	2,872	2,227
Total	$ 25,481	$ 20,983

a. Available for sale marketable securities

1. The following is a summary of marketable securities which are classified as available-for-sale marketable securities:

	December 31, 2007			December 31, 2008		
	Amortized cost	Unrealized losses	Market value	Amortized costs	Unrealized gains (losses)	Market value
Government debentures	$ 601	$ 5	$ 606	$ -	$ -	$ -
Corporate debentures	1,407	(144)	1,263	-	-	-
Equity securities	2,142	-	2,142	-	-	-
Other marketable securities	2,370	21	2,391	432	74	506
Total	$ 6,520	$ (118)	$ 6,402	$ 432	$ 74	$ 506

2. An other-than-temporary impairment on available for sale marketable securities was recorded in the consolidated statements of operations in the year ended 2006, 2007 and 2008 in the amount of $ 1,244, $ 1,915 and $ 1,000 respectively.

3. The contractual maturities of the available for-sale debt securities are one to five years.

b. Deposits and restricted deposits

	Interest rate %	Linkage basis	December 31, 2007	December 31, 2008
Restricted deposit	-	Dollar	$ 400	$ 1,338
Restricted deposit	-	Unlinked	1,040	-
Deposit	0-4.3%	Dollar	10,473	11,975
Deposit	3.6%	CPI	502	1,244
Total			$ 12,415	$ 14,557

c. Other investments and long-term receivables

During 2007 and 2008 impairment losses on investments at cost in the amount of $ 512 and $502, respectively have been recorded.

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

NOTE 8:- PROPERTY AND EQUIPMENT, NET

	December 31, 2007	December 31, 2008
Cost:		
Computers and peripheral equipment	$ 54,176	$ 48,302
Building	10,597	9,674
Motor vehicles	1,015	956
Office furniture and equipment	81	57
Leasehold improvements	8,371	6,920
	74,240	65,909
Accumulated depreciation:		
Computers and peripheral equipment	46,520	40,230
Building	4,822	4,500
Motor vehicles	705	722
Office furniture and equipment	35	40
Leasehold improvements	5,861	4,701
	57,943	50,193
Depreciated cost	$ 16,297	$ 15,716

Depreciation expense amounted to $ 394, $ 3,555 and $ 4,970 for the years ended December 31, 2006, 2007 and 2008, respectively.

During 2008, following an assessment made by the Company's subsidiaries, the Company's subsidiaries recorded a reduction of approximately $ 8,941 to the cost and accumulated depreciation of fully depreciated equipment that is no longer in use.

NOTE 9:- GOODWILL

	Growth	Innovation	Total
Balance as of January 1, 2008	$ 130,398	$ 336	$ 130,734
Goodwill acquired during year	21,642		21,642
Goodwill impaired during year	-	(336)	(336)
Currency exchange differences	2,717		2,717
Balance as of December 31, 2008	$ 154,757	$ -	$ 154,757

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- OTHER ASSETS, NET

Other assets:

	December 31, 2007	December 31, 2008
Cost:		
Capitalized software development costs	$ 101,605	$ 80,745
Acquired technology	5,043	4,261
Customer agreements	3,891	3,224
Customer relations	6,137	6,137
Deferred expenses and others	13,761	19,376
Deferred tax assets	11,437	13,218
	141,874	126,961
Accumulated amortization:		
Capitalized software development costs	74,461	53,659
Acquired technology	1,069	1,491
Customer agreements	386	266
Customer relations	2,632	2,809
Deferred expenses and others	12,515	12,714
	88,431	70,939
Amortized cost	$ 53,443	$ 56,022

a. Amortization expense of intangible assets and other deferred expenses amounted to $ 245, $ 3,571 and $ 2,663 for the years ended December 31, 2006, 2007 and 2008, respectively.

b. Estimated amortization expense of intangible assets and other deferred expenses for the years ended December 31:

2009	$ 3,125
2010	$ 2,765
2011	$ 2,748
2012	$ 3,309
2013	$ 1,339
2014 and thereafter	$ 2,462

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

NOTE 11:- SHORT-TERM LIABILITIES TO BANKS AND OTHERS

a.

	Interest rate December 31, 2008	Linkage	December 31,	
	%	basis	2007	2008
Bank overdraft	5.4%-9%	NIS	$ 3,505	$ 2,470
Short-term bank loans	5.4%-5.7%	NIS	4,731	158
Short-term bank loans	Libor + 0.795%	Dollar	13,150	2,250
Short-term bank loans	-	Euro	1,479	-
Short-term bank loans	16%	Other	705	3
Current maturities of long-term loans from banks			10,714	8,133
Total			$ 34,284	$ 13,014

NOTE 12:- LIABILITY IN RESPECT OF THE ACQUISITION OF ACTIVITY

In 2008 Matrix purchased all the shares of TACT Computers and Systems Ltd. for an aggregate consideration of $12,500 million. The sellers are entitled to an additional consideration to be calculated as per the difference between the calculations of TACT's value in 2008 as per the formula agreed upon (based on the agreed upon multiple of the operating profit), subject to the execution of agreed upon adjustments and calculations, to the consideration paid on the date of completion. At this time a liability has been incurred for an additional consideration of approximately $6,500 million.

NOTE 13:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2007	2008
Employees and payroll accruals	$ 32,122	$ 33,123
Accrued expenses	14,864	26,124
Government departments	8,810	7,271
Deferred income and customer advances	21,118	20,935
Dividend payable to minority interest of subsidiaries	-	14,482
Others	813	1,376
Total	$ 77,727	$ 103,311

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

NOTE 14:- CONVERTIBLE AND NON-CONVERTIBLE DEBT

	December 31, 2007	December 31, 2008
Non- convertible debt	$ 65,452	$ 56,004
Convertible debt , net	11,897	6,435
	77,349	62,439
Less –convertible debt purchased by one of the Company's subsidiaries	(1,945)	(1,278)
Less – current maturities of convertible debt	(3,524)	(5,157)
	$ 71,880	$ 56,004

a. Non- convertible debentures

The non convertible debentures were issued by Matrix in August 2007 for an aggregate amount of NIS 250,000 (approximately $ 62,000).

The debentures bear interest at an annual rate of 5.15%. The principal will be paid in four equal annual installments on December 31 of each of the years 2010 through 2013. The principal and interest are linked to the Israeli consumer price index. On February 21, 2008, Matrix listed the debentures for trading on the TASE.

In 2008, one a subsidiary repurchased debentures value, amounting to $12,600 of the outstanding debentures. As a result, $500 was recorded as a gain on repurchase of debentures.

b. Convertible debentures

During December 2003, Sapiens issued Convertible Debentures (Series A) which are traded only on the TASE. However, any Common share issued upon conversion of the Debentures will be traded on both TASE and NASDAQ.
The Debentures bear annual interest at the rate of 6.0%, payable on the 5th of June and the 5th of December each year ending on December 5, 2009. Principal is payable in four installments on the 5th of December of the years 2006-2009. The Debentures are convertible into ordinary shares at a conversion rate of one ordinary share per each NIS 27 (approximately $ 6.14) amount of the Debentures.

On December 5, 2007, an amount of approximately $ 4,400 was paid to the debenture holders, representing the second payment of the Debentures.

In 2008, a subsidiary re-purchase an aggregate amount of NIS 7,600 nominal value, representing $2,090 of the outstanding Debentures that were retired and removed from circulation on the TASE. As a result, $300 was recorded as a loss from repurchase of debentures.

On December 5, 2008, an amount of approximately $ 3,500 was paid to the debenture holders, representing the third payment of the Debentures (Series A).

NOTE 15: LIABILITIES TO BANKS AND OTHERS

December 31, 2008	Linkage basis	Long-term liabilities	Current maturities	Total long-term liabilities net of current maturities	Total long-term liabilities net of current maturities
Interest rate		December 31, 2008			December 31, 2007
%		(U.S. $ in thousands)			(U.S. $ in thousands)
6.1-6.6	Dollar				56
5.5-6.5	NIS	23,086	7,703	15,383	22,748
2.2-5.7	Other	627	430	197	317
-	Lease	122	-	122	-
-	Derivatives*	526	-	526	-
-	Put option	412	-	412	564
Total		24,773	8,133	16,640	23,685

* One of the company's subsidiary has two contracts, one until 2010 and the other until 2013. Even though it is a hedging of the cash flow, the subsidiary does not apply hedge accounting. Following are details of the contract:

In December 2008 the subsidiary entered into a swap with Bank Le'umi for NIS 200,000,000 (approximately $ 52,604). According to the agreement which ends in December 2010, the subsidiary has committed to exchange CPI for a fixed rate of 1.712%. As of December 31, 2008, the fair value of the derivative is $ 260.

In December 2007 the subsidiary entered into a swap agreement with Deutsche Bank AG. London ("Deutsche Bank") for NIS 50,000,000 (approximately $13,151) ("The principal of the swap agreement"). According to the agreement which ends on December 31, 2013, Deutsche Bank has committed to pay the subsidiary payments which are identical in amount, rate and timing to the subsidiary's liability to pay principal and interest according to the bond's terms after listing, for $ 13,151.

The subsidiary has committed to pay Deutsche Bank the principal of the swap agreement plus indexation of 2% per year, and interest on the rest of the principal of the swap agreement, for the majority of the swap agreement period, at a rate derived from a unique index used by Deutsche Bank (which is an index calculated according to the market's expectations of the short-term interest).

As of December 31, 2008, the fair value of the derivative was a liability of $266.

During March 2009, both parties agreed on termination of the agreement with no additional costs to any of the parties.

Maturity dates:

First year (current maturities)	8,133
Second year	6,906
Third year	5,958
Fourth year	2,838
Fifth year	-
Total	23,835

NOTE 16:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

1. Some of the subsidiaries have commitments to the Israeli Chief Scientist and Trade and to the Marketing Promotion Fund, to pay royalties at a rate of 3%-3.5% of the proceeds from the sale of software products which were developed with the assistance of the Chief Scientist and marketed with the assistance of the Marketing Promotion Fund. The amount of royalties is limited to 100%-150% of the amount received. The subsidiaries are only obliged to repay the grants received from the Chief Scientist if revenue is generated from the sale of the said software products. These grants are recognized as a deduction from research and development costs at the time the subsidiary is entitled to such grants on the basis of the research and development costs incurred.

   The balance of the contingent liability in respect of the aforesaid amounted to approximately $ 8,225 as at December 31, 2008.

2. A subsidiary is engaged in several development agreements. Under these agreements, as of December 31, 2008, the subsidiary is committed to pay approximately $8,000 upon achieving milestones set forth in each agreement.

b. Liens:

Some of the subsidiaries have liens on leased vehicles, leased equipment and other assets in favor of the leasing companies.
Some of the subsidiaries have provided floating charges on their assets in favor of banks and other financial institutions

c. Guarantees:

1. The Company pledges bank deposits and marketable securities to cover bank guaranties in respect of an office rental agreement and in respect of credit lines and bank loan. See Notes 4 and Note 6.

2. Subsidiaries have provided bank guarantees in the amount of approximately $ 13,600 as security for the performance of various contracts with customers. If the subsidiaries were to breach certain terms of such contracts, the customers could demand that the banks providing the guarantees pay amounts claimed to be due.

3. Subsidiaries have provided bank guarantees in the amount of $ 2,200 as security for rent to be paid for their offices. If the subsidiaries were to breach certain terms of their lease, the lessor could demand that the banks providing the guarantees pay amount claimed to be due.

d. Others:

In connection with credit facilities of subsidiaries, these subsidiaries have entered into agreements with various banks, accordingly the subsidiaries committed, among other things:

1. To maintain certain financial ratios.
2. Not to grant a security interest in all or substantially all of their respective assets.

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

NOTE 16:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont,)

e. Legal Proceedings:

1. On March 7, 2001, Malam Systems Ltd. filed a claim against Geo Interactive Media Group Ltd. (now Emblaze Ltd.) and against its founding directors demanding approximately 29% of the Company's issued share capital (which is 50.1% of the shares held by the founding directors prior to any dilution). The Company's legal advisors have determined that this claim and its results should not have any adverse effect on the Company or its operations. The Company's legal advisors as well as its founding directors are of the opinion that there are no merits to the claim and the possibility that it shall prevail is extremely unlikely.

2. GTD is involved in a dispute with the HMRC regarding a decision made by the HMRC to withhold VAT reclaims and raise an assessment relating to GTD's VAT return in the sum of approximately £8,800, (approximately $ 12,842 as of December 31, 2008). These actions taken by the HMRC are not specifically targeted at GTD but rather represent a part of general measures applied by the HMRC in its battle against VAT fraud exposed within the mobile telephone handset sector in which GTD had operated. As a result of the action taken by the HMRC, GTD ceased its business activities and an administrative receiver was appointed to GTD in May 2008. (See also Note 3(f)5).

3. Some of the Company's subsidiaries are involved in various legal disputes within the ordinary course of business. The Company's management is of the opinion that it had provided a sufficient reserve should any of these disputes materialize to actual claims.

f. Lease Commitments:

The Company and its subsidiaries rent their offices under operating lease agreements, which expire on various dates. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2008, are as follows:

2009	$ 6,499
2010	5,367
2011	2,939
2012	2,148
2013 and thereafter	2,043
Total	$ 18,997

Total rent expense for the years ended December 31, 2006, 2007 and 2008 amounted to $ 1,095, $ 5,474 and approximately $ 6,905 respectively.

NOTE 17:- SHAREHOLDERS' EQUITY

a. Ordinary shares:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends, and the right to a share in excess assets upon liquidation of the Company.

b. Treasury stock:

1. In 2006, the district court in Israel approved a share buyback program for the Company's Ordinary shares in an amount of up to £40 million pursuant to which the Company may repurchase Ordinary shares of the Company.

2. On June 29, 2006, the extraordinary shareholders meeting of the Company approved to provide to the Company's CEO at the time, Mr. Eli Reifman ("the Former CEO"), a bridge loan in an amount of $ 70,000 ("the Loan"). Upon the maturity of the Loan, the Company repurchased from the Former CEO 25,597,439 of Emblaze shares in order to allow for a full repayment of the Loan and its accrued interest, in the total amount of $ 70,953. The shares were repurchased at a price per share of 149 pence.

3. During 2008, the Company repurchased a total of 63,800 of the Company's Ordinary shares in the open market at the cost of $ 24.

4. During 2006 and as part of the business combination transaction between EVC and ZONE-IP, the Company re-issued 1,082,935 shares. (See also Note 3(a) 4)

5. During 2006, 2007 and 2008 the Company re-issued 115,500, 3,000 and 305,545, held in treasury stock, as part of employees' exercise of options under the Company's employee option plan. (See also Note 17(c))

As of December 31, 2007 and 2008 the outstanding treasury stock amounted to 29,101,467 and 28,859,722 shares, respectively.

c. Employee's stock option plans:

In 1998, the Company implemented the 1999 employee stock option plan ("the 1999 Plan"). Under the 1999 Plan, 12,000,000 options to purchase

Ordinary shares have been reserved for issuance. These options may be granted to officers, directors and employees and vest evenly each year over a period of four years after the date of grant and, if not exercised, the options will expire on the tenth anniversary of the date of grant. Generally the exercise price of these options may not be less than the fair market price of the share at the date of grant. Any options which are canceled or forfeited before expiration become available for future grants.

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

NOTE 17:- SHAREHOLDERS' EQUITY (continue)

In 2001, the Company implemented the 2001 Global Stock Option Plan ("the 2001 Plan"). Under the 2001 Plan, 10,000,000 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to the Company's employees, directors and consultants and vest evenly mainly every year or half a year in equal portions mainly over a period of two-four years commencing on the date of grant and, if not exercised, the options will expire on the tenth anniversary of the date of grant. Generally, the exercise price of these options may not be less than the fair market price of the shares at the date of grant. Any options which are cancelled or forfeited before expiration become available for future grants.

On June 9, 2003, the Company's shareholders meeting resolved to consolidate the 1999 Plan with the 2001 Plan, so that shares reserved for allotment under the 1999 Plan will be treated as being served for allotment under the 2001 Plan, but without prejudice to the actual terms and conditions of each grant previously made under the 1999 Plan.

On August 31, 2006, the Company's shareholders' resolved to increase the reserve of stock for issuance under the Company's 2001 Plan by an additional 13,000,000 shares.
Total number of options available for future grants as of December 31, 2008, amounted to 15,202,058.

On September 11, 2007, the Company's shareholders resolved to amend the Company's 2001 Plan such that the Board of Directors may grant employees of the Company options with an exercise price per share that is less than the fair market value of the shares on the date of approval of the grant, provided however that any such grant by the Board will be subject to the approval of the General Meeting of shareholders.

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

	Year ended December 31,					
	2006		2007		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	7,108,394	$ 2.89	17,553,735	$ 4.19	16,233,214	$ 3.71
Granted	13,000,000	$ 4.89	2,328,045	$ 1.24	-	$ -
Exercised	(115,500)	$ 2.13	(3,000)	$ 2.16	(305,545)	$ -
Canceled or forfeited	(2,439,159)	$ 5.46	(3,645,566)	$ 4.85	(3,589,270)	$ 3.66
Outstanding at the end of the year	17,553,735	$ 4.19	16,233,214	$ 3.71	12,338,399	$ 2.49
Exercisable at the end of the year	5,615,396	$ 1.47	5,606,207	$ 2.88	5,918,774	$ 1.91
Vested and expected to vest*	6,129,612	$ 2.20	7,457,692	$ 3.41	7,231,705	$ 1.76

*) Does not include options granted to an executive of the Company. (See also Note 17(f)).

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

NOTE 17:- SHAREHOLDERS' EQUITY (continue)

The following table summarizes information about options outstanding and exercisable as of December 31, 2008:

Range of exercise price	Options outstanding as of December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2008	Weighted average exercise price of options exercisable
$ 0.00 – 1.926	6,875,100	5.42	$ 1.63	5,433,225	$ 1.80
$ 2.01 – 2.92	2,087,600	7.37	$ 2.74	339,850	$ 2.10
$ 3.12 - 4.38	3,245,000	7.67	$ 4.01	15,000	$ 3.12
$ 4.67 - 5.33	121,199	1.35	$ 5.21	121,199	$ 5.21
$ 9.70 – 21.56	9,500	1.33	$ 14.63	9,500	$ 14.63
	12,338,399		$ 2.49	5,918,774	$ 1.91

For options outstanding at December 31, 2008, the aggregate intrinsic value was $62 and for options exercisable at December 31, 2008, the aggregate intrinsic value was $ 0. The aggregate intrinsic value represents the total pre-tax intrinsic value based on the Company's closing stock price of $ 0.55 on December 31, 2008, less the weighted average exercise price of in-the-money options. This represents the potential amount receivable by the option holders had all option holders exercised their options as of such date. The total intrinsic value of options exercised during the years ended December 31, 2006, 2007 and 2008 was $ 88, $ 0 and $ 120, respectively.

As of December 31, 2008, there was an unrecognized compensation cost of $ 410 related to stock options that is expected to be recognized in future periods until December 31, 2011.

d. Certain subsidiaries of the Company granted options to their employees to purchase shares in the respective companies.

The options were mainly granted in the years 1999-2008. In general, the options are exercisable 1-4 years after the date of grant and expire 6-10 years after grant. Most of the options were granted as part of plans that were adopted in accordance with the provisions of Section 102 of the Israeli Income Tax Ordinance. The following table is a summary of the status of option plans the Company's subsidiaries as of December 31, 2008:

Subsidiary	Outstanding options	Weighted average exercise price	Exercisable options	Weighted Average exercise price of exercisable options
Matrix	2,779,252	$3.16	929,252	$ 1.81
Magic	2,390,045	$2.31	1,581,051	$ 2.53
Sapiens	2,698,350	$3.45	1,852,350	$ 3.99
Emblaze Mobile	2,533,875	$1.56	334,968	$ 1.6
EMOZE	5,012,500	$0.16	2,781,000	$ 0.09
ZONE -IP	1,528,006	$0.14	764,003	$ 0.14

NOTE 17:- SHAREHOLDERS' EQUITY (continue)

e. Grant of options to the Company's President and Former CEO:

1. On August 31, 2006, the shareholder of the Company approved to grant 13,000,000 share options to the Company's President and Former CEO: Mr. Eli Reifman. The exercise price of the stock options was determined at the range of £ 2 to £ 3 while the fair market value of the shares at the date of grant was £ 1.4. The share options vest quarterly over a period of four years until August 2010. The Board of Directors of the Company decided to implement performance criteria over the vesting of the options for each of the fiscal years until 2010. The respective number of options shall immediately be forfeited in the event that the performance criteria are not met.

   The total compensation expense of the options at the date of grant was $ 6,362. As of December 31, 2008, the performance criteria determined by the Board were not met and therefore 8,125,000 share options were forfeited The Company did not record any compensation expenses in the years 2006, 2007 and 2008 related to these share options.

2. On September 11, 2007, the Annual General Meeting of the Company approved to grant to the Company's President and Former CEO, in his capacity as CEO of Emblaze Mobile, a grant of option to purchase 10% of Emblaze Mobile Ordinary shares at an exercise price of $ 1.55. These options vest equally over a period of four years commencing June 30, 2008 with immediate full vesting in a case that certain defined events will occur. The Board decided to implement performance criteria over the ability to exercise the options. In the event that Emblaze Mobile fails to achieve the performance criteria until December 31, 2009, the respective number of options shall immediately be forfeited, whether vested or unvested. As of December 31, 2008, the Company estimated that the performance criteria determined for eligibility of exercise of the options will not be met and therefore Emblaze Mobile did not record any compensation expenses in the years 2007 and 2008.

f. Grant of options in Emblaze Mobile to the chairman of Emblaze Mobile

On September 07, 2008, Emblaze Mobile Ltd. approved to grant its chairman an option to purchase up to 7% of Emblaze Mobile Ordinary shares, equal to 915,000 shares, at an exercise price of $ 1.55 per share. These options vest equally over a period of four years commencing September 7, 2009. The board of directors of Emblaze Mobile resolved to implement performance criteria over the ability to exercise the options. In the event that Emblaze Mobile fails to achieve the performance criteria until December 31, 2009, the respective number of options shall immediately be forfeited, whether vested or unvested. As of December 31, 2008, the Company estimated that the performance criteria determined for eligibility of exercise of the options will not be met and therefore Emblaze Mobile did not record any compensation expenses in 2008.

g. Grant of options in EMOZE to the Company's Chairman:

On September 11, 2007, the Annual General Meeting of the Company approved to grant to the Company's Chairman an option to purchase 4% of EMOZE Ordinary shares, equivalent at the time to 1,080,000 shares, at an exercise price of $ 0.125 per share. The options are vested and exercisable upon the approval of the grant by the shareholders. The fair value of the options at the date of grant was $ 0.09 per option. The Company recorded compensation expense in the amount of $ 95 in 2007.

NOTE 17:- SHAREHOLDERS' EQUITY (continue)

h. Grant of options of Formula to the Company's CEO

In January 2009, Formula granted the Company's CEO, in connection with his service agreement as CEO of Formula, options to purchase up to 396,000 ordinary shares of Formula. These options vest over a three-year period, commencing December 17, 2008, on a quarterly basis. The exercise price of the options is NIS 0.01 per share. The options shall expire six years as of the date of grant.

NOTE 18:- INCOME TAXES

a. Israeli income taxes:

1. Measurement of taxable income:

Commencing with the taxable year 2002, the Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Accordingly, commencing in taxable year 2002, results for tax purposes are measured in terms of earnings in dollar. The taxable income of certain subsidiaries is measured under the Income Tax (Inflationary Adjustments) Law, 1985. Accordingly, results for tax are measured and reflected in real terms in accordance with the change in the CPI. In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

2. Tax rates:

Taxable income of Israeli companies is subject to tax at rate of 31% in 2006, 29% in 2007, 27% in 2008, 26% in 2009 and 25% in 2010 and thereafter.

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - the "Law"):

Some operations of certain subsidiaries have been granted "Approved Enterprise" status under the Law. Since the subsidiaries have elected to receive "alternative benefits" under the Law (i.e. waiver of grants in exchange for a tax exemption for a limited period), the following tax rates will apply to its income from the Approved Enterprise (which will be determined based on the increase in the revenue of the subsidiaries during the year, in relation to the revenue in the year preceding the first year of their having the above-mentioned status):

Tax exemption for 2 years, commencing in the first year it generates taxable income. For the remainder of the benefit period - 5 years - a reduced tax rate of 25%.

NOTE 18:- INCOME TAXES (continue)

For some subsidiaries, the percentage of its share capital held by foreign shareholders has exceeded 25%. Therefore its Approved Enterprises qualify for reduced tax rates for an additional three years after the seven years mentioned above.

The period of tax benefits described above will terminate after 7-10 years elapse from the first year in which the subsidiaries have taxable income and 14 years elapse since the Approved Enterprise was granted and 12 years after the commencement of the Approved Enterprise.

The entitlement to the above benefits is subject to final ratification by the Investment Center in the Ministry of Industry and Trade, such ratification being conditional upon fulfillment of all terms of the approved program.

In the event of a distribution of a cash dividend out of retained earnings, which are tax exempt due to the above benefits, the subsidiaries would have to pay tax with respect to the amount distributed. Deferred taxes for such taxes were not provided because such undistributed earnings are essentially permanent in duration and could be distributed to shareholders tax free in liquidation, subject to certain conditions.
The Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that is included in an approved investment program.

In the event the subsidiaries fail to comply with the approved program terms, the tax benefits may be canceled and the subsidiaries may be required to refund the amount of the benefits they utilized, in whole or in part, with the addition of linkage differences and interest.

4. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

Some subsidiaries currently qualify as an "Industrial Company" as defined by this law, and as such are entitled to certain tax benefits including, inter alia, depreciation at increased rates as stipulated by regulations published under the Inflationary Adjustments Law and the right to deduct, for tax purposes, over a period of 3 years, expenses relating to public issue of shares. If realized, any tax benefit relating to issuance expenses is credited to capital surplus.

b. Subsidiaries outside Israel:

Subsidiaries that are not resident in Israel are taxed in the countries in which they are resident, according to the tax laws in those countries.

c. Loss carryforwards:

The Company and its Israeli subsidiaries have accumulated losses for tax purposes as of December 31, 2008, in the amount of approximately $ 510,559 which may be carried forward and offset against taxable income in the future for an indefinite period.

The Company's foreign subsidiaries have accumulated losses for tax purposes as of December 31, 2008, in the amount of approximately $ 47,178.

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

NOTE 18:- INCOME TAXES (continue)

The likelihood of the utilization of most of these losses in the future is low. Therefore, the company recorded a valuation allowance against the deferred taxes attributed to the operating losses carried forward for the amount it does not expect to utilized in the foreseeable future.

d. Deferred Taxes:

	December 31, 2007	December 31, 2008
Operating loss carryforward	$ 136,778	$ 165,533
Reserves and allowances	845	7,064
Net deferred tax asset before valuation allowance	137,623	172,597
Valuation allowance	(129,241)	(163,222)
Net deferred tax	$ 8,382	$ 9,375

The Company and its subsidiaries have provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards and other differences. Management currently believes that since the Company and its subsidiaries have a history of losses it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future.

Most of the valuation allowances for which the Company and its subsidiaries provided, are against the deferred tax assets in respect of tax losses carryforward. As a result most of the valuation allowance is for long term.

Presentation in balance sheets:

	December 31, 2007	December 31, 2008
In current assets	$ 2,709	$ 2,976
In other assets	11,437	13,218
In long-term liabilities	(5,764)	(6,819)
Total	$ 8,382	$ 9,375

e. Taxes on Income Included in Statements of Operations:

	Year ended December 31, 2006	2007	2008
Current taxes:			
In Israel	$ -	$ 2,664	$ 4,803
Abroad	-	338	1,529
	-	3,002	6,332
Taxes in Israel in respect of prior years	-	(381)	225
Deferred taxes, net	-	(1,903)	(2,218)
Total	$ -	$ 718	$ 4,339

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18:- INCOME TAXES (continue)

f. Income (loss) before taxes on income:

Domestic	$ (12,122)	$ 6,052	$ (18,300)
Foreign	(1,480)	2,534	8,554
Total	$ (13,602)	$ 8,586	$ (9,746)

g. Reconciliation of the theoretical tax expense to the actual tax expense:

The main reconciling item between the statutory tax rate of the Company and its subsidiaries and the effective tax rate are carryforward tax losses and other temporary difference for which a full valuation allowance was provided.

NOTE 19:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

a. General:

The Company operates in two principal business segments: Growth and Innovation (see Note 1(a) for a brief description of the Company's business). The Company's reportable operating segments have been determined in accordance with the Company's internal management reporting structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Company and its subsidiaries present their reportable operating segments in accordance with the requirements of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131").

The composition of the reportable operating segments was changed in 2007. The Company had restated the corresponding items of segment information for the year ended December 31, 2006 in accordance with2007 and 2008 reportable segments.

The following is a list of the companies included in each operating segment, as of December 31, 2008:

Growth	**Innovation**
Formula	Emblaze Mobile
Matrix	EMOZE
Magic	ZONE-IP
Sapiens	
NextSource	

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

NOTE 19:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (continue)

b. The following is information about operations segment gains, losses and assets:

	Growth	Innovation	Unallocated	Total
Revenues:				
2006	-	7,629	-	7,629
2007	378,880	8,396	-	387,249
2008	590,807	4,810	-	595,617
Operating income (loss):				
2006	-	(15,832)	-	(15,832)
2007	17,228	(12,177)	-	5,051
2008	30,439	(32,203)	-	(1,764)
Financial income (expenses), net:				
2006	-	382	5,448	5,830
2007	(3,259)	(194)	(420)	(3,873)
2008	(6,008)	(892)	(197)	(7,097)
Equity gain (losses)				
2006	1,093	(766)	-	327
2007	528	-	-	528
2008	(216)	-	-	(216)
Net income (loss)				
2006	-	(14,043)	4,204	9,839
2007	12,372	(14,273)	(1,335)	(3,236)
2008	3,322	(27,766)	(2,620)	(27,064)
Total assets				
2006	83,940	59,968	105,754	249,662
2007	629,963	36,736	28,547	695,273
2008	608,028	19,507	11,732	639,267

c. Summary information about geographic areas:

The following table presents revenues according to end customers' location for the years ended December 31, 2006, 2007 and 2008:

	2006	2007	2008
Europe	$ 4,116	$ 36,630	$ 40,949
The Far East	1,767	12,438	17,173
North America	1,716	93,836	135,987
Israel	30	243,034	399,480
Others	-	1,338	2,028
Total	$ 7,629	$ 387,276	$ 595,617

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

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

NOTE 20:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Financial income (expenses), net

	Year ended December 31,		
	2006	2007	2008
Financial income:			
Interest, net	$ 7,930	$ 8,299	$ 8,299
Income from related party debt	214	-	-
Net gain on marketable securities	-	401	523
Foreign currency translation differences, net	205	-	182
	8,349	8,700	9,004
Financial expenses:			
Interest and other bank charges	(599)	(11,459)	(11,523)
Foreign currency translation differences, net	-	(1,114)	(2,031)
Net loss on marketable securities	(1,920)	-	(2,546)
	(2,519)	(12,573)	(16,101)
Total	$ 5,830	$ (3,873)	$ (7,097)

b. Other income (expenses)

	Year ended December 31,		
	2006	2007	2008
Gain (loss) on realization of investments	$ -	$ 9,031	$ (88)
Impairment of long term investments	(2,694)	(1,456)	(1,804)
Sale of a patent by a subsidiary	-	-	1,616
Other	(906)	(167)	(609)
Total	$ (3,600)	$ 7,408	$ (885)

c. Comprehensive income (loss)

	Year ended December 31,		
	2006	2007	2008
Accumulated unrealized gains from available-for-sale marketable securities	$ (236)	$ 516	$ (297)
Accumulated foreign currency translation adjustments	(92)	4,477	7,248
Total	$ (328)	$ 4,993	$ 6,951

NOTE 21:- SUBSEQUENT EVENTS

a. On December 17, 2008 Formula announced that its board of directors has approved the distribution of a cash dividend to the holders of Formula ordinary shares, payable on January 29, 2009 (the " Distribution Date") with respect to each outstanding Formula ordinary share held as of the close of business day on January 12, 2009. The cash distribution amounted to $2.27 per share, or approximately $30 million in aggregate. On the Distribution Date, the Company received consideration from the total distributed dividend representing its respective share in Formula as at January 12, 2009.

b. On January 26, 2009 the Company sold its entire holding of 8,906,715 ordinary shares in Visual Defence Inc. pursuant to an issuer bid offered by Visual Defence Inc. to its shareholders to purchase all of the common shares of Visual Defence Inc at a price of £0.07 per share. The Company received a total sum of £623,470.05 (approximately $900) as a result of the sale.

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