EMBLAZE™

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

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CHAIRMAN STATEMENT & CHIEF EXECUTIVE'S REVIEW

On behalf of the Board of Directors (the "Board"), we are pleased to enclose the 2009 financial results of Emblaze Ltd. ("Emblaze", "Company" or "Group"). 2009 has seen Emblaze deliver a strong performance in the face of extremely challenging economic conditions as a result of the global recession. Considerable progress has been achieved in both the Growth and Innovation divisions.

Emblaze's strategy is to consolidate its position as a leading international provider of technology solutions with a particular focus on the wireless and cellular sectors, while delivering long term value to shareholders. On the Formula side of the business our growth strategy is maintaining the focus on profitability and examining merger and acquisition opportunities that are compatible with our current portfolio of companies. On the Innovation side of the business, we are focused towards achieving on the fruition to market of our proprietary developed technology and products.

The following sections reflect the position of the Company as at 31 December 2009.

HIGHLIGHTS FOR THE PERIOD ENDING 31 DECEMBER 2009

Emblaze Group consists of two main operating arms: Growth and Innovation. The Growth arm relates to the stable, mature and operational companies managed under Formula Systems (1985) Ltd. ("Formula"). The Innovation arm relates to the in-house investments made by the Group in technology, research and development of future wireless and cellular products.

FINANCIAL HIGHLIGHTS:

- Group revenues increased in NIS terms, the currency in which the vast majority of the Group revenues are generated. In translation to the reporting currency, US Dollar, revenues for the full year reached $ 473.8 million, representing a decrease compared with 2008 ($ 508.0 million). The reduction in revenue is a result of the change in exchange rates, which affected the translation of income generated in NIS into US Dollars.
- Operating profit of the Growth division increased by 22% to $36.0 million (2008: $29.5 million).
- Group operating income increased to $17.4 million (2008: loss of $2.7 million), mainly due to improved operating results in the Group's Growth division as well as increased efficiency throughout the Group and lower R&D expenses.
- Consolidated net income reached $13.4 million, up from a loss of $11.4 million.
- Net loss attributed to Group shareholders reduced significantly from $27.1 million to $9.1 million.
- Continued strong cash position with consolidated cash and short terms investments of $166.9 million.

OPERATIONAL HIGHLIGHTS:

- Formula Systems continued to perform well in the second half of the year. The company sold its entire stake in nextSource Inc. for a total consideration of $12.0 million, comprised of cash and release of bank pledges. Formula recorded a capital gain in the discontinued operations of $4.3 million.

- Magic Software Enterprises Ltd. experienced growth in use of its iBOLT in new ecosystems including SAP R/3, Lotus Notes, HL7, Microsoft SharePoint and Microsoft Dynamics CRM. Its uniPaaS application platform continues to be adopted worldwide.

- Matrix has won and implemented significant projects in almost all fields of its expertise in a variety of sectors and services including many projects in the financial sector: pension and life insurance, pension consulting, monitoring, trading securities, financial services interfaces and more. The company has completed the localization project of Microsoft's leading ERP system, Dynamics AX, which was chosen already ahead of its launch by 15 customers and 13 leading application partners.

- Sapiens International Corporation N.V. signed several long-term deals in the insurance market.

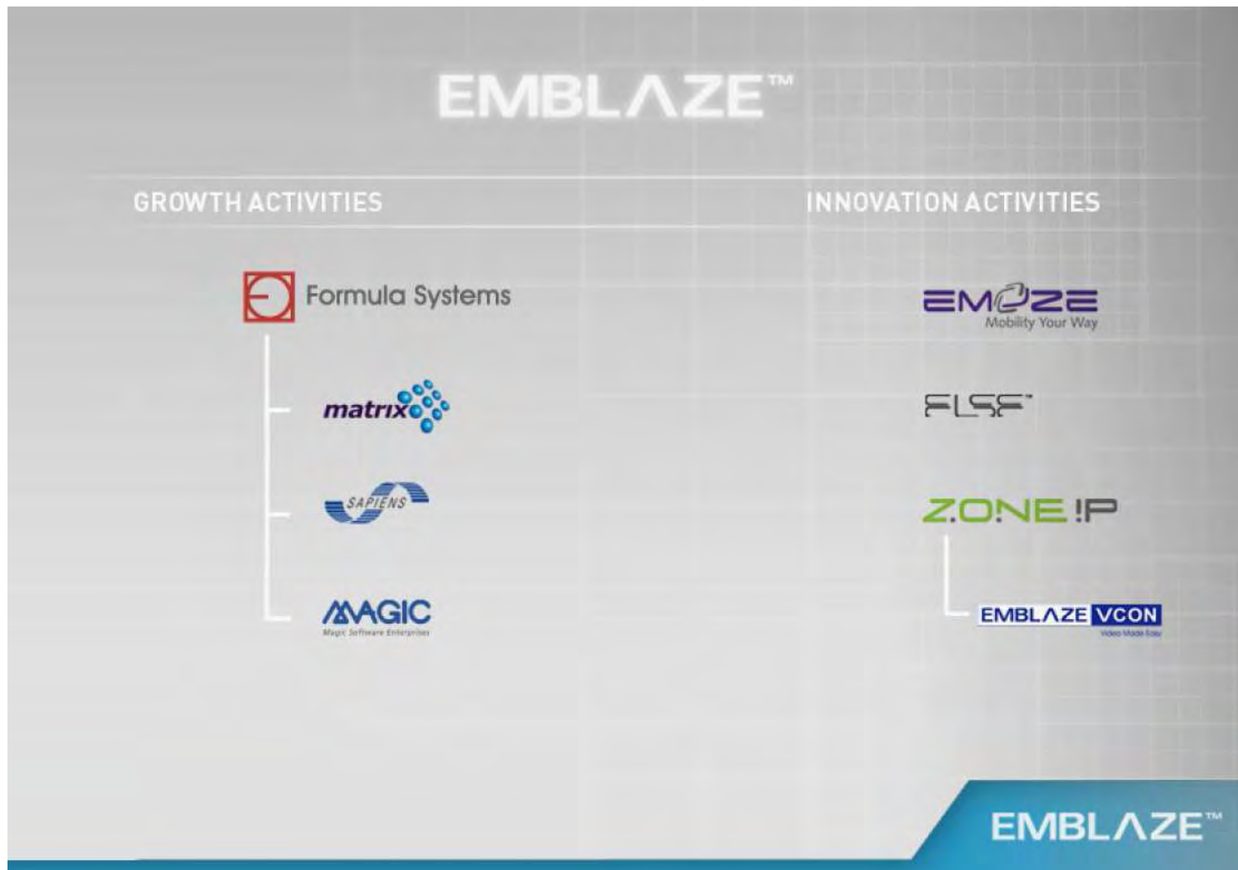
- Emoze has been chosen by Pelephone, a leading Israeli mobile operator, as the ideal service to provide the unique Emoze portfolio of email and social networking messaging for subscribers to its new 3G GSM network.

- ELSE Ltd. (formerly Emblaze Mobile) unveiled ELSE INTUITION™, a groundbreaking mobile platform as well as the First ELSE™, a state-of-the-art mobile device. The device is close to being ready for manufacturing as talks with potential operators and partners proceed positively.

DIVISIONAL ANALYSIS

EMBLAZE OVERVIEW

Emblaze Ltd is a group of technology companies addressing both growth and innovation activities; thus combining the stability of "bread and butter" mature technology enterprises with "high-risk / high-reward" investments in innovation. Emblaze has two principal lines of business, categorised "Growth" and "Innovation".



GROWTH ARM - FORMULA SYSTEMS (1985) LTD.:

This line of business was entered into following Emblaze's acquisition of a controlling interest in Formula Systems in 2006 and consists of established companies delivering revenue and profit with developed products and services, international business and sustained client base.

The table below summarises the 2009 performance of Formula in comparison to its 2008 twelve months performance (selected items):

Formula - Financial Highlights (audited)	Twelve months ended December 31,		
	2009	2008*	
	US$ in thousands		% of change
Revenues	469,390	503,243	(7)
Operating income	37,327	32,453	15
Consolidate income from continuing Operation	28,152	22,133	27
Gain from discontinued operations	4,878	555	779
Net income attributed to Formula's shareholders	19,076	11,869	61

(*) adjusted as a result of the discontinued operations of nextSource.

Formula consists of established companies, with developed products and services that are delivering revenue and profit as outlined below:

MATRIX IT LTD. (TASE: MTRX)

Despite the economic slowdown, Matrix continues to improve its results as well as maintain its leading position in the Israeli IT market. Revenues for the year ended 31 December 2009 amounted to $368.3 million compared to $397.8 million in 2008. Matrix generates its income in New Israeli Shekels. The reduction in revenue is due to the translation of revenues from NIS to US Dollar. In NIS, Matrix shows growth of approximately 1.5% in its revenues for 2009 compared to 2008. Operating profit for the year ended 31 December 2009 reached $28.4 million (2008: $27.9 million) and net income increased by 13.5% to $20.3 million (2008: $17.9 million). Operational cash flow for the year amounted to $33.0 million. As at 31 December 2009 Matrix's cash and short-term investment balances amounted to approximately $84.5 million. During 2009 Matrix distributed dividends in the amount of NIS 66.6 million (approximately $16.6 million).

MAGIC SOFTWARE ENTERPRISES LTD. (NASDAQ & TASE: MGIC)

Magic Software's annual revenues totaled $55.4 million, down from $62.0 million in 2008. The decrease in revenues is mainly due to the downturn in global economic conditions. However, Magic Software succeeded in compensating for the reduction in revenues with an increased net income, improved operational efficiency and implementation of structural changes. Magic's operating income increased from $4.2 million to $6.2 million, while net income reached $6.2 million, an increase of 38% compared to $4.5 million in 2008. Operational cash flow for the year amounted to $7.5 million. Total cash and short-term investments as of 31 December 2009 increased to $42.0 million compared to $33.0 million at 31 December 2008. During the fourth quarter Magic Software declared a cash dividend in the amount of approximately $16.0 million.

SAPIENS INTERNATIONAL CORPORATION N.V. (NASDAQ & TASE: SPNS)

Sapiens annual revenues grew to $45.7 million, up from $43.5 million in 2008. In 2009, Sapiens continued to improve its performance and more than doubled its operating profit, reaching $5.3 million ($2.5 in 2008). Its annual net income significantly grew to $4.2 million, up from a loss of $0.3 million in 2008. Net cash provided by operating activities was $13.5 million. Total cash and short-term investments as of 31 December 2009 increased to $11.1 million.

Formula currently holds 50.1% of Matrix's issued share capital, 70.4% of Sapiens's issued share capital and 58.1% of the Magic's issued share capital.

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 by Emblaze are demonstrated below:

Formula consolidated results from continuing operations 2006 vs. 2009
(US$000)

	2006*	2009	% Difference
Revenues:	356,598	469,390	32
Operating Profits:	8,564	32,453	279
Net income from continuing operation:	3,135	28,152	798

(*) adjusted as a result of the discontinued operations of nextSource.

Formula consolidated balance sheet (selected items) - 31 December 2006 vs. 2009 (US$000)

31 December	2006*	2009	% Difference
Cash & short term investments:	130,942	158,218	21
Formula shareholders' equity:	153,290	169,937	11

(*) adjusted as a result of the discontinued operations of nextSource.

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.

INNOVATION ARM

The innovation activities, namely ELSE Ltd. (formerly Emblaze Mobile), Emoze and ZONE-IP, represent investments of the Company in research and development. The Company's management believes there is high potential for Emblaze to increase shareholders value as a result of these investments.

ELSE LTD. (FORMERLY EMBLAZE MOBILE)

ELSE Ltd. is a design house for cutting-edge mobile technology. The company's vision is to redefine mobile user experience. With this vision in mind, the company introduced to the market its new mobile device, the First ELSE™, which was designed from the ground-up to deliver revolutionary user experience. With out-of-the-box information set-up and creative graphical user interface, the First ELSE™ provides functionality to match that of off-the-shelf dedicated devices. Its set of top-class features allows for seamless connectivity between end-users and the operator. Designed as an application-centric device, the First ELSE™ is powered by ELSE INTUITION™, a new mobile platform.

ELSE INTUITION™

The concept of being always connected, always "live" and always available has become a way of life instead of a futuristic dream. Today, mobile and beyond-PC devices--which have surpassed our wildest visions--fit in our pockets and connect us with friends, neighbors and business colleagues around the world. We can connect with our friends while on the go, do research, watch live or recorded TV programs, read books and magazines, get directions, make payments and access information that interests us where and when we need it.

To truly enhance our lives, the user experience must be intuitive and engaging. Users today want a simple and instant way to access the Internet or connect with friends through social media sites. What's needed is a new approach to mobile devices that will allow users to have a complete, fully-functional experience without artificial barriers and needless complexity. That new approach is being defined by ELSE INTUITION™, a new mobile platform jointly developed by ACCESS CO., LTD. and ELSE Ltd.

ELSE INTUITION, powered by ACCESS Linux Platform™ v3.0, is an integrated, flexible and complete commercial-grade LINUX® platform designed for the global Smartphone and converged device markets. It includes ACCESS' leading NetFront™ Browser, an advanced, versatile and powerful full Internet browser for mobile and beyond-PC devices. The ELSE INTUITION platform provides all the components device manufacturers need to create world-class mobile devices, including a powerful user interface (UI) engine jointly developed by ACCESS and ELSE Ltd., and a comprehensive suite of applications designed by ELSE Ltd., for a complete end-to-end experience.

THE FIRST ELSE™

LiMo™ Platform Type I Device

THE FIRST ELSE™

The First ELSE™ is the first mobile device to implement the capabilities and innovation of ELSE INTUITION™ mobile platform and its advanced user interface engine.

REVOLUTION IN USABILITY

The First ELSE™ is powered by the ELSE INTUITION™ platform. It combines ACCESS Linux Platform™ and an advanced user interface engine to provide instant and shorter paths to information and applications on the device. The First ELSE™ is single-hand operated and exceptional in ease of use and simplicity. The First ELSE™ technology is working its magic quietly, in the background, providing for elegant and seamless usability.

APPLICATION CENTRIC

The First ELSE™ was not designed to be a phone. Instead, it was conceived as a mobile device that also happens to be a phone. The phone is just another application that gets just the right amount of attention - it isn't the center of everything. With the First ELSE™, users can interact with the various functions of the device, such as digital camera, music player or GPS, and enjoy a complete and satisfying functionality from each of the applications embedded on the device.

BEST USER EXPERIENCE

The First ELSE™ was built from the ground up to deliver a unique user experience with fully-functioning device capabilities that are tightly integrated yet capable of autonomous functioning. The First ELSE™ offers end users a completely consistent and flawless experience as well as functionality that, for the first time, are able to match that of standalone off-the-shelf dedicated devices used on a daily basis outside of the mobile experience.

PRE-INTEGRATED SERVICES

The First ELSE™ offers a set of top-class features that provide seamless connectivity between end users and the operator, such as live PIM, full media store, RSS live updated newspaper, over-the-air back-up and restore, global on-board GPS functionality embedded into all the device's applications, and much more - all with out-of-the-box information set-up

THE ELSE ECOSYSTEM

- Product concept, management, UX and visual design by ELSE Ltd.
- Software developed jointly by ELSE Ltd. and ACCESS
- Hardware designed by Sharp
- Collaboration with over 30 top technology companies
- Type I LiMo compliant

2009 achievements include:

- Global unveiling of ELSE INTUITION™ and First ELSE™
- Commencement of samples presentation to operators and potential partners

ELSE's products and solutions are gaining excitement and interest for its unique innovation. The company's management therefore believes that ELSE has a potential to become a substantial contributor to the Group's revenues and profits, either through the sale of mobile device units, or the license of its mobile platform and user interface engine.

EMOZE LTD.

Emoze Ltd., a 95% subsidiary of Emblaze, is a provider of transparent, synchronized mobile, push messaging and push content solutions for Consumers, Mobile Operators and Enterprise. Emoze supports all major email services (Web mail, ISP mail, Outlook and Social Media). Depending on device capability, Emoze's software supports personal information management, contacts, calendar, and folders. Emoze architecture is based on reliable, redundant, scalable packaged server-technology that offers a low TCO and quick to market deployment

EMOZE supports nearly all leading operating systems (Symbian, WindowsMobile and Java) and selected social communities. Synchronization and security are high priorities and users can rest assured that Emoze delivers every email in the safest, most secure manner, employing compression and encryption to provide the highest level of security. In addition, Emoze never stores email on a 3rd party server. Messaging is pushed only when the mobile device is open and ready to receive. Emoze push mail mobility is cost efficient as there is no need for the device to continuously poll the server. Email, events and attachments are pushed as they arrive and transmissions are optimized to conserve batteries and minimize data charges.

Established in 2006, EMOZE has made a considerable progress from an in-house development centre into an acknowledged leader of push-event technology with global reach and revenue stream.

2009 achievements include:

- Emoze was chosen by Pelephone, a leading Israeli mobile operator, as the ideal service to provide the ultimate in mobile messaging to its 2.4 million active users. The service, Smart Mail, powered by Emoze was launched in February 2010.

- Emoze launched a dedicated mobile soccer application for the international soccer tournament in Africa.
- Emoze was recognized a ‘rising star’ in the consumer applications category for email or messaging by the eighth annual Mobile Star Awards™ program, hosted by mobile technology news portal MobileVillage.com.
- Emoze won Top Mobile Email Application at the 2009 Mobile World Congress.

The Company’s management believes that Emoze’s proprietary push synchronization technology presents an excellent solution for end-users, as well as for enterprises seeking a secure and cost-efficient mobile messaging service. The potential further adaptation of Emoze’s solutions presents an excellent opportunity to create shareholder value.

ZONE-IP

ZONE-IP Ltd. 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 organizations. In addition, organizations seek to reduce travel costs in favour of video conferencing solutions. These changes create a new paradigm for using video conferencing in medium to large corporations.

The Company’s management believes that Emblaze VCON’s focus on desk top solutions positions the company well to take significant part in this market.

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, 2009**		
	Growth Activity	Innovation Arm	Consolidated
Revenues	469,390	4,453	473,843
Operating income (loss)	36,040	(18,657)	17,383
Income (loss) from continuing operations	27,162	(17,838)	9,324
Gain from discontinued operations	4,080	-	4,080
Net income (loss) attributable to Emblaze	7,876	(16,982)	(9,106)

OUTLOOK

The positive momentum in the Group's Growth division points to an improving trend for the business going forward. During 2009, Formula further developed into a strong, profitable and cash generating business, with its operating subsidiaries continuing to generate positive operating and net profits. The activity of the Innovation arm is closely monitored in order to control costs and we maintain our belief it has the potential to contribute positively to the Group's financial performance this year. Going forward we will continue to focus on profitability and growth. We look forward to reporting on further progress in the coming months.

BOARD OF DIRECTORS

Naftali Shani, Chairman

Naftali Shani (62) 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 (42) joined Emblaze as chief financial officer and member of the board of directors in April 2004. Mr. Bernstein was appointed chief executive officer of Emblaze 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 chief executive officer of Formula Systems (1985) Ltd., a subsidiary of Emblaze, since January 2008 and holds a director position in several companies within the Emblaze Group.

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

Ilan Flato (54) 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 (43) 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 holds a non-executive director position in ZONE-IP Ltd., a 65 per cent subsidiary of the Company, and Formula Systems (1985) Ltd. 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 (74) 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 finance. In 2003, Mr. Shur founded the 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 (81) 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 Israeli Secret Intelligence Service 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.

Yuval Cohen, Non-Executive Director

Yuval Cohen (48) joined the board of directors of Emblaze in May 2009. Mr. Cohen is the founding and managing partner of Fortissimo Capital, an Israeli private equity investment fund. Prior to founding Fortissimo Capital, Mr. Cohen was a general partner at Jerusalem Venture Partners (JVP), an international venture capital firm with over $650 million under management. Mr. Cohen serves as chairman of Soda Club Holdings Ltd., and has served on boards of numerous companies, including:
Precise Software Solutions, Inc. (sold to Veritas Software Corporation. NASDAQ: PRSE), PowerDsine Ltd. (NASDAQ: PDSN; sold to Microsemi), T.sqware Inc. (sold to Globespan Inc. NASDAQ: GSPN), Sheer Networks (sold to Cisco, NASDAQ: CSCO), Teleknowledge Group (sold to MTS NASDAQ: MTSL), Celltick Technologies, and XMPie (sold to Xerox, NASDAQ:XRX), Telrad Networks Ltd and Nur Macroprinters (NASDAQ: NURM; sold to Hewlett Packard in 2008).
Prior to joining JVP, Mr. Cohen held various executive positions in the Silicon Valley. Mr. Cohen was the vice president of business development and also served as the general manager of the licensing division at DSP Group, Inc. (NASDAQ: DSPG). In addition, Mr. Cohen served as the vice president of Marketing at VDOnet Corporation and as the assistant to the president of Intel Capital at Intel Corporation (NASDAQ: INTC). Mr. Cohen received an MBA from the Harvard Business School and a B.Sc. in Industrial Engineering from Tel Aviv University

Shmuel Barashi, Non-Executive Director

Shmoulik Barashi (48) joined the board of directors of Emblaze in May 2009. Mr. Barashi is a partner at Fortissimo Capital, an Israeli private equity investment fund. Prior to joining Fortissimo, Mr. Barashi was a senior partner in BDO Ziv Haft, one of the largest accounting firms in Israel. At BDO, Mr. Barashi specialized in corporate finance, initial public offerings, due diligence evaluations, deal structuring, business consultancy, auditing and tax (both international and local), and valuation analysis. Mr. Barashi managed the Jerusalem branch of BDO Israel. Mr. Barashi

received an MBA from Hebrew University, an LLM from Bar Ilan University and a BA in economics and accounting from Hebrew University. Mr. Barashi holds certification as a public accountant in Israel.

Ruth Breger, Non-Executive Director

Ruth Breger (59) was deputy general manager of most of the subsidiaries of the Industrial Development Bank of Israel (IDBI) and General Manager of two of its subsidiaries, where she was responsible for the management of funds and development of new business. Currently, Breger practices as a Certified Public Accountant in Israel and acts as a consultant. She became a non-executive director of Emblaze in October 1996 and retired in September 2006.

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. The Company's Board is committed to high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council.

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 Board is responsible for the overall conduct of the group's business and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of the State of Israel and the Articles of Association.

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 Company's 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 has delegated to the Company's chief executive officer 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.

During the year ended December 2009, the Board comprised the following members:

Mr. Naftali Shani, the non-executive chairman
Mr. Guy Bernstein, the chief executive officer
Mr. Shimon Laor, a non-executive director
Mr. Ilan Flato, a non-executive director[1]
Mr. Zvi Shur, a non-executive director
Mr. Nahum Admoni, a non-executive director
Mr. Yuval Cohen, a non-executive director[2]
Mr. Shmuel Barashi, a non-executive director[2]
Ms. Ruth Breger, a non-executive director[3]

Mr. Eli Reifman resigned from the Board in September 2009 and Ms. Hadas Gazit-Kaiser resigned in January 2009.

There is a clear division of responsibility between the chairman and the chief executive officer, 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 Formula Systems (1958) Ltd. and EMOZE Ltd.. 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 in accordance with 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.
The performance of the Board is assessed by the Chairman and the strengths and weaknesses identified are discussed at meetings of the Board. Any improvements that are required are implemented based on these regular discussions.

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] Also acts as the senior non-executive director
[2] Joined in May 2009
[3] Joined in December 2009

The interests of the Directors in the share capital of the Company as respectively reported to the Company as at 31 December 2009 are shown below:

	Number of ordinary shares	% of issued and outstanding share capital
Naftali Shani	15,482,784	13.86%
Shimon Laor	100,000	0.09%
Guy Bernstein	268,045	0.24%

Total issued share capital of the Company as at 31 December 2009: 140,578,154
Total issued and outstanding share capital of the Company as at 31 December 2009: 111,755,932

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.

The following table shows the number of years directors have been on the Board as at 31 December 2009 and their attendance at scheduled board and/ or committee meetings they were eligible to attend during 2009:

Meetings held in 2009	Years on Board	Board 18	Audit 4
Meetings attended:			
Naftali Shani	16	18	n/a
Eli Reifman	16 (retired in September 2009)	8	n/a
Guy Bernstein	5.5	17	n/a
Hadas Gazit-Kaiser	2 (retired in January 2009)	2	n/a
Shimon Laor	9	17	n/a
Ilan Flato	3.5	17	4
Zvi Shur	2	17	4
Nahum Admoni	1	17	4
Yuval Cohen	- (joined in May 2009)	4	n/a
Shmuel Barashi	- (joined in May 2009)	4	n/a
Ruth Breger	- (joined in December 2009)	-	n/a

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.

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 share capital 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. However, the Board believes that the modest number of shares 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 11 September 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 20 April 2006 and a second three-year term at the annual general meeting held on 08 December 2009. Ms. Ruth Breger was appointed for a first three-year term as an external director at the Company's annual general meeting held on 08 December 2009.

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 to 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. 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 2009:

- Treasury activity and management; and
- Insurance cover compliance and risk assessments

INTERNAL CONTROL

The Board is responsible for establishing and maintaining the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

In order to create an ongoing process to fulfill this responsibility, the Board has established a number of measures in order to identify, evaluate and manage the key financial, operating and compliance risks faced by the Group throughout the year and up to the date of the signing of the accounts. These measures are summarised below:

- The Board generally meets at least once a month and is responsible for the major business risks faced by the Company and for determining the appropriate course of action to manage those risks.
- The Board has a budgetary process in which the key risks faced by the Company are identified. Performance is monitored and relevant action taken through the monthly reporting to the Board of variances from the Budget, updated forecasts for the period together with information on the key risk areas.
- Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond certain levels, detailed written reports have to be submitted to the Board.
- Responsibility levels are communicated throughout the Company, including delegation of authority and authorisation levels, segregation of duties and other control procedures. The Audit Committee monitors controls which are in force and any perceived gaps in the control environment, and also considers and determines relevant action in respect of any control issues raised by the external auditors. The findings of the Audit Committee are communicated to the Board.
- The Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Group. A risk review report, which identifies key risks, the impact should they occur, and action being taken to manage those risks to the desired level, is produced annually and reviewed regularly to ensure relevant actions are taken and new risks evaluated by each business unit and by each Company divisional head. Proposed improvements to the way that risks are managed are also reported. It is designed to manage rather than to eliminate the risks inherent in achieving the Company's business objectives and can therefore provide only reasonable and not absolute assurance against material misstatement or loss.
- Detailed financial procedures are set out for operating division.

The Company's auditors are Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. For the year ended 31 December 2009, the Board of Directors of the Company has determined the audit remuneration of its auditors at a level of US$128,000.

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.
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.

Company stock options granted during the year ended 2009:

Total number of options granted to employees	Exercise Price	Option Expiry	Vesting Schedule
15,000	£0.49	01 November 2019	4 annual equal installments

Eligibility for vesting of Company options is subject to meeting of certain performance criteria, which are usually linked to pre-defined annual financial objectives and to focus on the most important measures of business success, while rewarding individuals for outstanding performance. In this way option based rewards seek to align the interests of shareholders and those eligible.

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. 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. 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.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The Directors are satisfied that the procedures in place throughout the year ensured full compliance with the internal control requirements of the Combined Code. The Directors are further satisfied that the Company has been in full compliance with the provisions set out in the Code throughout the year.

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

Major shareholders and number of shares as notified to the Company by the respective shareholders under the Disclosure and Transparency Rules of the UKLA as at 31 December 2009 are set out in the table below:

Name	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

(*) Recent survey did not identify these shares.

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

This remuneration report is made by the Board for the year ended 31 December 2009. It has been prepared on its behalf and for its approval by the Remuneration Committee. The report, which complies with the Directors' Remuneration Report Regulations 2002, sets out how the principles of the Combined Code relating to Directors' remuneration are applied. The Remuneration Committee believes that the Company was compliant with the provision of the Combined Code relating to the Directors' remuneration throughout the period.

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

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 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 no longer bears 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.

Eli Reifman served as member of the board of directors of the Company and chief executive officer of ELSE Ltd., a Group subsidiary. Due to the appointment of a special manager over his assets pursuant to an Israeli court order, Eli Reifman retired from the board of directors of Emblaze in September 2009 and was placed under the status of unpaid leave of absence from ELSE Ltd. Therefore, since September 2009, Eli Reifman is not entitled to further remuneration from the Company.

Mr. Reifman's personal, financial and legal problems have no bearing or effect over the company and its operations

Due to the fact that Eli Reifman's remuneration until September 2009 was 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 during such time and therefore, his remuneration package is provided in the table below.

Hadas Gazit-Kaiser served as the Company's chief financial officer. In January 2009 Hadas 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. Her remuneration package, reflecting only January 2009, is provided in the table below.

EXECUTIVE DIRECTORS - REMUNERATION PACKAGES FOR THE YEAR 2009 (IN THOUSANDS OF US$)

Name	Salary	Bonus	Insurance and/ or pension plan	Educational fund	Other	Total
Eli Reifman	173,677		7,160	2,696	16,519	200,052
Hadas Gazit-Kaiser	10,352	40,889	402	301	69,519	121,464

Note: the bonus paid to Ms. Gazit-Kaiser was on account of 2008 bonus entitlement.

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	3,850,000[2]	550,000	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	3,762,500[2]	537,500	August 31, 2016	
	4,300,000[1]	£3.00	3,762,500[2]	537,500	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	Sept. 27, 2010	4 equal annual installments
	150,000[1]	£0.7525	75,000	75,000	Sept. 27, 2010	4 equal annual installments
	150,000[1]	NIL	0	0	---	

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 29 June 2006, a total of 11,375,000 options were forfeited as of 31 December 2009 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 expire on 27 September 2010.

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	ELSE Ltd.	1,297,375	$1.55	0	June 30, 2017	4 equal annual installments

Note: All 1,297,375 ELSE Ltd. options granted to Eli Reifman pursuant to shareholders approval on 11 September 2007 were forfeited as of 31 December 2009 as a result of not meeting 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.

ERNST & YOUNG

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel
Tel: 972 (3)6232525
Fax: 972 (3)5622555
www.ey.com/il

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 2009, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2009. 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% of total consolidated assets as of December 31, 2008 and 2009, and total revenues constituting 79%, 83% and 82% of total consolidated revenues for the years ended December 31, 2007, 2008 and 2009, 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 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 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with generally accepted accounting principles in the United States.

As discussed in Note 2(b)(2) and 2(b)(3) to the consolidated financial statements effective January 1,2009, the Company changed its method of accounting for business combination and of accounting for transactions with non-controlling interest.

Tel-Aviv, Israel
April 30, 2010

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2008	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 119,442	$ 107,617
Short-term investments (Note 4)	48,377	59,264
Trade receivables (including unbilled receivables of $24,097 and $ 24,268 at December 31, 2008 and 2009, respectively)	137,695	130,865
Other receivables and prepaid expenses (Note 6)	16,630	23,494
Inventories	5,320	4,356
Assets of discontinued operations (Note 3(e))	28,467	27
Total current assets	355,931	325,623
LONG-TERM RECEIVABLES AND INVESTMENTS (Note 7)	20,983	13,840
SEVERANCE PAY FUND	39,047	45,349
PROPERTY AND EQUIPMENT, NET (Note 8)	15,498	10,324
GOODWILL (Note 9)	152,606	156,132
OTHER ASSETS, NET (Note 10)	55,202	47,766
Total assets	$ 639,267	$ 599,034

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2008	2009
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 42,246	$ 46,271
Short-term liabilities to banks (Note 11)	10,764	10,469
Other payables and accrued expenses (Note 12)	98,795	95,162
Liability due to activities acquisition (Note 3(a)2)	6,954	210
Liabilities of discontinued operations (Note 3(e))	25,060	425
Convertible and non-convertible debts (Note 13)	5,157	14,639
Total current liabilities	188,976	167,176
LONG-TERM LIABILITIES:		
Convertible and non-convertible debts (Note 13)	56,004	43,918
Liabilities to banks and other (Note 14)	16,640	8,556
Deferred tax liability	6,773	4,134
Other long term liabilities	1,216	1,300
Liability due to acquisition of a business operation	1,010	1,517
Accrued severance pay	51,518	55,773
Total long-term liabilities	133,161	115,198
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)		
EQUITY: (Note 16)		
Equity attributable to the Company's shareholders:		
Share capital:		
Ordinary shares of NIS 0.01 par value - Authorized: 200,000,000 shares at December 31, 2008 and 2009; Issued: 140,578,154 shares at December 31, 2008 and 2009; Outstanding: 111,718,432 and 111,755,932 shares at December 31, 2008 and 2009, respectively	416	416
Additional paid-in capital	470,716	469,562
Treasury stock, at cost	(75,654)	(75,555)
Accumulated other comprehensive income	6,951	6,924
Accumulated deficit	(275,855)	(284,961)
Total Company's Shareholders' equity	126,574	116,386
Non- controlling interest	*) 190,556	200,273
Total equity	317,130	316,659
Total liabilities and equity	$ 639,267	$ 599,033

*) Reclassified according to ASC 810.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2007	2008	2009
Revenues (Note 18)	$ 325,357	$ 508,049	$ 473,843
Cost of revenues	232,422	375,638	354,830
Gross profit	92,935	132,411	119,013
Operating expenses:			
Research and development, net	13,742	33,157	17,328
Selling and marketing	32,172	42,135	41,656
General and administrative	43,475	59,805	44,660
Other income	-	-	(2,014)
Total operating expenses	89,389	135,097	101,630
Operating income (loss)	3,546	(2,686)	17,383
Financial income (expenses) (Note 19(a))	(3,719)	(6,997)	485
Other income (expenses) (Note 19(b))	7,408	(883)	(240)
Income (loss) before taxes on income	7,235	(10,566)	17,628
Taxes on income (Note 17)	689	4,073	7,969
Income (loss) before gains (loss) in equity investment	6,546	(14,640)	9,659
Equity in earnings (losses) of affiliated companies, net	528	(216)	(335)
Income (loss) from continuing operations	7,074	(14,856)	9,324
Gain from discontinued operations, net (Note 3(e))	6,618	3,417	4,080
Consolidated net income (loss)	$ 13,692	$ (11,439)	$ 13,404
Less: net income attributable to non-controlling interest *)	(16,928)	(15,625)	(22,510)
Net loss attributable to Company's shareholders	$ (3,236)	$ (27,064)	$ (9,106)
Basic and diluted loss per share to Company's shareholders:			
From continuing operations	$ (0.01)	$ (0.26)	$ (0.10)
From discontinued operations	(0.02)	0.02	0.01
Net loss per share	$ (0.03)	$ (0.24)	$ (0.09)
Weighted average number of shares used in computing basic and diluted loss per share	111,476,440	111,522,295	111,755,932

*) Reclassified according to ASC 810.

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

STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury stock, at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Non-controlling interest **)	Total equity	Total comprehensive income (loss)
Balance as of January 1, 2007	416	$ 468,400	(76,441)	$ (328)	$ (245,555)	$ 182,444	$ 328,936	$ -
Changes during 2007:								
Dividend to non-controlling interest shareholder's	-	-	-	-	-	(6,502)	(6,502)	-
Issuance of shares upon exercise of stock options	*)	(1)	8	-	-	-	7	-
Tax benefits related to exercise of options in a subsidiary	-	243	-	-	-	3,657	3,900	-
Share based compensation expenses	-	352	-	-	-	1,012	1,364	-
Increase of investment due to decrease in percentage in holding in a development stage subsidiary	-	1,897	-	-	-	8,976	10,873	
Comprehensive loss:								-
Realized gains and unrealized losses from available for sales marketable Securities net	-	-	-	752	-	(370)	382	382
Foreign currency translation adjustment	-	-	-	4,569	-	6,578	11,147	11,147
Net profit (loss)	-	-	-	-	(3,236)	12,807	9,571	9,571
Total comprehensive loss								$ 21,100
Balance as of December 31, 2007	416	470,891	(76,433)	4,993	(248,791)	208,602	359,678	-
Changes during 2008:								
Dividend to non-controlling interest shareholder's	-	-	-	-	-	(19,553)	(19,553)	-
Issuance of shares upon exercise of stock options	*)	(803)	803	-	-	(3,609)	(3,609)	-
Purchase of treasury stock	-	-	(24)	-	-	-	(24)	-
Tax benefits related to exercise of options in a subsidiary	-	58	-	-	-	57	115	-
Share based compensation expenses	-	570	-	-	--	263	833	-
Comprehensive loss:								-
Realized gains and unrealized losses from available for sales marketable						-		
Securities net	-	-	-	(961)	-	(394)	(1,355)	(1,355)
Foreign currency translation adjustment	-	-	-	2,919	-	384	3,303	3,303
Net loss	-	-	-	-	(27,064)	4,806	(22,258)	(22,258)
Balance as of December 31,2008	416	470,716	(75,654)	6,951	(275,855)	190,556	317,130	
Total comprehensive loss								$ (20,310)

STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury stock, at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Non-controlling interest *)	Total equity	Total comprehensive income (loss)
Changes during 2009:								
Decrease in the Company's holding in subsidiaries	-	(757)	-	-	-	1,716	959	
Dividend to non–controlling interest shareholders	-	-	-	-	-	(15,369)	(15,369)	
Non-controlling interests changes due to holding changes and exercise of put option	-	(595)	-	-	-	(2,937)	(3,532)	
Issuance of shares upon exercise of options	*)	(99)	99	-	-	1,463	1,463	
Share based compensation expenses	-	297	-	-	-	1,845	2,142	
Comprehensive loss:								
Unrealized loss from available-for-sale marketable securities, net	-	-	-	(260)	-	(102)	(362)	(362)
Foreign currency translation adjustments	-	-	-	233	-	591	824	824
Net profit (loss)	-	-	-	-	(9,106)	22,510	13,404	13,404
Balance as of December 31, 2009	$ 416	$ 469,562	$ (75,555)	$ 6,924	$ (284,961)	$ 200,273	$ 316,659	
Total comprehensive income								$ 13,866

*) Represent an amount less than $1

**) Reclassified according to ASC 810.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31,		
	2007	**2008**	**2009**
Cash flows from operating activities:			
Consolidated net income	$ 13,692	$ (11,439)	$ 13,402
Less - loss (gain) from discontinued operations	232	(2,862)	-
Income from continuing operations	13,924)	(14,301)	13,402
Depreciation and amortization	11,459	14,632	17,186
Gain from sale of Subsidiary			(4,284)
Capital gain from sale of intangible assets	-	(1,616)	-
Impairment and amortization of marketable debt securities premiums and accretion of discounts, net	380	608	388
Share based compensation expense	577	570	297
Share based compensation expense of subsidiaries	577	1,768	1,877
Net loss (gain) on sales of marketable securities, decrease in value of marketable securities and changes in accrued interest, net	2,019	6,016	(2,794)
Impairment of investment in marketable securities and others	4,215	2,970	-
Equity (gain) losses, net	502	216	335
Revaluation of long term loans and deposits, net	708	(129)	(210)
Other income and capital losses (gains), net	(8,580)	65	-
Decrease (increase) in trade receivables, other receivables and prepaid expenses and inventories	(3,730)	(1,581)	27,322
Amortization of convertible debt discount, changes in Embedded Derivative, increase in value and accrued interest on debentures	-	-	2,535
Increase (decrease) in trade payables, other payables and accrued expenses , accrued severance pay, net and other long term liabilities	(15,437)	13,361	(16,695)
Changes in deferred tax, net	(1,903)	(2,218)	329
Change in derivatives and value of put options	-	-	(2,709)
Gain from sale of property and equipment	-	-	(2,219)
Other	(349)	728	265
Net cash provided by operating activities from continuing operations	4,362	21,089	35,025
Net cash (used in) operating activities from discontinued operations	(16,987)	(2,170)	-
Net cash provided by (used in) operating activities	(12,625)	18,919	35,025

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

*The cash flow related to the discontinued operation of Next Source was not separated due to immateriality

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2007	**2008**	**2009**
Cash flows from investing activities:			
Purchase of property and equipment	(3,176)	(4,310)	(2,811)
Proceeds from sale of intangible assets	-	1,622	-
Proceeds from sale of property and equipment	108	1,011	5,666
Investment in short-term bank deposits and short and long restricted deposits, net	5,899	(1,570)	3,453
Investment in short-term marketable securities	(27,391)	(7,249)	-
Proceeds from sales, calls and maturity of marketable securities	77,718	16,999	29,304
Investment in long-term marketable securities	(2,680)	(250)	-
Investment in short and long-term bank deposits, net	(10,233)	-	(36,144)
Capitalization of software development and other costs of subsidiaries	(4,355)	(6,683)	(6,960)
Purchase of non-controlling interest in subsidiaries	(4,368)	(16,983)	(6,455)
Proceeds from sale of subsidiary's operations	-	170	105
Proceeds from realization of investments	62,279	-	4,320
Acquisition of newly consolidated sub	(2,319)	(1,157)	(1,262)
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)	-	-
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	174,543	(38,762)	(10,784)
Net cash provided by investing activities from discontinued operations	11,447	25,081	-
Net cash provided by (used in) investing activities	185,990	(13,681)	(10,784)_

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

*The cash flow related to the discontinued operation of NextSource was not separated due to immateriality

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31,		
	2007	**2008**	**2009**
Cash flows from financing activities:			
Proceeds from exercise of stock options in subsidiaries	1,626	876	1,224
Proceeds from exercise of stock options	7	-	-
Issuance of convertible debt in a subsidiary	64,602	-	-
Dividend to non-controlling shareholders in subsidiaries	(3,498)	(10,683)	(23,138)
Short-term borrowing and bank credit, net	(37,793)	(20,928)	(2,054)
Repayment of short term and long-term loans in subsidiaries	(61,717)	(10,855)	(10,216)
Receipt of short term and long-term loans in subsidiaries	13,000	(628)	3,180
Issuance of ordinary shares in a subsidiary to non-controlling, net	14,898	-	-
Deposits - SWAP deal in a subsidiary	(1,040)	-	1,060
Repayment and repurchase of debt of subsidiaries	(7,818)	(18,128)	(5,824)
Proceeds from sale of subsidiaries shares	-	-	959
Purchase of treasury stock in a subsidiary by a subsidiary thereof	3,017	-	-
Purchase of non-controlling interest	-	-	(3,774)
Purchase of treasury stock	-	(24)	-
Net cash (used in) financing activities from continuing operations	(14,716)	(60,370)	(38,583)
Net cash provided by financing activities from discontinued operations	7	-	-
Net cash (used in) financing activities	(14,709)	(60,370)	(38,583)
Effect of exchange rate on cash of continuing operations	3,517	2,481	237
Increase (decrease) in cash and cash equivalents from continuing operations	167,706	(75,562)	(14,579)
Increase (decrease) in cash and cash equivalents from discontinued operations	(5,553)	22,911	-
Cash and cash equivalents from continuing operations at the beginning of the year	10,784	172,456	119,442
Cash and cash equivalents from discontinued operations at the beginning of the year	1,892	2,393	2,755
Cash and cash equivalents from continuing operations at the end of the year	$ 172,456	$ 122,197	$ 107,618
Cash and cash equivalents from discontinued operations at the end of the year	$ 2,393	$ 1	$ -

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2007	2008	2009
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 6,322	$ 5,983	$ 4,201
Income taxes	$ 5,109	$ 5,207	$ 4,444
Significant non cash activities (see Note 3(e)4):			
Sale of a subsidiary	$ 16,000	$ -	$ -
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)	-	-
Non-controlling 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 consolidated 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 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. At December 31, 2009, Formula held 50.10% 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, 2009, 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, 2009, Formula held 70.40% of the issued share capital of Sapiens.

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

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

ZONE-IP Ltd. ("ZONE-IP") 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.

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. The most significant assumptions are employed in estimates used in determining values of goodwill and other intangible assets, legal contingencies, tax assets and tax liabilities, stock-based compensation costs, financial instruments with no observable market quotes, as well as in estimates used in applying the revenue recognition policy. Actual results may differ from estimated results.

b. Adoption of new accounting policies

(1) In June 2009, the Financial Accounting Standards Board (“FASB”) issued a standard that established the FASB Accounting Standards Codification (“ASC”) and amended the hierarchy of generally accepted accounting principles (“GAAP”) such that the ASC became the single source of authoritative U.S. GAAP. Rules and interpretive releases issued by the SEC under authority of federal securities law are also sources of the authoritative GAAP for SEC registrants. All other literature is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates (“ASUs”). The ASC is effective for the Company from September 1, 2009. Throughout the notes to the consolidated financial statements references that were previously made to former authoritative U.S. GAAP pronouncements have been changed to coincide with the appropriate section of the ASC.

(2) Consolidation

On January 1, 2009, the Company adopted an amendment to ASC 810, “Consolidation” (originally issued as FAS 160), according to the amendment, non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a separate component of equity in the consolidated financial statements. As such, changes in the parent’s ownership interest with no change of control are treated as equity transactions, rather than step acquisitions or dilution gains or losses. The amendment clarifies that losses of partially owned consolidated subsidiaries shall continue to be allocated to the non-controlling interests even when their investment was already reduced to zero.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The amendment applies prospectively, except for the presentation and disclosure requirements, which are applied retrospectively to all periods presented. As a result, upon adoption, the Company retroactively reclassified the "Minority Interests" balance previously included in a mezzanine section of the consolidated balance sheet to be presented in a new caption in total equity, "Non-controlling Interest". The adoption also impacted certain captions previously used on the consolidated statement of income, largely identifying net income including the portion attributable to non-controlling interest and net income attributable to the Company's shareholders. This amendment required the Company to classify non-controlling interest as part of the consolidated net income ($15,625 and $22,510 for the years ended December 31, 2008 and 2007, respectively), and to include the accumulated amount of non-controlling interest as part of equity ($190,556 at December 31, 2008).

The net income amounts the Company has previously reported are now presented as "Net income attributable the Company's shareholders" and, as required, loss per share continue to reflect amounts attributable only to Emblaze's shareholders. Similarly, in the statements of changes in equity, the Company distinguishes between equity amounts attributable to the Company's shareholders and amounts attributable to the non-controlling interest.

(3) Business Combinations

Effective January 1, 2009, the Company adopted the amended ASC 805, "Business Combinations" (formerly issued as FAS 141(R)). ASC 805 requires recognition of assets acquired, liabilities assumed, and non-controlling interest in the acquire at the acquisition date, measured at their fair values as of that date. This ASC also requires the fair value of acquired in-process research and development ("IPR&D") to be recorded as intangibles with indefinite lives, contingent consideration to be recorded on the acquisition date, and restructuring and acquisition-related deal costs to be expensed as incurred. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

The ASC is applied prospectively for all business combinations occurring after January 1, 2009, except for changes in valuation allowance related to deferred tax assets and changes in acquired income tax position originating from business combinations that occurred prior to the effective date of this ASC, which are recognized in earnings following the adoption date.

(4) Fair Value Measurement on Non-Financial Assets and Liabilities

The Company adopted the provisions of ASC 820-10, "Fair Value Measurements and Disclosures" (formerly FAS 157, "Fair Value Measurements"), with respect to non-financial assets and liabilities effective January 1, 2009. The adoption of ASC 820-10 did not have a material impact on the Company's consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(5) Recognition and Measurement of Other than Temporary Impairment of Debt Securities

Effective January 2009, the Company adopted an amendment to ASC 320-10, "Investments – Debt and Equity Securities" (formerly issued as FSP FAS 115-2) with respect to measurement and recognition of other than temporary impairment in debt securities. The adoption of the amendment did not have a material effect on the consolidated financial statements. See Note 2g.

c. 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 ASC No. 830, "Foreign Currency Matters" (formerly SFAS 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 equity.

d. 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 non-controlling interest amount adjusts the consolidated net income (loss) to reflect only the Company's share in the earnings or losses of any subsidiary.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

	December 31,		
	2007	2008	2009
	% of outstanding share capital		
Formula	50.10	51.67	50.66
ZONE-IP	64.84	64.84	64.84
ELSE	100	100	100
EMOZE	95	95	95
Emblaze Inc (inactive)	100	100	100

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 ASC 320, "Investments - Debt and Equity Securities" (formerly SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities"). 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 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.

In accordance with ASC 320, 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 ASC 320, 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.

For equity and debt securities, the Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary.
Factors considered in making such a determination include the duration and severity of the impairment, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For declines in value of debt securities, effective January 1, 2009, the Company applies an amendment to ASC 320. Under the amended impairment model, an other-than-temporary impairment ("OTTI") loss is deemed to exist and recognized in earnings if the Company intends to sell or if it is more likely than not that it will be required to sell, a debt security, before recovery of its amortized cost basis.

If the criteria mentioned above do not exist, the Company evaluates the collectability of the security in order to determine if the security is other than temporary impaired.

For debt securities that are deemed other-than-temporary impaired, the amount of impairment recognized in the statement of operations is limited to the amount related to "credit losses" (the difference between the amortized cost of the security and the present value of the cash flows expected to be collected), while impairment related to other factors is recognized in other comprehensive income.

Interest income resulting from investments in structured notes is accounted for under the provision of ASC 320-10-35 (formerly EITF No. 96-12, "Recognition of Interest Income and Balance Sheet Classification of Structured Notes"). Under ASC 320-10-35, 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 2009 amounted to $ 4,309 and $ 4,750, 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:

Investments in affiliated companies and a partnership that are not controlled but over which the Company and its subsidiaries can exercise significant influence (generally between 20% and 50% holdings of the voting rights of the investee) over the operating and financial policies are presented using the equity method of accounting. Profits on intercompany sales, not realized outside the Company, are eliminated. The Company discontinues applying the equity method when its investment (including advances and loans) is reduced to zero and the Company has not guaranteed obligations of the affiliate or otherwise committed to provide further financial support to the affiliate.

A change in the Company’s proportionate share of an investee’s equity, resulting from issuance of shares by the investee to third parties, is recorded as a gain or loss in the consolidated income statements in accordance with ASC 323-10-40-1, “Investment-Equity Method and Joint Ventures-Investee Capital Transactions.”

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The investee's underlying assets are not assessed for impairment. Instead, the investment is assessed for impairment, as a whole. If the investment is impaired then the allocation of the impairment loss is allocated proportionally to the individual assets underlying the investment including identifiable basis difference (i.e., goodwill or intangible assets).

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.

The Company operates in two operating segment, Growth and Innovation. The Growth segment is comprised of Formula Group, in which each subsidiary (as described in Note 1) is considered a reporting unit.

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 at the reporting unit level 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.

Effective 2009, as required by ASC 820, "Fair Value Measurements and disclosures" (formerly SFAS 157, "Fair Value Measurements" , the Company applies assumptions that market place participants would consider in determining the fair value of each reporting unit.

The Company has selected December 31 as the date on which it performs its annual goodwill impairment test. At December 31, 2009, the market capitalization of one reporting unit was below its carrying value. The Company determined the fair value of this reporting unit 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 its reporting unit to the total market capitalization, and adjusting for an appropriate control premium.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2007, 2008 and 2009, no material impairment was identified.

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

	Years
Acquired technology	4 - 15
Customer relationships	4 - 9
Brand name	13-15

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 principles set forth in ASC 985-20, " Costs of Software to be Sold, Leased or Marketed " (formerly 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, 2009 certain subsidiaries capitalized software development costs aggregating $ 6,800 (year ended December 31, 2008- $ 6,400) and amortized capitalized software development costs aggregating $ 8,400 (year ended December 31, 2008 - $ 7,200).

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 2007' 2008 and 2009, no impairment was recorded.

n. Impairment of long-lived assets and intangible assets subject to amortization:

The Company and its subsidiaries' long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment" (formerly 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 2007, 2008 and 2009, no material impairment losses were recognized in continuing operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As required by ASC 820, "Fair Value Measurements", effective January 1, 2009, the Company applies assumptions that marketplace participants would consider in determining the fair value of long-lived assets (or asset groups).

o. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC 740, "Income taxes" (formerly SFAS No. 109"Accounting for Income Taxes"). ASC 740 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.

Deferred tax assets are classified as current or non-current according to the expected reversal dates.

The Company utilizes a two-step approach for recognition and measurement of liability for uncertain tax positions accounted for in accordance with an amendment of ASC 740 (originally issued as FIN 48, "Accounting for Uncertainty in Income Taxes"). 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 ASC 985-605, "Software Revenue Recognition" (formerly SOP 97-2, "Software Revenue Recognition"), 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For these multiple elements, ASC 985-605 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.

ASC 985-605 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 ASC 985-605 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.

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 ASC 605-35, "Construction-Type and Production-Type Contracts" (originally issued as SOP 81-1), 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, 2009, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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 $ 379, $ 1,400 and $ 601 in the years 2007, 2008 and 2009, respectively.

ASC 860, "Transfers and Servicing" (formerly SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"), 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" (formerly SFAS 123R, "Share Based Payments").

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.

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:

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

No Options were granted in 2008 and an immaterial number of options were granted in 2009.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 (gain) in respect of severance pay for the years ended December 31, 2007, 2008 and 2009 were $ 7,300, $ 7,900 and ($ 700), respectively.

t. Fair value of financial instruments:

The Company accounts for certain assets and liabilities at fair value under ASC 820, "Fair Value Measurements and Disclosures" (formerly SFAS 157, "Fair Value Measurement"). 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, ASC 820 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 - significant other observable inputs based on market data obtained from sources independent of the reporting entity;
Level 3 - Unobservable inputs which are supported by little or no market activity (for example cash flow modeling inputs based on assumptions).
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. The Company categorized each of its fair value measurements in one of these three levels of hierarchy.

Assets and liabilities measured at fair value on a recurring basis are comprised of marketable securities, foreign currency forward contracts, and other derivative instruments (See Note 5).

Non convertible debentures are measured based on market price. Short term bank liabilities approximate their fair value.
The carrying amounts reported in the balance sheet for cash and cash equivalents, trade receivables, other accounts receivable, short-term bank credit, trade payables and other accounts payable approximate their fair values due to the short-term maturities of such instruments.

u. Advertising expenses:

Advertising expenses are charged to the statement of operations, as incurred. Advertising expenses for the years ended December 31, 2007, 2008 and 2009 were $ 5,200, $ 5,600 and $ 2,550, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Derivatives activities:

The Company accounts for derivatives based on ASC 815, "Derivative and Hedging" (formerly SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") . ASC 815 requires companies to recognize all of their derivative instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship.

Effective January 1, 2009, the Company adopted a new accounting standard included in ASC 815, Derivatives and Hedging (SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133). The new accounting standard requires enhanced disclosures about an entity’s derivative and hedging.. Since the new accounting standard only required additional disclosure, the adoption did not impact the Company’s consolidated financial statements.

Put options which were granted to non-controlling interests during 2007 and 2009 in Matrix have been measured of fair value pursuant to ASC 810 (formerly EITF 00-06 "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary") and ASC 505 (formerly EITF 08-8 "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity’s Consolidated Subsidiary").

Sapiens also enters into put option contracts to hedge certain transactions denominated in foreign currencies. The purpose of the Company's foreign currency hedging activities is to protect the Company from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the exchange rates. The Company's put option contracts did not qualify as hedging instruments under ASC 815.

Changes in the fair value of put option contracts are reflected in the consolidated statements of operations as financial income or expense as applicable.

During 2007-2009 Matrix engaged in SWAP deals to exchange interest which was linked to the consumer price index ("CPI"), as follows:.

In September 2009, Matrix engaged in a SWAP agreement for the sale of the initial agreement regarding the NIS 200,000 thousand (approximately $52,980 as of December 31, 2009). According to the agreement which lasts until December 2010, the subsidiary has committed to sale CPI for a fixed rate of 3% for the whole period. The related transactions were fixing the fair value of the derivative as of the transaction day. As of December 31, 2009, the fair value of the derivative is a $335 asset. In December 2008 a subsidiary entered into a SWAP agreement with Bank Le'umi for NIS 200,000 thousand (approximately $52,980 as of December 31, 2009). According to the agreement which lasts until December 2010, the subsidiary has committed to buy CPI for a fixes rate of 1.712% for the whole period. As of December 31, 2008, the fair value of the derivative was a $260 liability. As of December 31, 2009, the fair value of this derivative is a $1,957 asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

This SWAP deals did not qualify for hedge accounting under ASC 815. The Company measured the fair value of the contracts in accordance with ASC 820.

Changes in the fair value are reflected in the consolidated statements of operations as financial income or expense as applicable.

Magic entered into forward contracts serve to reduce the market risk associated with the exposure of its underlying transactions to fluctuation in currency exchange rates.
The derivative instruments primarily hedge or offset exposures in Euro, Japanese Yen and NIS. The notional amounts of outstanding foreign exchange forward contracts at December 31, 2009 to buy and sell are $ 2,683 and $ 2,671 thousands, respectively.

According to ASC 815, derivative instruments that are designated and qualify as hedges of forecasted transactions (i.e., cash flow hedges) are carried at fair value with the effective portion of a derivative's gain or loss recorded in other comprehensive income and subsequently recognized in earnings in the same period or periods in which the hedged forecasted transaction affects earnings. For derivative instruments that are not designated and qualified as hedging instruments, the gains or losses on the derivative instruments are recognized in current earnings during the period of the change in fair values.

In 2009, 2008 and 2007, a subsidiary entered into put option contracts in the amount of $ 5,800, $ 10,800 and $ 2,500, respectively that converted a portion of its floating currency liabilities to a fixed rate basis for a six month period thus reducing the impact of the currency changes on the subsidiary's cash flow. The agreements were settled in 2009, 2008 and 2007, resulting in a total gain of $ 135, $ 106 and $ 158, respectively, presented in the statements of operations as financial income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Comprehensive income (loss)

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income" (formerly SFAS 130, "Reporting Comprehensive Income"). ASC 220 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 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 ASC 205, "Presentation of Financial Statements - Discontinued Operation" (formerly SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations and the assets and liabilities of such component are 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 applies the "cost method" and presents the cost as a reduction in equity.

aa. Reclassifications:

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

ab. Impact of recently issued accounting standards:

Fair Value Measurement:

In January 2010, the FASB updated the "Fair Value Measurements Disclosures" codified in ASU 2010-06. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to the Company, this will become effective as of the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. As applicable to the Company, the adoption of the new guidance will not have a material impact on its consolidated financial statements

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.

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.

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

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 (based on the guidance of FAS 141, as ASC 805 is only applied to new transactions subsequent to January 1, 2009). 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.

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
Non-controlling interest	159,677
Total liabilities assumed	401,006
Total acquisition price	$ 101,925

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

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

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, 2007:

	Year ended December 31,
	Unaudited
	Total consolidated
	2007
Revenues	$ 414,724
Net loss attributed to the Company's shareholders	$ (3,061)
Basic and diluted loss per share attributable to the Company's shareholders	$ (0.03)

In December 2008, the Company increased its holding in Formula to 51.67% in consideration of $1,121. In 2009, the Company sold 1.01% of Formula's shares for a consideration of $ 959. The difference between the consideration received and the adjustment made to the carrying amount of the non-controlling interest in the amount of $711 was recognized to additional paid in capital.

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

2. In 2008 a subsidiary Matrix purchased all the shares of TACT Computers and Systems Ltd. for an aggregate consideration of $12,500. The sellers were 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. During 2009 Matrix paid an additional payment of approximately $6,400 which was recorded as additional goodwill. TACT was consolidated starting June 30, 2008.

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	
	2007	2008
Revenues	$ 336,457	$ 520,088
Net loss attributable to the Company's shareholders	$ (15,743)	$ (26,920)
Basic and diluted loss per share attributable to the Company's shareholders	$ (0.14)	$ (0.24)

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

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.

c. 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 13). The debentures were sold to institutional and other investors in Israel. On February 21, 2008, matrix listed the debentures for trading in TASE.

d. 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.

e. Discontinued operations:

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

The Company's consolidated balance sheets as of December 31, 2008 and 2009 reflect the assets and liabilities of all the businesses above as 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 ASC 360 for all periods presented.

1. In October 2009 Formula sold its entire holdings in Nextsource, for consideration of approximately $ 12,000 which is composed of cash and the release of pledged bank deposits. The Company recognized $ 3,486 as capital gain as the result of the sale. The gain is presented in the statement of income as income from discontinued operation.

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

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

	Year Ended December 31, 2009	Year Ended December 31, 2008	Nine months ended December 31, 2007
	U.S. $ in thousands		
Revenues	$ 64,328	$ 87,564	$ 61,919
Capital gains from disposal	3,486	-	-
Net income attributed to the Company's shareholders	$ 1,673	$ 281	$ 700

2. 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.

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

	Year ended December 31, 2007	Year ended December 31, 2008
Revenues	$ 6,388	$ 2,296
Capital gains from disposal	$ -	$ 5,539
Net income (loss) attributed to the Company's shareholders	$ (2,621)	$ 2,862

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

3. 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 Ki-Bi is not provided due to immateriality.

4. 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

NOTE 4:- SHORT-TERM INVESTMENTS

	Interest rate December 31, 2009	December 31,	
		2008	2009
	%		
Trading securities		$ 40,432	$ 40,535
Available-for-sale marketable securities		5,598	3,743
Short-term deposits	0.96-5.72%	1,952	13,912
Restricted deposits	0.65%	395	1,074
Total		$ 48,377	$ 59,264

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,					
	2008			2009		
	Amortized cost	Unrealized gain (loss)	Market value	Amortized costs	Unrealized gain (loss)	Market value
Government debentures	$ 952	$ 59	$ 1,011	$ 407	$ 37	$ 444
Marketable equity securities	2,916	(1,104)	1,812	-	-	-
Equity fund	118		118	118	55	173
Corporate debentures	2,635	22	2,657	2,907	219	3,126
Total	$ 6,621	$ (1,023)	$ 5,598	$ 3,432	$ 311	$ 3,743

An other-than-temporary impairment on available for sale marketable securities was recorded in the consolidated statements of operations in the years ended 2007, 2008 and 2009 in the amounts of $ 1,788, 1, 656 and $ 0, respectively.

2. The estimated fair value of available-for-sale investments as of December 31, 2009 by contractual maturity, are as follows:

	December 31, 2009	
	Amortized cost	Market value
	U.S. $ in thousands	
Available-for-sale debt securities:		
Matures in one year	$ 805	$ 889
Matures in one to five years	2,490	2,618
	$ 3,295	$ 3,507

NOTE 4:- SHORT-TERM INVESTMENTS (Cont.)

b. Restricted deposits

The Company pledges bank deposits to cover bank guaranties in respect of an office rental agreement and a related party.

NOTE 5:- FAIR VALUE MEASUREMENTS

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. On January 1, 2009, the Company adopted a newly issued accounting standard for fair value measurement of all non-financial assets and liabilities as well. The adoption did not have a significant effect on the Company's financial statements.

In April 2009, the FASB issued additional guidance on factors to consider when estimating fair value consequent to a significant decrease in market activity for a financial asset. As applicable for the Company, this guidance became effective for interim and annual periods starting April 1, 2009, and did not have a material impact on the Company's consolidated financial statements.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

The fair value of the liabilities is approximately the carrying value.

NOTE 5:- FAIR VALUE MEASURMENTS (Cont.)

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, 2009 and 2008:

	Fair value measurements using input type			
	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Auction rate securities (*)	$	$ 2,500	$ 4,480	$ 6,980
Marketable securities:				
Shares	968	-	-	968
Government and corporate debentures	40,663	3,005	-	43,668
Derivative instruments	-	2,302		2,302
Equity fund	173	-	-	173
Total Financial Assets	$ 41,804	$ 7,807	$ 4,480	$ 54,091

	Fair value measurements using input type			
	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Auction rate securities (*)	$ -	$ 2,500	$ 5,000	$ 7,500
Marketable securities:				
Trustee funds	169	-	-	169
Shares	1,665	-	-	1,665
Government and corporate debentures -	44,173	1,350	-	45,523
Equity fund	118	-	-	118
Total Financial Assets	46,125	3,850	5,000	54,975
Derivative	-	526	-	526
Embedded derivatives	-	900	-	900
Total Financial Liabilities	$ -	$ 1,426	$ -	$ 1,426

(*) The available for sale securities with unquoted prices fair value was determined by a valuation. The fair value was based on a trinomial discount model employing assumptions that market participants would use in their estimates of fair value.

The assumptions included, among others, the following: the underlying structure of the security, the financial standing of the issuer, stated maturities, estimates of the probability of the issue being called at par prior to final maturity, estimates of the probability of defaults and recoveries, auctions failure and successful auction or repurchase at par for each period, expected changes in interest rates paid on the securities, interest rates paid on similar instruments, and an estimated illiquidity discount due to extended redemption periods. Finally, the present value of the future principal and interest payments was discounted at rates considered to reflect current market conditions for each security.

NOTE 5:- FAIR VALUE MEASURMENTS (Cont.)

The following table summarizes the activity for those financial assets where fair value measurements are estimated utilizing Level 3 inputs.

	December 31,	
	2008	2009
Carrying value as of January 1	$ 5,000	$ 5,000
Net changes in fair value	-	(250)
Impairment:		
Impairment to credit loss	-	(143)
Impairment to non-credit loss	-	(127)
Carrying value as of December 31	$ 5,000	$ 4,480

NOTE 6:- OTHER RECEIVABLES AND PREPAID EXPENSES

	December 31,	
	2008	2009
Government authorities	$ 3,324	$ 6,059
Prepaid expenses and advances to suppliers	7,719	7,974
Employees	663	561
Deferred tax	2,879	3,735
Receivable due upon sale of fixed assets	-	1,306
Derivatives	-	2,292
Other	2,045	1,567
Total	$ 16,630	$ 23,494

NOTE 7:- LONG-TERM RECEIVABLE AND INVESTMENTS

	December 31,	
	2008	2009
Available for-sale marketable securities	$ 8,005	$ 7,517
Deposits	5,718	239
Restricted deposits	1,339	501
Investment in other affiliates	3,694	3,293
Other investments and long-term receivables	2,227	2,290
Total	$ 20,983	$ 13,840

NOTE 7:- LONG-TERM RECEIVABLE AND INVESTMENTS (Cont.)

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,					
	2008			2009		
	Amortized cost	Unrealized gain (loss)	Market value	Amortized costs	Unrealized gain (loss)	Market value
Government debentures	$ 7,500	$ -	$ 7,500	$ 7,940	$ (560)	$ 7,380
Other marketable securities	431	74	505	137	-	137
Total	$ 7,931	$ 74	$ 8,005	$ 8,077	$ (560)	$ 7,517

2. An other-than-temporary impairment on available for sale marketable securities was recorded in the consolidated statements of operations in the year ended 2007, 2008 and 2009 in the amount of $ 1,915, $ 1,000 and $ 0, respectively.

3. The available for sale securities' interest rates are reset through a "Dutch" auction each month. The monthly auctions historically have provided a liquid market for these securities.

With the liquidity issues experienced in global credit and capital markets, the available for sale securities have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders.

In 2009, while the Company continues to earn interest on the available for sale at the contractual rates, their estimated market value no longer approximates par value.
As there was insufficient observable market information available to determine the fair value of most of the available for sale, their fair value was determined based on a valuation

b. Deposits and restricted deposits

	Interest rate %	Linkage basis	December 31, 2008	December 31, 2009
Restricted deposit	-	Dollar	$ 1,339	$ 501
Deposit		Dollar	5,718	190
Deposit	3.6%	CPI	-	49
Total			$ 7,057	$ 740

c. Other investments and long-term receivables

During 2008 and 2009 impairment losses on investments at cost in the amount of $ 502 and $ 59, respectively have been recorded.

NOTE 8:- PROPERTY AND EQUIPMENT, NET

	December 31, 2008	December 31, 2009
Cost:		
Computers and peripheral equipment	$ 47,175	$ 45,668
Building	9,674	3,210
Motor vehicles	840	572
Office furniture and equipment	57	65
Leasehold improvements	6,944	6,238
	64,690	55,753
Accumulated depreciation:		
Computers and peripheral equipment	39,311	39,139
Building	4,500	1,493
Motor vehicles	611	412
Office furniture and equipment	40	45
Leasehold improvements	4,730	4,340
	49,192	45,429
Depreciated cost	$ 15,498	$ 10,324

Depreciation expense amounted to $ 3,487, $ 4,870 and $ 4,250 for the years ended December 31, 2007, 2008 and 2009, respectively.

In December 2009, a subsidiary sold and leased back its Israel-based headquarters' office building for consideration of $ 5,200, of which $ 4,900 was received in December 2009. As a result of the sale, the subsidiary recorded a net gain of approximately $ 1,960. In addition, the same subsidiary sold in June 2009, its office building in Hungary for consideration of $ 535. As a result of the sale, the Company recorded a net gain of approximately $ 289.

NOTE 9:- GOODWILL

	Growth	Innovation	Total
Balance as of January 1, 2008	$ 128,965	$ 336	$ 129,301
Goodwill acquired during year	21,858	-	21,858
Realization and decrease in shareholding percentage	(934)	-	(934)
Goodwill impaired during year	-	(336)	(336)
Currency exchange differences	2,717	-	2,717
Balance as of December 31, 2008	$ 152,606	$ -	$ 152,606
Goodwill acquired during year	$ 2,773	$ -	$ 2,773
Currency exchange differences	753	-	753
Balance as of December 31, 2009	$ 156,132	$ -	$ 156,132

NOTE 10:- OTHER ASSETS, NET

	December 31,	
	2008	**2009**
Cost:		
Capitalized software development costs	$ 78,039	$ 85,408
Acquired technology	4,491	7,869
Customer agreements	3,224	3,224
Customer relations	5,771	6,137
Other intangibles	19,237	14,744
Deferred tax assets	13,218	9,499
	123,980	126,881
Accumulated amortization:		
Capitalized software development costs	51,526	60,609
Acquired technology	1,491	5,360
Customer agreements	266	834
Customer relations	2,809	3,486
Other intangibles	12,686	8,826
	68,778	79,115
Amortized cost	$ 55,202	$ 47,766

a. Amortization expense of intangible assets and other deferred expenses amounted to $ 3,306, $ 2,401 and $ 2,246 for the years ended December 31, 2007, 2008 and 2009, respectively.

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

December 31,	
2010	$ 11,687
2011	9,331
2012	6,633
2013	5,603
2014	2,846
2015 and thereafter	1,749
Total	$ 37,849

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHORT-TERM LIABILITIES TO BANKS

	Interest rate %	Linkage basis	December 31, 2008	December 31, 2009
Bank overdraft	3 – 6.25	NIS	$ 2,470	$ 449
Short-term bank loans	P+1.6 - 5.7	NIS	158	3,179
Short-term bank loans		Other	3	-
Current maturities of long-term loans from banks			8,133	6,841
Total			$ 10,764	$ 10,469

NOTE 12:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2008	December 31, 2009
Employees and payroll accruals	$ 32,605	$ 32,262
Accrued expenses and other	17,963	12,554
Government departments	8,199	12,557
Deferred income and customer advances	25,546	31,095
Dividend payable to non-controlling interest in subsidiaries	14,482	6694-
	$ 98,795	$ 95,162

NOTE 13:- CONVERTIBLE AND NON-CONVERTIBLE DEBT

	December 31, 2008	December 31, 2009
Non- convertible debt	$ 56,004	$ 58,557
Convertible debt , net	6,435	-
	62,439	58,557
Less –convertible debt purchased by one of the Company's subsidiaries	(1,278)	-
Less – current maturities of debentures	(5,157)	(14,639)
	$ 56,004	$ 43,918

NOTE 13:- CONVERTIBLE AND NON-CONVERTIBLE DEBT (Cont.)

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 an offering of securities on the Tel-Aviv Stock Exchange ("TASE") in Israel, resulting in gross proceeds of NIS 75.2 million (approximately $ 17,100). The price per unit was NIS 752 thousands (approximately $ 171.14) with 100,000 units sold. Each of the units consists of 800 debentures (series A), two options (series A) exercisable into debentures (series A) and six warrants (series 1) exercisable into Common shares of the Company.

The debentures (series A) were linked to the U.S. dollar with a floor exchange rate of NIS 4.394 to the dollar, and bear annual interest at the rate of 6.0%, payable twice a year commencing on June 5, 2004 and ending on December 5, 2009. Principal is payable in four installments on December 5 of the years 2006-2009. The debentures (series A) were convertible into Common shares at a conversion rate of one Common share per each NIS 27 thousands (approximately $ 6.14) amount of the debentures, linked to the NIS/dollar exchange rate, with a floor exchange rate of NIS 4.394 to the dollar.

Each option (series A) was exercisable into 100 debentures (series A) no later than March 3, 2004 at an exercise price of NIS 96 (approximately $ 21.85), of which 179,663 options (series A) were exercised into debentures (series A) in 2004, with a total exercise price of approximately $ 3,800 thousands. 105,225 of the options (series A) were exercised by one of the Company's subsidiaries in Israel. The remaining options expired. All the warrants (series 1) that were exercisable into Common shares of the Company expired on November 21, 2007, without being exercised.

The debentures (series A), options (series A) and warrants (series 1) were, traded on TASE only. Any Common shares issued upon conversion of the debentures (series A) will be traded on both TASE and NASDAQ.

The conversion feature and the floor rate to the dollar payments were evaluated and determined under ASC 815 to have characteristics of liabilities and therefore, accounted for as derivative liabilities. Each reporting period, these derivative liabilities were marked to fair value with the non-cash gain or loss recorded in the period. At December 31, 2009 and 2008, the aggregate derivative liabilities were $ 0 and $ 900, respectively classified on the balance sheet as "convertible debentures". The valuation of the embedded derivatives was determined by the Black and Scholes model and the Lattice model.

NOTE 13:- CONVERTIBLE AND NON-CONVERTIBLE DEBT (Cont.)

During the years 2009, 2008 and 2008, the Company re-purchased an aggregate amount of NIS 1,600, NIS 7,600 and NIS 15,000 thousands nominal value, respectively, representing $ 400, $ 2,090 and $ 3,500 of the outstanding debentures (series A) that were retired and removed from circulation on the TASE.

On December 5, 2009, Sapiens repaid the fourth and final payment of the principal of the debenture (series A)

NOTE 14: LIABILITIES TO BANKS AND OTHERS

		December 31,			
		2008	2009		
Interest rate	Linkage basis	Total long-term liabilities net of current maturities	Long-term liabilities	Current maturities	Total long-term liabilities net of current maturities
3%-6.25%	NIS	$ 15,383	$ 15,350	$ (6,820)	$ 8,530
1.47%	Other	197	15	-	15
-	Lease	122	31	(20)	11
-	Derivatives*	526	-	-	-
-	Put option	412	-	-	-
Total		$ 16,640	$ 15,396	$ (6,840)	$ 8,556

Maturity dates:

	December 31, 2009
First year (current maturities)	$ 6,840
Second year	5,940
Third year	2,616
Total	$ 15,396

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

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 $ 6,700 as at December 31, 2009.

A Company's subsidiary is engaged in several development agreements. Under these agreements, as of December 31, 2009, the subsidiary is committed to pay approximately $ 7,000 upon achieving milestones set forth in each agreement.

b. Liens:

1. Formula has liens on its portion of shareholdings in its subsidiaries in favor of the Bank.
2. Some of the subsidiaries have liens on leased vehicles, leased equipment and other assets in favor of the leasing companies.

c. Guarantees:

1. Subsidiaries have provided bank guarantees aggregating to approximately $13,200 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.

2. Subsidiaries have provided bank guarantees aggregating to $2,900 as security for rent to be paid for their offices. If the subsidiaries were to breach certain terms of their lease, the leaser could demand that the banks providing the guarantees pay amounts claimed to be due.

3. The Company has provided the bank a guaranty related with credit cards for approximately $ 290.

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

d. Others:

Accordance with credit facilities agreements of subsidiaries, with various banks, the subsidiaries committed to the following:

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

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(e) 3).

3. In August 2009, a software company filed a lawsuit in arbitration against Magic claiming an alleged breach of a non-disclosure agreement between the parties. The plaintiffs are seeking damages in the amount of NIS 51,794 thousand (approximately $ 13,720). Based on Magic legal advisors opinion and management estimates that the likelihood that the claim will be accepted by the arbitrator is less than probable; therefore, no provision has been made for the lawsuit.
   In addition material lawsuits have been placed against the Company subsidiaries in the ordinary course of business. The Company followed ASC 450 "Contingencies" and recorded provision where it was appropriate.

4. Lawsuits have been placed against Company subsidiaries in the ordinary course of business. The subsidiaries followed ASC 450 "Contingencies" and recorded provision where it was appropriate.

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont,)

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, 2009, are as follows:

2010	$ 8,056
2011	4,096
2012	3,059
2013	2,766
2014 and thereafter	198
Total	$ 18,175

Total rent expense for the years ended December 31, 2007, 2008 and 2009 amounted to $ 5,474, $ 6,905 and $ 8,240, respectively.

NOTE 16:- 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 2007, 2008 and 2009 the Company re-issued 3,000, 305,545 and 37,500 held in treasury stock, as part of employees' exercise of options under the Company's employee option plan. (See also Note 16(c))

As of December 31, 2008 and 2009 the outstanding treasury stock amounted to 28,859,722 and 28,822,222 shares, respectively.

NOTE 16:- EQUITY (Cont.)

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.

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, 2009, amounted to 19,022,557.

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.

NOTE 16:- EQUITY (Cont.)

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

	Year ended December 31,					
	2007		2008		2009	
	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	17,553,735	$ 4.19	16,233,214	$ 3.71	12,338,399	$ 2.49
Granted	2,328,045	$ 1.24	-	$ -	15,000	$ 0.79
Exercised	(3,000)	$ 2.16	(305,545)	$ -	(37,500)	$ -
Canceled or forfeited	(3,645,566)	$ 4.85	(3,589,270)	$ 3.66	(3,538,500)	$ 3.84
Outstanding at the end of the year	16,233,214	$ 3.71	12,338,399	$ 2.49	8,777,399	$ 2.33
Exercisable at the end of the year	5,606,207	$ 2.88	5,918,774	$ 1.91	6,240,524	$ 2.07
Vested and expected to vest*	7,457,692	$ 3.41	7,231,705	$ 1.76	7,015,618	$ 2.42

*) Does not include options granted to an executive of the Company. (See also Note 16(e)).

The following table summarizes information about options outstanding and exercisable as of December 31, 2009:

Range of exercise price	Options outstanding as of December 31, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2009	Weighted average exercise price of options exercisable
$ 0.000-1.926	2,152,600	7.07	$ 1.231	1,240,725	$ 1.32
$ 2.014-2.918	4,852,600	3.48	$ 2.141	4,852,600	$ 2.14
$ 4.377-3.121	1,107,500	6.65	$ 3.635	20,000	$ 3.63
$ 4.669-5.326	658,699	5.51	$ 5.027	121,199	$ 5.78
$ 9.704-21.56	6,000	0.54	$ 19.413	6,000	$ 19.41
	8,777,399		$ 2.33	6,240,524	$ 2.07

For options outstanding at December 31, 2009, the aggregate intrinsic value was $ 45 and for options exercisable at December 31, 2009, 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 $ 0.60 on December 31, 2009, 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, 2007, 2008 and 2009 was $ 0, $ 120 and $ 23, respectively.
The weighted-average grant-date fair value of options granted during the years ended December 31, 2007 was $ 0.673. In 2009 the grant of options was immaterial.

As of December 31, 2009, there was an unrecognized compensation cost of $ 315 related to stock options that is expected to be recognized in future periods until December 31, 2011.

NOTE 16:- EQUITY (Cont.)

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, 2009:

Subsidiary	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average exercise price of exercisable options
Matrix	2,171,463	$ 3.29	1,506,844	$ 3.25
Magic	1,927,199	$ 2.28	1,512,823	$ 2.56
Sapiens	2,306,963	$ 2.16	1,702,103	$ 2.44
ELSE	1,533,625	$ 1.56	12,500	$ 3
EMOZE	4,940,125	$ 0.14	3,692,875	$ 0.12
ZONE -IP	1,528,006	$ 0.37	1,305,755	$ 0.35
Formula	396,000	$ 0.00	396,000	$ 0.00

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 former 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, 2009, the performance criteria determined by the Board were not met and therefore 11,375,000 share options were forfeited The Company did not record any compensation expenses in the years 2007, 2008 and 2009 related to these share options.

2. On September 11, 2007, the Annual General Meeting of the Company approved to grant to the Company's former President and Former CEO, in his capacity as CEO of ELSE, option to purchase 10% of ELSE's 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 ELSE fails to achieve the performance criteria until December 31, 2009, the entire number of options granted shall immediately be forfeited, whether vested or unvested. Through December 31, 2009, the Company estimated that the performance criteria determined for eligibility of exercise of the options will not be met and therefore ELSE did not record any compensation expenses in the years 2007, 2008 and 2009.
   As of December 31, 2009, all the above mentioned options were forfeited.

NOTE 16:- EQUITY (Cont.)

f. Grant of options in ELSE to the chairman of ELSE

On September 07, 2008, ELSE Ltd. approved to grant its chairman, Dr. Hans Wagner, an option to purchase up to 7% of ELSE 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, 2008. The board of directors of ELSE resolved to implement performance criteria over the ability to exercise the options. In the event that ELSE fails to achieve the performance criteria until October 31, 2010, the the entire number of options granted shall immediately be forfeited, whether vested or unvested. As of December 31, 2009 and 2008, the Company estimated that the performance criteria determined for eligibility of exercise of the options will not be met and therefore ELSE did not record any compensation expenses in the years 2008 and 2009.

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.

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 22, 2008, on a quarterly basis. The exercise price of the options is NIS 0.01 per share. The options shall expire six years from the date of grant.

NOTE 17:- INCOME TAXES

a. Israeli income taxes:

1. Measurement of taxable income:

The Company measures 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, 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.

NOTE 17:- INCOME TAXES (Cont.)

2. Tax rates:

   Taxable income of the Israeli subsidiary is subject to tax at the rate of: in 2007 – 29%, 2008 - 27%, in 2009 - 26%, and in 2010 and thereafter- 25%.

   In July 2009, the Knesset (Israel's Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (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%.

   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.

NOTE 17:- INCOME TAXES (Cont.)

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:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence. If earnings are distributed to Israel in the form of dividends or otherwise, the Company may be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The Company's management has determined that it will not distribute any amounts of its undistributed tax income as a dividend. The Company intends to reinvest the amount of such tax income. Accordingly, no deferred income taxes have been provided.

c. Loss carryforward:

The Company and its Israeli subsidiaries have operating and capital accumulated losses for tax purposes as of December 31, 2009, in the amount of approximately $ 483,643 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, 2009, in the amount of approximately $ 24,549.

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,	
	2008	**2009**
Operating and capital loss carryforward	$ 158,343	$ 159,734
Reserves and allowances	7,950	3,892
Net deferred tax asset before valuation allowance	166,293	163,626
Valuation allowance	(156,918)	(154,526)
Net deferred tax	$ 9,375	$ 9,100

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

NOTE 17:- INCOME TAXES (Cont.)

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,	
	2008	2009
In current assets	$ 2,976	$ 3,735
In other assets	13,218	9,499
In long-term liabilities	(6,819)	(4,134)
Total	$ 9,375	$ (9,100)

e. Taxes on income included in statements of operations:

	Year ended December 31,		
	2007	2008	2009
Current taxes:			
In Israel	$ 2,664	$ 4,803	$ 6,884
Abroad	309	1,264	819
	2,973	6,067	7,703
Taxes in Israel in respect of prior years	(382)	225	118
Deferred taxes, net	(1,902)	(2,219)	148
Total	$ 689	$ 4,073	$ 7,969

f. Income (loss) before taxes on income:

	Year ended December 31,		
	2007	2008	2009
Domestic	$ 6,470	$ (18,300)	$ 5,596
Foreign	765	7,734	12,031
Total	$ 7,235	$ (10,566)	$ 17,627

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 18:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

a. General:

The Company operates in two principal business segments: Growth and Innovation (see Note 1 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 ASC 280, "Segment Reporting" (formerly SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information").

The following is a list of the companies included in each operating segment, as of December 31, 2009:

Growth	**Innovation**
Formula	ELSE
Matrix	EMOZE
Magic	ZONE-IP
Sapiens	

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

	Growth	Innovation	Unallocated	Total
Revenues:				
2007	$ 316,961	$ 8,396	$ -	$ 325,357
2008	$ 503,239	$ 4,810	$ -	$ 508,049
2009	$ 469,390	$ 4,453	$	$ 473,843
Operating income (loss):				
2007	$ 15,723	$ (12,177)	$ -	$ 3,546
2008	$ 29,517	$ (32,203)	$ -	$ (2,686)
2009	$ 35,070	$ (17,687)	$	17,383
Financial income (expenses), net:				
2007	$ (3,105)	$ (194)	$ (420)	$ (3,719)
2008	$ (5,908)	$ (892)	$ (197)	$ (6,997)
2009	$ (230)	$ 105	$ 610	485
Equity gain (losses)				
2007	$ 528	$ -	$ -	$ 528
2008	$ (216)	$ -	$ -	$ (216)
2009	$ (335)	$	$	$ (335)
Total assets				
2008	$ 609,547	$ 17,988	$ 11,732	$ 639,267
2009	$ 584,741	$ 7,342	$ 6,951	$ 599,034

NOTE 18:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

c. Summary information about geographic areas:

The following table presents revenues according to end customers' location for the years ended December 31, 2007, 2008 and 2009:

	2007	2008	2009
Europe	$ 36,630	$ 47,029	$ 43,434
The Far East	12,438	17,173	19,730
North America	31,922	48,423	40,527
Israel	243,034	393,397	368,242
Others	1,333	2,027	1910
Total	$ 325,357	$ 508,049	$ 473,843

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

NOTE 19:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Financial income (expenses), net:

	Year ended December 31,		
	2007	2008	2009
Financial income:			
Interest, net	$ 7,577	$ 8,299	$ 4,625
Net gain on marketable securities	768	523	4,181
Foreign currency translation differences, net	79	181	353
	8,424	9,004	9,158
Financial expenses:			
Interest and other bank charges	(10,843)	(11,523)	(6,545)
Foreign currency translation differences, net	(1,288)	(2,031)	(1,659)
Net loss on marketable securities	(526)	(2,446)	(469)
	(12,297)	(16,001)	(8,673)
Total	$ (3,873)	$ (6,997)	$ 485

b. Other income (expenses):

	2007	2008	2009
Gain (loss) on realization of investments	$ 9,031	$ (88)	$ 310
Impairment of long term investments	(1,456)	(1,804)	(59)
Sale of a patent by a subsidiary	-	1,616	-
Other	(167)	(607)	(492)
Total	$ 7,408	$ (883)	$ (241)

NOTE 19:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (Cont.)

c. Comprehensive income (loss):

	Year ended December 31,		
	2007	2008	2009
Accumulated unrealized gains (losses) from available-for-sale marketable securities	$ 516	$ (297)	$ (556)
Accumulated foreign currency translation adjustments	4,477	7,248	7,480
Total	$ 4,993	$ 6,951	$ 6,924

NOTE 20:- SUBSEQUENT EVENTS

a. In April 2010, Formula distributed to its shareholders a cash dividend of $ 1.47 per share, previously announced in March 2010. The aggregate amount distributed by Formula was approximately $ 20,000.

b. In February 2010, Magic through its U.S. subsidiary, completed the acquisition of the consulting and staffing services business of a U.S-based IT services company, in the aggregate amount of approximately $ 11,800 in cash, of which $ 6,400 was paid upon closing and the remaining amount is to be paid over a three year period.

c. In April, 2010, Formula's CEO exercised 396,000 previously granted options into 396,000 ordinary shares of Formula. As a result, the Company's holding in Formula has decreased to 49.2%.

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CORPORATE ADVISORS

Stockbrokers and Financial Advisors

Collins Stewart Europe Limited
9th Floor, 88 Wood Street
London EC2V 7QR
United Kingdom
T: +44 (0)20 7523 8000
F: +44 (0)20 7523 8134
www.collins-stewart.com

Auditors

Kost Forer Gabbay & Kasierer
A Member of Ernst & Young Global
3 Aminadav Street
Tel Aviv 67067
Israel
T: +972 3 623 2525
F: +972 3 5633514

Company Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
United Kingdom
Tel: +44 (0) 208 639 2157 (Overseas) or 0870 162 3100 (from UK)
Fax: +44 (0) 208 639 2300 (Overseas) or 0870 162 3199 (from UK)
Email address: ssd@capitaregistrars.com

Capita IRG (Offshore) Limited
PO Box 378
St Helier
Jersey
JE4 0FF
Channel Islands

Solicitors - United Kingdom

Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA
United Kingdom
DX 92 London/Chancery Lane
T: +44 (0)20 7760 1000
F: +44 (0)20 7760 1111
www.blplaw.com

Financial PR & Investor Relations

Grayling
Portland House
Bressenden Place
London SW1E 5BH
United Kingdom
T: +44 (0)20 7932 1870
F: +44 (0)7900 053 536
www.grayling.com

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