

FORMULA SYSTEMS (1985) LTD
Form 20-F/A
May 10, 2010

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

FORM 20-F/A

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission File Number: 0-29442

FORMULA SYSTEMS (1985) LTD.
(Exact Name of Registrant as Specified in Its Charter)

Israel
(Jurisdiction of Incorporation or Organization)

5 Haplada Street, Or Yehuda 60218, Israel
(Address of Principal Executive Offices)

Guy Bernstein, CEO, 5 Haplada Street, Or Yehuda 60218, Israel
Tel: 972 3 5389487, Fax: 972 3 5389645
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
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Ordinary Shares, NIS 1 par value
American Depositary Shares

Tel Aviv Stock Exchange
NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

As of December 31, 2009, the registrant had 13,200,000 outstanding ordinary shares, NIS 1 par value, of which 719,546 were represented by American Depositary Shares as of such date.

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated
filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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

Yes No

Explanatory Note

This amendment on Form 20-F/A, referred to as the Amended 20-F, is being filed by Formula Systems (1985) Ltd., referred to as Formula, to amend the annual report on Form 20-F for the fiscal year ended December 31, 2009, filed on April 29, 2010, referred to as the Original 20-F. This Amended 20-F is being filed solely for the purpose of (i) including the signed report of our independent auditors, which was included in the Original 20-F but was inadvertently unsigned; and (ii) including the reports of auditors of certain of our subsidiaries, which were inadvertently omitted from the Original 20-F. This Amended 20-F has not been updated to reflect events occurring subsequent to the filing of the Original 20-F. The filing of this Amended 20-F shall not be deemed an admission that the Original 20-F, when filed, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements and the report of our independent registered public accounting firm in connection therewith are filed as part of this Amended 20-F, as noted on the pages below:

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Consolidated Balance Sheets at December 31, 2009 and 2008	F-3-F-4
Consolidated Statements of Operations for the Years Ended December 31, 2009, 2008 and 2007	F-5
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2009, 2008 and 2007	F-6-F-7
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Notes to Consolidated Financial Statements	F-13-F-65

ITEM 19. EXHIBITS

Exhibit No.

1.1	Memorandum of Association (1)
1.2	Articles of Association as amended on December 28, 2005 (2)
4.1	Form of Letter of Indemnification, dated December 28, 2005 (2)
4.2	English translation of Formula Systems (1985) Ltd. Employees and Office Holders Share Option Plan (2008)(3)
8	List of Subsidiaries +
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

Exhibit No.

- | | |
|------|--|
| 12.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 13.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 13.2 | Certification of the Chief Financial Officer pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002* |
| 15.1 | Consent of Ziv Haft registered certified public accountants (Isr.) BDO member firm + |
| 15.2 | Consent of Levy Cohen and Co. + |
| 15.3 | Consent of Levy Cohen and Co. + |
| 15.4 | Consent of Kost, Forer, Gabbay & Kaiserer + |
| 15.5 | Consent of Kost, Forer, Gabbay & Kaiserer + |
| 15.6 | Consent of Verstegen accountants en adviseurs + |
| 15.7 | Consent of KDA Audit Corporation + |
| 15.8 | Consent of Maria Negyessy + |

* Filed herewith.

(1) Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-8858).

(2) Incorporated by reference to the Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2006.

(3) Incorporated by reference to the Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 27, 2009.

+ Previously filed.

FORMULA SYSTEMS (1985) LTD.
(An Israeli corporation)
2009 Annual Report

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)

2009 CONSOLIDATED FINANCIAL STATEMENTS

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)

Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors of
FORMULA SYSTEMS (1985) LTD.

We have audited the accompanying consolidated balance sheets of Formula Systems (1985) Ltd. and its subsidiaries (the "Company") as of December 31, 2009 and 2008 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, whose consolidated assets constitute approximately 24% and 21% of total consolidated assets as of December 31, 2009 and 2008, respectively, and whose consolidated revenues constitute approximately 19%, 18% and 20% of total consolidated revenues for the years ended December 31, 2009, 2008 and 2007, respectively. The financial statements of those subsidiaries were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of those subsidiaries is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 provide a reasonable basis for our opinion.

As discussed in Note 1, effective January 1, 2009, the Company adopted new guidance on accounting for business combinations, consolidation, transactions with non controlling interests. During 2009 the company also adopted new guidance regarding impairment of securities.

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, 2009 and 2008, and the related consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Tel Aviv, Israel
April 29, 2010

/s/ Ziv Haft
Ziv Haft
Certified Public Accountants (Isr.)
BDO Member Firm

FORMULA SYSTEMS (1985) LTD.
 (An Israeli Corporation)
 CONSOLIDATED BALANCE SHEETS

	December 31, 2009 2008 (U.S. \$ in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	100,205	107,847
Short-term investments (Note 3)	58,009	45,717
Trade receivables (net of allowances for doubtful debts of \$4,750 and \$4,309 as of December 31, 2009 and 2008, respectively)	130,236	136,353
Other current assets (Note 16A)	22,449	15,425
Inventories	2,439	2,772
Total assets attributed to discontinued operations	27	27,614
	313,365	335,728
LONG-TERM INVESTMENTS:		
Long term investments (Note 5)	10,323	16,285
Investments in affiliates (Note 6)	3,293	3,694
	13,616	19,979
SEVERANCE PAY FUND	44,131	38,105
PROPERTY, PLANTS AND EQUIPMENT, NET (Note 7)	9,989	15,009
GOODWILL (Note 1K and Note 8)	145,321	141,919
OTHER ASSETS, NET (Note 9)	40,017	45,882
	566,439	596,622

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liabilities to banks (Note 16B)	10,055	8,481
Trade payables	43,776	39,475
Other accounts payable (Note 16C)	90,924	75,252
Dividend payable	-	29,964
Liability in respect of business combinations	210	6,954
Debentures (Note 11)	14,639	5,157
Total liabilities attributed to discontinued operations	314	24,903
	159,918	190,186
LONG-TERM LIABILITIES:		
Debentures (Note 11)	43,918	56,004
Deferred taxes	2,207	4,502
Customer advances	1,116	1,093
Liabilities to banks and others (Note 10)	8,556	16,640
Liability in respect of business combinations	1,517	1,010
Accrued severance pay	53,893	49,817
	111,207	129,066
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY (Note 14):		
Formula shareholders' equity:		
Share capital - ordinary shares of NIS 1 par value (authorized - December 31, 2009 and 2008 - 25,000,000 shares; issued: December 31, 2009 - 13,224,780 and 2008 - 13,224,780 shares)	3,736	3,736
Additional paid-in capital	131,631	132,588
Retained earnings	60,048	40,972
Other accumulated comprehensive loss	(7,115)	(7,100)
Cost of 24,780 treasury shares	(259)	(259)
Total Formula shareholders' equity	188,041	169,937
Non-controlling interests	107,273	107,433
TOTAL EQUITY	295,314	277,370
	566,439	596,622

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS

	2009	Year Ended December 31, 2008	2007
	(U.S. \$ in thousands, except per share amounts)		
Revenues (Note 16H)			
Proprietary software products	101,045	105,453	100,823
Software services	368,345	397,790	313,901
Total revenues	469,390	503,243	414,724
Cost of revenues			
Proprietary software products	52,719	53,483	52,923
Software services	299,564	320,292	245,487
Total cost of revenues	352,283	373,775	298,410
Gross profit	117,107	129,468	116,314
Research and development costs, net	4,430	6,564	6,547
Selling, general and administrative expenses	77,322	90,451	84,503
Other income, net	(1,972)	-	-
Operating income	37,327	32,453	25,264
Financial expenses, net (Note 16D)	(231)	(5,908)	(3,619)
Gain (losses) on realization of investments, net	-	(337)	2,039
Other expenses (Note 16E)	(304)	(580)	(750)
Income before taxes on income	36,792	25,628	22,934
Taxes on income (Note 15)	(8,305)	(3,279)	(1,891)
	28,487	22,349	21,043
Share in losses of affiliated companies, net	(335)	(216)	(653)
Income from continuing operation	28,152	22,133	20,390
Net income from discontinued operations (Note 17D)	4,878	555	32,333
Net income	33,030	22,688	52,723
Net income Attributable to non-controlling interests	13,954	10,819	15,464
Net income attributable to Formula's shareholders	19,076	11,869	37,259
Amount attributable to Formula's shareholders			
Income from continuing operation	14,198	11,314	10,723
Income from discontinued operation	4,878	555	26,536
	19,076	11,869	37,259
Earnings per share generated from continuing operation:			
Basic	1.08	0.84	0.82
Diluted	1.04	0.84	0.80
Earnings per share generated from discontinued operations:			
Basic	0.37	0.04	2.00
Diluted	0.36	0.04	1.99
Total earnings per share:			
Basic	1.45	0.88	2.82

Diluted	1.40	0.88	2.79
Weighted average number of shares outstanding in thousands (Note 16I):			
Basic	13,200	13,200	13,200
Diluted	13,564	13,200	13,200

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital		Additional paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Cost of Treasury Shares	Total Formula shareholders' Equity	Non- controlling interests (*)
	Number of Shares	Amount						
Balance as of January 1, 2007	13,200,000	3,736	132,545	32,164	(14,896)	(259)	153,290	79,649
Changes during 2007:								
Net Income	-	-	-	37,259	-	-	37,259	15,464
Unrealized loss from available - for-sale securities, net	-	-	-	-	(221)	-	(221)	88
Foreign Currency translation adjustments	-	-	-	-	8,254	-	8,254	6,309
Total comprehensive income							45,292	
Implementation of ASC 815 (formerly FSP EITF 00-19-2)	-	-	-	236	-	-	236	-
Cumulative impact of change in accounting for uncertainties in income taxes ASC 740 (formerly FIN 48)	-	-	-	(430)	-	-	(430)	(400)
Stock Based Compensation expenses	-	-	-	-	-	-	-	674
Changes in non-controlling interests due to holding changes	-	-	-	-	-	-	-	8,976
Dividend paid to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(6,502)
Exercise of employees stock options	-	-	-	-	-	-	-	3,657
Balance as of December 31, 2007	13,200,000	3,736	132,545	69,229	(6,863)	(259)	198,388	107,915
Changes during 2008:								
Net Income	-	-	-	11,869	-	-	11,869	10,819
Unrealized loss from available - for-sale securities, net	-	-	-	-	(1,123)	-	(1,123)	(20)

Adjustment for other than temporary impairment on marketable securities	-	-	-	-	27	-	27	20
Foreign Currency translation adjustments	-	-	-	-	859	-	859	1,164
Total comprehensive income	-	-	-	-	-	-	11,632	
Gain from issuance of shares to third party in a development stage entity	-	-	43	-	-	-	43	43
Stock Based Compensation expenses	-	-	-	-	-	-	-	1,161
Changes in non-controlling interests due to holding changes	-	-	-	-	-	-	-	(9,483)
Exercise of employees stock options	-	-	-	-	-	-	-	1,426
Dividend to Formulas" shareholders and to non-controlling interests in subsidiaries	-	-	-	(40,126)	-	-	(40,126)	(5,612)
Balance as of December 31, 2008	13,200,000	3,736	132,588	40,972	(7,100)	(259)	169,937	107,433

The accompanying notes form an integral part of these financial statements.

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Cont.)

	Share Capital		Additional paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Cost of Treasury Shares	Total Formula shareholders' Equity	Non- controlling interests (*)
	Number of Shares	Amount						
Changes during 2009:								
Net Income	-	-	-	19,076	-	-	19,076	13,954
Unrealized gain from derivative instruments, net	-	-	-	-	3	-	3	2
Unrealized loss gain from available - for-sale securities, net	-	-	-	-	(66)	-	(66)	74
Other temporary impairment					(250)		(250)	
Foreign Currency translation adjustments	-	-	-	-	298	-	298	413
Total comprehensive income							19,061	
Stock Based Compensation expenses	-	-	308	-	-	-	308	1,333
Non-controlling interests changes due to holding changes including exercise of employees stock options	-	-	(1,265)	-	-	-	(1,265)	(842)
Dividend to Formula's shareholders and to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(15,094)
Balance as of December 31, 2009	13,200,000	3,736	131,631	60,048	(7,115)	(259)	188,041	107,273

Year ended December 31,
2009 2008 2007

Accumulated unrealized gain from available - for-sale securities	(1,384)	(1,068)	28
Accumulated currency translation adjustments	(5,734)	(6,032)	(6,891)
Accumulated Unrealized gain from derivative instruments	3		
Accumulated other comprehensive loss	(7,115)	(7,100)	(6,863)

*) Effective January 1, 2009, the Company reclassified non-controlling interests in the equity; 2007 and 2008 were reclassified to conform to 2009 presentation.

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

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FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	33,030	22,688	52,723
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment and write down of other investments and fixed assets	59	502	649
Impairment of available for sale marketable securities due to credit loss	143	-	1,789
Equity in losses of affiliated companies, net	335	216	653
Depreciation and amortization	14,605	13,082	15,806
Increase (decrease) in accrued severance pay, net	(1,618)	4,984	542
Gain from sale of subsidiaries	(4,284)	-	(28,037)
Gain from sale of operation	(105)	-	(170)
Gain from sale of property, plants and equipment	(2,219)	(341)	(70)
Loss (gain) on realization of shareholdings and operations	-	337	(2,039)
Stock based compensation expenses	1,641	1,505	1,074
Changes in financial liabilities, net	(202)	4,950	1,691
Loss (gain) from repurchase of convertible debt, net	2	(218)	-
Changes in value of long term loans and deposits, net	(210)	(129)	1,963
Deferred taxes	665	(1,881)	(2,563)
Change in liability in respect of acquisition	458	(558)	(493)
Loss (gain) from sale and decrease (increase) in value of marketable securities, net	(2,609)	1,481	60
Changes in operating assets and liabilities:			
Decrease (increase) in inventories	340	446	(134)
Decrease (increase) in trade receivables	13,057	(8,241)	(8,415)
Decrease (increase) in other accounts receivable	12,478	3,914	(7,296)
Increase (decrease) in trade payables	1,604	(2,602)	4,082
Increase (decrease) in other accounts payable	(12,875)	6,674	10,336
Increase in customer advances	1,345	575	1,114
Net cash provided by operating activities	55,640	47,384	43,265

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2009	2008	2007
(U.S. \$ in thousands)			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of newly-consolidated subsidiaries and activities (Appendix C)	(1,262)	(13,633)	(5,391)
Proceeds from realization of investment in previously-consolidated subsidiaries (Appendix D)	3,482	-	39,499
Proceeds from sale of activity in a consolidated company	105	-	170
Proceeds from sale of affiliates company	-	150	-
Proceeds from sale of subsidiary's operation	-	15,506	-
Changes in restrictions on short term deposit	4,040	(4,040)	-
Restricted long term deposit, net	-	-	2,506
Purchase of property and equipment	(2,713)	(4,055)	(4,345)
Proceeds from short term investment , net	3,064	(6,795)	(26,297)
Proceeds from sale of property, plants and equipment	5,666	1,011	186
Investment in and loans to affiliates and other companies	-	(187)	(499)
Other investments	-	(756)	-
Payments to formerly shareholders of consolidated company	(6,455)	(5,973)	-
Changes in short term deposits, net	(11,945)	(1,659)	-
Proceeds from long term bank deposits	139	3,090	(9,881)
Capitalization of software development and other costs	(6,960)	(6,683)	(8,522)
Purchase of non-controlling interests in subsidiaries	-	(16,983)	(6,281)
Net cash used in investing activities	(12,839)	(41,007)	(18,855)

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,
2009 2008 2007
(U.S. \$ in thousands)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of debentures (net of issuance expense)	-	-	61,576
Exercise of employees stock options in subsidiaries	1,224	876	4,888
Dividend paid to non-controlling interests in subsidiaries	(8,400)	(5,612)	(8,348)
Dividend to Formual's shareholders	(29,964)	(10,162)	-
Short-term bank credit, net	(247)	(15,151)	(16,944)
Repayment of long-term loans from banks and others	(8,616)	(10,855)	(61,630)
Receipt of short-term loans	1,580	(750)	26,275
Issuance in a subsidiary to non-controlling interests, net	-	-	12,915
Purchase of non-controlling interests	(3,774)	-	-
Deposit for SWAP deal	1,061	-	(1,040)
Repayment and repurchase of debenture	(5,824)	(18,128)	(7,818)
Proceeds from sale of treasury stock of subsidiary	-	-	3,017
Net cash provided (used) by financing activities	(52,960)	(59,782)	12,891
Effect of exchange rate changes on cash and cash equivalents	(238)	2,481	7,824
NET INCREASE (DECREASE)			
IN CASH AND CASH EQUIVALENTS	(10,397)	(50,924)	45,125
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR(*)	110,602	161,526	116,401
CASH AND CASH EQUIVALENTS AT END OF YEAR (*)	100,205	110,602	161,526

(*) Include cash and cash equivalents of discontinued operations.

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

FORMULA SYSTEMS (1985) LTD.
 (An Israeli Corporation)
 CONSOLIDATED STATEMENTS OF CASH FLOWS

Appendix Supplemental cash flow information:

	Year ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
Cash paid in respect of:			
Interest	4,064	5,077	6,107
Income tax	4,444	5,192	6,648

Appendix B - Non-cash activities:

	Year ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
Investment in a consolidated company against account payable	-	-	949
Dividend payable to Formula's shareholders and to non-controlling interests in subsidiaries	6,694	29,964	-
ASC 740 (formerly Fin 48) provision	-	-	430
Assets retirement obligation	275	-	-
Receivables from sale of property	450		

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS

Appendix C - Acquisition of newly-consolidated subsidiaries and activities:

	Year ended December 31,		
	2009	2008	2007
(U.S. \$ in thousands)			
Assets and liabilities of subsidiaries consolidated as of acquisition date:			
Working capital (other than cash and cash equivalents)	-	(6,209)	3,603
Investment in affiliates and loans	-	-	375
Property and equipment	-	(543)	(308)
Goodwill and intangibles assets	(1,262)	(15,845)	(10,857)
Long-term liabilities	-	395	925
Other long term assets	-	-	(212)
Long term deferred tax liability	-	1,771	(64)
Liability to formerly shareholders	-	6,723	-
Non-controlling interests at acquisition date	-	75	1,147
Total	(1,262)	(13,633)	(5,391)

* Mainly goodwill

Appendix D - Proceeds from realization of investments in previously-consolidated subsidiaries:

	Year ended December 31,		
	2009	2008	2007
(U.S. \$ in thousands)			
Assets and liabilities of consolidated subsidiaries as of date of realization			
Working capital (other than cash and cash equivalents)	(2,259)	-	9,434
Debtors from sale of subsidiaries	-	-	(16,000)
Accrued severance pay, net	-	-	(2,036)
Investment in affiliate (including loans)	-	-	(4,151)
Property and equipment	144	-	2,843
Other assets, deferred expenses and long term payables	1,337	-	37,032
Provision for losses	-	-	(1,971)
Long term deposits	-	-	1,181
Goodwill	206	-	54,462
Adjustment to other comprehensive (loss) gain	(230)	-	570
Long-term liabilities	-	-	(28,833)
Gain from realization of investments in subsidiaries	4,284	-	28,037
Non-controlling interests	-	-	(41,069)
Total	3,482	-	39,499

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

FORMULA SYSTEMS (1985) LTD.
 (An Israeli Corporation)
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies:

General:

Formula Systems (1985) Ltd. ("Formula") was incorporated in Israel in 1985. Since 1991, Formula's shares have been traded on the Tel Aviv Stock Exchange ("TASE") and since 1997, through American Depositary Shares ("ADS") under the symbol FORTY on the Global Market in the United States ("NASDAQ"). Each ADS represents one ordinary share of Formula.

Formula, through its subsidiaries (collectively, the "Company" or the "Group") is engaged in the development, production and marketing of information technology ("IT") solutions and services. The Group operates in two reportable segments: IT Services and Proprietary Software Solutions. For a description of the segments see Note 16.G.

The following table presents certain information regarding the control and ownership of Formula's significant subsidiaries, as of the dates indicated:

Name of subsidiary	Percentage of ownership and control	
	December 31, 2009	December 31, 2008
	%	
Matrix IT Ltd. ("Matrix")	50.1	50.2
Magic Software Enterprises Ltd. ("Magic")	58.1	58.2
NextSource Inc.	*-	100
Sapiens International Corporation N.V. ("Sapiens")	70.4	70.4

The above list consists only of active companies that are held directly by Formula.

* See Note 2.F.

Accounting Principles:

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

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

A. Adoption of Certain New Accounting Standards:

Accounting Standards Codification:

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting" (the "Codification"). This standard replaces SFAS Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The ASC has become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative

This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009

The adoption of the Codification changed the Company's references to GAAP accounting standards but did not impact the Company's results of operations, financial position or liquidity.

Business Combinations and Non-controlling Interests

Effective January 1, 2009, the Company adopted a new accounting standard included in ASC 805, "Business Combinations" (formerly SFAS Statement No. 141(R), Business Combinations). The new standard applies to all transactions or other events in which an entity obtains control of one or more businesses. Additionally, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement date for all assets acquired and liabilities assumed; and requires the acquirer to disclose additional information needed to evaluate and understand the nature and financial effect of the business combination. The Company's adoption of this new accounting standard did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted a new accounting standard included in ASC 810, "Consolidations" (formerly SFAS Statement No. 160, Non-controlling Interests in Consolidated Financial Statements). The new accounting standard establishes accounting and reporting standards for the non-controlling interests (or non-controlling interests) in a subsidiary and for the consolidation of a subsidiary by requiring all non-controlling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements. As such, this guidance has eliminated the diversity in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. The Company's adoption of the new accounting standard resulted in recording non-controlling interests in equity at the current year and in comparative numbers.

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

A. Adoption of Certain New Accounting Standards (Cont.)

Business Combinations and Non-controlling Interests (Cont.):

Until December 31, 2008 gain on realization of shareholdings includes the results of realization of the Company's shareholdings in investees arising either on the sale of such shareholdings or from the issuance of stock by the investees to third parties. The Company charged such results to the statement of operations, provided that the conditions stipulated by SAB 51 for such recognition have been met. When conditions are not met gain is recognized as part of APIC.

Subsequent Events

In May 2009, the FASB issued new guidance for subsequent events. The new guidance, which is part of ASC 855, "Subsequent Events" (formerly SFAS Statement No. 165, Subsequent Events) is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for interim and annual reporting periods ending after June 15, 2009. During that period, except as mention in Note 14, no material subsequent events came to the Company's attention

B. Functional and Reporting Currency:

Beginning in 2007, the Company changed its functional currency from New Israeli Shekel (NIS) to the United States dollar ("dollar"). This was done according to a change in economic and circumstance factors for the Company, as mentioned in ASC No. 830 "Foreign Currency Matters" (formerly FAS Statement No. 52 "foreign currency translation") ("ASC 830"). Prior to 2007, Formula operated primarily in the economic environment of the NIS and its functional currency was the NIS. The functional currencies of Formula's subsidiaries are NIS and dollar. Formula has elected to use dollar as its reporting currency for all years presented.

Formula translates the financial statements of its subsidiaries whose functional currency is NIS, into dollar, under the principles described in ASC 830. Assets and liabilities have been translated at period-end exchange rates. Results of operations have been translated at the exchange rate at the dates on which those transactions occurred or at an average rate. Formula presents differences resulting from translation in equity under "accumulated other comprehensive income (loss)".

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

C. Use of Estimates and Assumptions in the Preparation of the Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and various assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The actual results may differ from these estimates.

D. Principles of Consolidation:

The consolidated financial statements include Formula's financial statements as well as those of its subsidiaries in which it has controlling interests. Acquisition of subsidiaries is accounted for under the acquisition method. All inter-company balances and transactions have been eliminated upon consolidation.

E. Fair Value Measurement:

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.

Effective January 1, 2009, the Company adopted the provisions of ASC 820-10 "Fair Value Measurements and Disclosures" (formerly FAS Statement No. 157, "Fair Value Measurements"), with respect to non-financial assets and liabilities. The adoption did not have a significant effect on the Company's financial statements (refer to Note 4).

Effective January 1, 2009, the Company adopted a new accounting standard included in ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820") (formerly FASB Staff Position ("FSP") No 157-2, Effective Date of FASB Statement No. 157), which delayed the effective date for disclosing the fair value of all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). This standard did not have a material impact on the Company's consolidated financial statements.

Effective April 2009, the Company adopted ASC 820 (formerly FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly), requires disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods. In addition, the presentation of the fair value hierarchy is required to be presented by major security type as described in ASC 320 "Investments - Debt and Equity Securities". The adoption of the new standard on April 1, 2009 did not have a material impact on the Company's consolidated financial statements.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

F. Cash and Cash Equivalents:

Cash and Cash equivalents are considered by the Company to be highly-liquid investments, including, inter-alia, short-term deposits with banks, which the maturity dates are less than three months at the time of acquisition and which are unrestricted.

G. Investments:

Investments in non-marketable securities of companies in which the Company does not have the ability to exercise significant influence over operating and financial policy are recorded at cost.

The Company accounts for investments in marketable equity securities and debt securities in accordance with ASC 320 "Investments- Debt and Equity Securities" (formerly SFAS Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities") ("ASC 320"). Marketable equity securities and debt securities that are classified as "trading" or as "available-for-sale" are reported at fair value.

Unrealized gains and losses from marketable securities classified as "available for sale" are excluded from earnings and are reported as a component in equity under "accumulated other comprehensive income (loss)". Unrealized gains and losses from marketable securities classified as "trading" are reported in the statements of operations.

Investments are periodically reviewed to determine whether other-than-temporary impairment in value has occurred, in which case the investment is written down to its fair value, through the statements of operations. In accordance with ASC 320, the Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is considered to be other-than-temporary.

Effective April 2009, the Company adopted new guidance for the accounting for other-than-temporary impairments ("OTTI"). Under the new guidance, which is part of ASC 320, "Investments — Debt and Equity Securities" (formerly FSP 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments) that changed the impairment and presentation model for its available-for-sale debt securities. Under the amended impairment model, an OTTI loss is recognized in earnings if the entity has the intent to sell the debt security, or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, if an entity does not expect to sell a debt security, it will still need to evaluate expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized currently in earnings. Amounts relating to factors other than credit losses are recorded in other comprehensive income.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

G. Investments (Cont.):

The new guidance is effective periods ending after June 15, 2009. The Company's adoption of the new guidance did not have a material effect on the Company's consolidated financial statements.

H. Inventory:

Inventory is comprised of hardware and software.

Inventory is valued at the lower of cost or market value. Cost is determined on the "first in - first out" basis for hardware.

I. Investments in Affiliates:

Affiliates are companies over which significant influence is exercised, but which are not consolidated subsidiaries, and are accounted for by the equity method, net of write-down for decrease in value, which is not of a temporary nature.

J. Property, Plants and Equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over their estimated useful lives. The following are the annual depreciation rates:

	%
Computers and equipment	6-33
Motor vehicles	15
Buildings	2-4
Leasehold improvements	-*

* Over the shorter of the term of the lease or the estimated useful life of the asset.

K. Goodwill:

The Company applies ASC 350, "Intangible - Goodwill and Other" (formerly SFAS Statement No. 142, "Goodwill and Other Intangible Assets") ("ASC 350"). ASC 350 requires goodwill to be tested for impairment on an annual basis and more frequently in certain circumstances, and written down when impaired rather than being amortized. Furthermore, ASC 350 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless those lives are determined to be indefinite. The Company has selected December 31st as the date on which it will perform its annual goodwill impairment test.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

K. Goodwill (Cont.):

As required by ASC 350, the impairment test is accomplished using a two- step approach. The first step of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. As required by ASC 350, the Company compares the fair value of each reporting unit to its carrying value ('step 1') If the fair value exceeds the carrying value of the reporting unit net assets, goodwill is considered not impaired, and no further testing is required. If the carrying value exceeds the fair value of the reporting unit, then the implied fair value of goodwill is determined by subtracting the fair value of all the identifiable net assets from the fair value of the reporting unit. An impairment loss is recorded for the excess, if any; of the carrying value of goodwill over its implied fair value ('step 2'). At December 31, 2009, the market capitalization of one reporting unit was below its carrying value. The Company determines the fair value of this reporting unit using the Income Approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates its fair value at this time. 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 are inherent in developing the discounted cash flow model. Additionally, the Company evaluated the reasonableness of the estimated fair value of its reporting unit by reconciling to its market capitalization. The ability to reconcile the gap between the market capitalization and the fair value depends on various factors, some of which are quantitative, such as an estimated control premium that an investor would be willing to pay for a controlling interests in the Company, and some of which are qualitative and involve management judgment, including stable relatively high backlog and growing pipe line.

During the year ended December 31, 2009, 2008 and 2007, no impairment was required.

L. Software Development Costs:

Development costs of software, which is intended for sales that are incurred after the establishment of technological feasibility of the relevant product, are capitalized. Technological feasibility is determined when detailed program design is completed and verified in accordance with the provisions of ASC No. 985 "Software" (formerly SFAS Statement 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 statements of operations as incurred.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

L. Software Development Costs (Cont.):

Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in ASC 985-20, "Costs of Software to be Sold, Leased or Marketed" (formerly SFAS Statement No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed").

The Company's and its subsidiaries' technological feasibility is established upon completion of a detailed program design or working model.

Research and development costs incurred in the process of developing product improvements are generally charged to expenses as incurred.

Capitalized software costs are amortized on a product by product basis. Amortization equals the greater of the amount computed using the: (i) ratio of current gross revenues from sales of the software to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the estimated useful life of the product (three to six years). The Company assesses the recoverability of these intangible assets on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold. During the years ended December 31, 2009, 2008 and 2007, no impairment was required.

During the year ended December 31, 2009, consolidated subsidiaries capitalized software development costs aggregated to \$6.8 million (2008 - \$6.4 million, 2007 - \$6.0 million) and amortized capitalized software development costs aggregated to \$8.4 million (2008 - \$7.0 million, 2007 - \$6.2 million).

M. Other Intangible Assets:

Other intangible assets are comprised of customer's related intangible assets and acquired technology and are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. Amortization is computed using the straight-line method as follows:

Prepaid royalties	15 years
Distribution rights	5 years
Technology, usage rights and other intangible assets	3-8 years

The company evaluate every year the remaining useful life of the intangible assets.

During 2009, 2008 and 2007, no impairment was required.

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FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

N. Impairment in Value of Long-Lived Assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" (formerly SFAS Statement No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets") ("ASC 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets held and used is measured by a comparison of the carrying amount of the assets 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 their fair value. For the years ended December 31, 2009 and 2008 no impairment was required. During 2007, impairment loss in the amount of \$137 thousand was recorded.

O. Severance Pay:

The Company's liability for severance pay to its employees pursuant to Israeli law and employment agreements is covered in part by managers' insurance policies, for which the Company makes monthly payments. These funds are recorded as assets in the Company's balance sheet. The Company can only make withdrawals from these funds for payments of severance pay. The severance pay liability is calculated on the basis of eligibility for one month's salary for each year of service, based on the most recent salary of each employee.

Pursuant to Section 14 of the Severance Compensation Law, 1963 ("Section 14"), certain employees of the Company who are subjected to this section, are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with Section 14 release the Company from any future severance payments in respect of those employees. Deposits under Section 14 are not recorded as an asset in the Company's balance sheet.

Total expenses (gain) in respect of severance pay for the years 2009, 2008 and 2007 were \$(1.06) million, \$7.4 million and \$9.3 million, respectively.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

P. Revenue Recognition:

Revenues derived from software license agreements are recognized in accordance ASC 985 "Software" (formerly SOP 97-2 "Software Revenue Recognition") ("ASC 985"), 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.

In addition, there are certain arrangements involving multiple elements such as software product, maintenance and support. For these agreements ASC 985 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 requires that revenue be recognized in accordance with the "residual method" when VSOE does not exist for all the delivered elements and exist for all the delivered elements, and all other ASC 985 criteria are met. Under the residual method, any discount in the arrangement is allocated to the delivered elements. The VSOE of post contract support ("PCS") is based on the price charged when PCS sold separately or renewed. The VSOE of consulting services is based on the price charged when the consulting services sold separately based on a time and material basis.

Revenues from consulting services, on hourly basis, are recognized as the services are rendered.

Revenues from maintenance and training are recognized over the service period.

Revenues from long term projects are recognized in accordance with ASC 605-35-25 (formerly SOP 81-1 "Accounting for Performance of Construction-Type Contracts"), based on the percentage of completion method. Provision for estimated losses is recorded on the amount of the estimated losses on the entire contract in the period in which such losses first become evident. These revenues are included in the proprietary software products segment.

Revenues from sale of hardware are recognized when the merchandise is delivered to the customer, provided no significant vendor obligations remain.

The Company generally does not grant a right of return to its customers. When a right of return exists, revenue is deferred until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria are met.

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 governments authorities (including VAT) are presented in statements of operations on a net basis.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

P. Revenue Recognition (Cont.):

The Company recognizes revenue from software license sales in accordance with ASC 985-605 "Software Revenue Recognition" ("ASC 985-605") with Respect to Certain Transactions. Under ASC 985-605, revenues from software product licenses are recognized upon delivery of the software provided there is persuasive evidence of an agreement, the fee is fixed or determinable, collection of the related receivable is probable and no further obligations exist. Revenues under multiple-element arrangements, which may include software licenses, support and maintenance, and training and consulting services, are allocated to each element under the "residual method" when Vendor Specific Objective Evidence ("VSOE") of Fair Value exists for all undelivered elements and VSOE does not exist for all of the delivered elements. VSOE is determined for support and maintenance, training and consulting services based on the price charged when the respective elements are sold separately or renewed.

The Company charges support and maintenance renewals at a fixed percentage of the total price of the licensed software products purchased by the customer. Under the residual method, the Company defers revenues related to the undelivered elements based on their VSOE of fair value and recognizes the remaining arrangement fee for the delivered elements.

IT outsourcing services that mainly include maintenance of customers' applications integrated on the Company's license performed on a fixed fee basis are recognized on a straight line basis over the contractual period that the services are rendered, since no other pattern of outputs is discernible. Revenues from IT outsourcing services that are performed on a "time and materials" basis are recognized as services are performed.

Q. Provision for Warranty:

In light of past experience, the Company does not record any provision for warranties in respect of their products and services.

R. Advertising Costs:

The Company records advertising expenses as incurred. Advertising costs were recorded at the amount of \$2.4 million, \$5.5 million, and \$5.2 million in the years 2009, 2008, 2007 respectively.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

S. Income Taxes:

Deferred taxes are determined utilizing the "asset and liability" method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the 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 provides a valuation allowance, when it's more likely than not that deferred tax assets will not be realized in the foreseeable future. Deferred tax liabilities and assets are classified as current or non-current based on the expected reversal dates of the specific temporary differences.

Effective January 1, 2007, the Company adopted ASC 740 "Income Taxes" (formerly FIN 48) ("ASC 740"). Upon the adoption of a new pronouncement which clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, the Company should record accruals for uncertain tax positions. Those accruals should record to the extent that the Company concludes that a tax position is not sustainable under a "more-likely-than-not" standard.

In addition, the Company should classify interest and penalties recognized in the financial statements relating to uncertain tax positions under the provision for income taxes.

T. Earnings per Share:

Earnings per share ("EPS") are calculated in accordance with the provisions of ASC 260 "Earning per Share" (formerly SFAS Statement No. 128 "Earning per Share) ("ASC 260"). ASC 260 requires the presentation of both basic and diluted EPS.

Basic net earnings per share are calculated on the basis of the weighted average number of common shares outstanding during each year. The diluted earnings per share are calculated on the basis of the weighted average number of common shares outstanding during each year, plus the dilutive potential common shares considered outstanding during the year.

U. Treasury Shares:

The Company repurchases its shares from time to time and hold them as a treasury shares. These shares are presented as a reduction of equity, at their cost. Gains and losses upon the sale of these shares, net of related income taxes, are recorded to additional paid-in capital.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

V. Concentration of Credit Risks - Allowance for Doubtful Accounts:

Most of the Group's cash and cash equivalents and short-term investments as of December 31, 2009 and 2008 were deposited in Israeli, U.S. and European banks. Therefore the Company is of the opinion that the credit risk in respect of these balances is low.

The Group's trade receivables are derived from sales to large firm organizations located mainly in North America, Europe 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 may require letters of credit, other collateral or additional guarantees. From time to time, the Company sells certain of its accounts receivable to financial institutions, within the normal course of business.

ASC 860, "Transfers and servicing" (formerly SFAS Statement 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. The underlying conditions are 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. There are no outstanding sales of receivables as of December 31, 2009, 2008 and 2007.

The agreements, pursuant to which the Company sells its trade receivables, are structured such that the Company (i) transfers the proprietary rights in the receivable from the Company to the financial institution; (ii) legally isolates the receivable from the Company's other assets, and presumptively puts the receivable beyond the legal reach of the Company 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 Company's effective control over the receivable, in the sense that the Company is not entitled and shall not be obligated to repurchase the receivable other than in case of failure by the Company to fulfill its commercial obligation.

The net change in the provision for doubtful accounts charged to general and administrative expenses amounted to \$0.5 million, \$1.1 million and \$0.4 million in the years 2009, 2008 and 2007, respectively, and was determined for specific debts where doubt existed as to their collectability.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

W. Stock based compensation:

The Company applies ASC 718, and ASC 505-50, "Equity-Based Payments to Non-Employees", with respect to options and warrants issued to non-employees. ASC 718 requires the use of an option valuation model to measure the fair value of the options and warrants at the measurement date as defined in ASC 505-50.

ASC 718 requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model, where applicable. Share-based compensation expense recognized in the Company's consolidated statements of operations for 2009, 2008 and 2007 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of ASC 718, and (ii) subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of ASC 718.

The Company's' subsidiaries granted options to their employees to purchase shares.

Matrix and Sapiens use the Black-Scholes option-pricing model which requires a number of assumptions, of which the most significant are, expected stock price volatility, and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option term. The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined based on historical experience of similar options, giving consideration to the contractual terms of the stock options.

Magic use the Binomial option-pricing model for options granted. The Binomial model considers characteristics of fair value option pricing that are not available under the Black-Scholes model. Similar to the Black-Scholes model, the Binomial model takes into account variables such as volatility, dividend yield rate and risk free interest rate. However, in addition, the Binomial model considers specific terms and conditions of the options, such as the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life and the probability of termination of the option holder in computing the value of the option. For these reasons, Magic believes that the Binomial model provides a fair value that is more representative of actual experience and future expected experience than that calculated using the Black-Scholes model.

FORMULA SYSTEMS (1985) LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Cont.):

X. Derivatives and Hedging:

The Company accounts for derivatives based on ASC 815, "Derivative and Hedging" (formerly SFAS Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities") ("ASC 815"). 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.

Effective January 1, 2009, the Company adopted a new accounting standard included in ASC 815, Derivatives and Hedging (SFAS Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS Statement No. 133). The new accounting standard requires enhanced disclosures about an entity's derivative and hedging activities and is effective for fiscal years and interim periods beginning after November 15, 2008. 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 in 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 Sapiens foreign currency hedging activities is to protect Sapiens from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the exchange rates. Sapiens 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 CPI. This SWAP deals did not qualify for hedge accounting under ASC 815. Matrix 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.

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Note 1 - Summary of Significant Accounting Policies (Cont.):

X. Derivatives and Hedging (Cont.):

Magic entered into forward contracts, these contracts serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange-denominated transactions.

The derivative instruments primarily hedge or offset exposures in Euro, Japanese Yen and NIS to buy and sell, in the notional amounts of outstanding foreign exchange as December 31, 2009, \$2,683 and \$2,671 thousands, respectively.

Y. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC 220 "Comprehensive Income" (formerly SFAS Statement No. 130, "Reporting Comprehensive Income"). This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income (loss) relate to gain and loss on foreign currency translation adjustments, unrealized gain and loss on derivatives instruments designated as hedge and unrealized gain and loss on available-for-sale marketable securities.

Z. Discontinued operations:

Under ASC 205 "Presentation of Financial statements – Discontinued Operation" (formerly SFAS Statement No. 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 the disposed component, should be classified as discontinued operations and the assets and liabilities of such component should be classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities 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.

AA. Reclassifications:

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

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Note 1 - Summary of Significant Accounting Policies (Cont.):

AB. Recently Issued Accounting Pronouncements (Cont.):

Accounting Standards Not Yet Effective

Accounting for the Transfers of Financial Assets

In June 2009, the FASB issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS Statement No. 166, "Accounting for Transfers of Financial Assets, an amendment to SFAS Statement No. 140, was adopted into Codification in December 2009 through the issuance of Accounting Standards Updated ("ASU") 2009-16. The new standard eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets.

The new guidance is effective for fiscal years beginning after November 15, 2009. The Company will adopt the new guidance in 2010 and is evaluating the impact it will have to the Company's consolidated financial statements.

Note 2 - Certain Transactions:

A. In June 2007 the Company sold its entire holdings in BluePhoenix, for consideration of approximately \$64 million. The Company recognized approximately \$18 million in capital gain upon completion of the sale. This gain is presented in the statements of operations as income from discontinued operation.

B. On December 30, 2007, the Company's subsidiary, Magic, sold its holding in, Advanced Answers on Demand Holding Corporation, ("AAOD"), a Florida corporation that develops and markets application software targeted at the long-term care industry, to Fortissimo Capital for \$17 million, which paid Magic \$1 million of the sale price in December 2007 and the remaining \$16 million in March 2008. As a result of this sale, the Company recorded a net gain of approximately \$9.3 million; this gain is presented in the income statement as an income of discontinued operation.

In addition, as part of the transaction, Magic entered into a three years license agreement with AAOD according to which AAOD will continue to sell Magic's products, as an OEM partner, in consideration for \$3 million, to be paid quarterly over three years starting in 2008.

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Note 2 - Certain Transactions (Cont.):

C. On August 19, 2007, Matrix completed an offering of non-convertible debentures in an aggregate principal amount of approximately \$ 62 million (NIS 250 million). The debentures were sold to institutional and other investors in Israel. The debentures bear an 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 ("CPI"). On February 21, 2008, Matrix listed the debentures for trading on the TASE.

D. 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 million (excluding finders' fees and out of pocket expenses), \$6.5 million of which was by Formula. Sapiens issued to the investors an aggregate of 6,666,667 common shares (of which 2,166,666 common shares were issued to Formula), at a price per share of \$3.00 which reflected a premium of approximately 25% above the trading price of Sapiens' common shares (as of the date Sapiens' board of directors approved the investment).

E. In 2008 Matrix purchased all the shares of TACT Computers and Systems Ltd. ("TACT") for aggregate consideration \$12.5 million. In 2009, Matrix paid to the sellers an additional and final consideration of approximately \$6.4 million.

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

	(in thousands)
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
Cash paid	12,496

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Note 2 - Certain Transactions (Cont.):

b. The following unaudited pro forma summary presents information as if the acquisition of TACT had occurred as of January 1, 2008 and as of 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, nor is it necessarily indicative of future results of operations of the consolidated entity.

	Year ended December 31.	
	2008	2007
	(In thousands, except per share data)	
	(Unaudited)	
Revenues	515,278	442,532
Income from continuing operation	11,592	11,315
Earning per share - basic	0.88	0.85
Earning per share - diluted	0.88	0.84

F. In October 2009 the company completed the sale of our entire 100% shareholdings in our subsidiary NextSource, for aggregate consideration of approximately \$12 million, of which \$8 million was paid in cash and the remainder through the release of \$4 million bank deposits that were previously pledged in favor of banks to secure obligations of NextSource

This gain is presented in the income statement as income from discontinued operation.

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Note 3 - Short-term Investments:

A. Composition:

	Interest rate December 31, 2009 %	December 31, 2009 (U.S. \$ in thousands)	December 31, 2008
Trading securities		40,491	40,148
Available-for-sale securities		3,680	3,759
Short-term deposits	0.96-5.72	13,838	1,810
Total		58,009	45,717

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

	2009		December 31, (U.S. \$ in thousands)		2008	
	Amortized cost	Unrealized gains	Market value	Amortized costs	Unrealized gains	Market value
Available-for-sale:						
Government debentures	407	37	444	952	59	1,011
Commercial debentures	2,888	175	3,063	2,596	34	2,630
Equity funds	118	55	173	118	-	118
Total available-for-sale marketable securities	3,413	267	3,680	3,666	93	3,759

In 2009 and 2008, the Company recorded proceeds from sales of marketable securities on the amount of \$406 thousand and \$1,809 thousand respectively and related gains of \$22 thousand and \$80 thousand in financial income, net respectively.

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Note 3 - Short-term Investments (Cont.):

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

In 2009 and 2008, the Company recorded impairment charges in the amount of \$0 and \$130 thousand respectively.

The estimated fair value of available-for-sale investments as of December 31, 2009 and as of December 31, 2008 by contractual maturity, are as follows:

	2009		December 31, 2008	
	Cost	Market value (U.S. \$ in Thousands)	Cost	Market value
Available-for-sale debt securities:				
Matures in one year	805	889	1,750	1,746
Matures in two to five years	2,490	2,618	1,221	1,262
Matures in more than five years	-	-	577	633
	3,295	3,507	3,548	3,641

Note 4 - Fair value measurement:

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 presented value.

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Note 4 - Fair value measurement (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
Cash equivalents	\$31,949	-	-	\$31,949
Short-term deposits	13,838	-	-	13,838
Marketable securities:				
Shares	868	-	-	868
Government and corporate debentures	40,262	2,868	-	43,130
Derivative	-	2,302	-	2,302
Equity Fund	173	-	-	173
Available for sale- long term (*)	401	2,500	4,480	7,381
Total Financials Assets	\$87,491	7,670	4,480	\$99,641

	Fair value measurements using input type December 31, 2008			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$33,632	-	-	\$33,632
Short-term deposits	1,810	-	-	1,810
Marketable securities:				
Trustee funds	169	-	-	169
Shares	1,665	-	-	1,664
Government and corporate debentures	41,956	-	-	41,956
Equity Fund	118	-	-	118
Available for sale- long term (*)	441	2,500	5,000	7,941
Total Financials Assets	\$79,790	2,500	5,000	\$87,290
Derivative				
Embedded derivatives	-	900	-	900
Total Financials 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 (See Note 5).

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Note 4 - Fair value measurement (Cont.):

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

	December 31,	
	2009	2008
	U.S. \$ in thousands	
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	4,480	5,000

Note 5 - Long term Investments:

Composition:

	Interest rate %	Linkage basis	December 31,	
			2009	2008
			(U.S. \$ in thousands)	
Cost of shares (1)			417	1,342
Long-term prepaid expenses			1,822	883
Loans	3%	Yen	61	-
Restricted deposit	-	Dollar	400	400
Available for sale marketable securities (2)	1.29-1.732	Dollar	7,381	7,941
Deposit	-	Dollar	190	4,475
Deposit	3.6	CPI	49	1,244
Other			3	-
Total			8,084	14,060
			10,323	16,285

(1) The investment is accounted for a cost basis in accordance with ASC 323-1. In 2009 and 2008 impairment losses on cost investments have been identified in the amount of \$59 and \$ 502 thousand respectively.

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Note 5 - Long term Investments (Cont.)

(2) Mainly available for sale securities' interest rates that 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 (See Note 4).

Note 6 - Investments in Affiliates:

Following are details relating to the financial position and results of operations of affiliates in the aggregate:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Total assets	9,747	12,096
Total liabilities	1,733	2,435
Net loss	(972)	(774)

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Note 7 - Property, Plants and Equipment, net:

Composition:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Cost:		
Computers and equipment	43,735	45,861
Motor vehicles	572	840
Buildings	3,210	9,674
Leasehold improvements	6,057	6,769
	53,574	63,144
Accumulated Depreciation:		
Computers and equipment	37,476	38,394
Motor vehicles	412	611
Buildings	1,493	4,500
Leasehold improvements	4,204	4,630
	43,585	48,135
Depreciated balance	9,989	15,009

Depreciation expenses totaled \$4.0 million, \$4.6 million and \$4.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

In December 2009, Magic 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 Company's subsidiary recorded a net gain of approximately \$ 1,960. Magic has an option to terminate the lease agreement upon six months prior written notice, commencing six months from the date of its sale. See Note 13 with respect to pledges.

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Note 8 - Goodwill:

The changes in the carrying amount of goodwill for the year ended December 31, 2009 and 2008 are as follows:

	U.S. \$ in thousands
Balance as of January 1, 2008	117,581
Acquisition of additional interest in subsidiaries	2,718
Realization and decrease in shareholding percentage	(216)
Acquisition of newly-consolidated subsidiaries	21,140
Foreign currency translation adjustments	696
Balance as of December 31, 2008	141,919
Additions due to past contingent consideration acquisition of additional interest in subsidiaries	2,773
Foreign currency translation adjustments	629
Balance as of December 31, 2009	145,321

Note 9 - Other Assets, Net:

Composition:

	December 31, 2009 2008 (U.S. \$ in thousands)	
A. Original amounts:		
Capitalized software development costs	84,205	76,835
Other intangibles	18,352	19,237
Deferred tax asset	9,499	13,218
	112,056	109,290
Accumulated amortization:		
Capitalized software development costs	59,604	50,722
Other intangibles	12,435	12,686
	72,039	63,408
Total	40,017	45,882

B. Amortized expenses totaled \$ 9.8 million, \$8.1 million and \$7.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. As for impairments of software development cost, see Note 1L.

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Note 9 - Other Assets, Net (Cont.):

C. Estimated intangible assets amortization for the years ended:

December 31,	(U.S. \$ in thousands)
2010	10,237
2011	7,931
2012	5,333
2013	4,303
2014	1,546
2015 and thereafter	749
Total	30,099

Note 10 - Liabilities to Banks and Others:

A. Composition:

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

*See Note 16.A.

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Note 10 - Liabilities to Banks and Others (Cont.):

B. Maturity Dates:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
First year (current maturities)	6,840	8,133
Second year	5,940	6,906
Third year	2,616	5,958
Fourth year	-	2,838
Total	15,396	23,835

C. For details of liens, guarantees and credit facilities see Note 13.

Note 11 - Debentures:

A. Comprised as follows:

				December 31,	
	Linkage	Interest rate		2009	2008
				(U.S. \$ in thousands)	
Non-Convertible Debentures	CPI	5.15	%	58,557	56,004
Convertible Debenture:					
Par value	Dollar	6.0	%	-	5,637
Embedded derivatives, net				-	1,110
Deemed discount, net				-	(312)
				58,557	62,439
Less - debentures purchased by one of the Company's subsidiaries				-	(1,278)
Less - current maturities of debentures				(14,639)	(5,157)
Total				43,918	56,004

*) Amortization of the deemed discount and the changes in the fair value of embedded derivatives charged to expenses were \$459 thousand and \$308 thousand for 2009 and 2008, respectively.

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Note 11 – Debentures (Cont.):

B. Non-convertible debentures:

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

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 CPI. On February 21, 2008, Matrix listed the debentures for trading on the TASE.

In 2008, Matrix repurchased debentures value, amounting to \$12.6 million of the outstanding debentures. As a result, a \$ 500 thousands was recorded as a gain on repurchase of debentures.

C. Convertible debentures:

During December 2003, Sapiens completed an offering of securities on the Tel-Aviv Stock Exchange ("TASE") in Israel, resulting in gross proceeds of NIS 75.2 million (approximately \$ 17.1 million). The price per unit was NIS 752 (approximately \$ 171.1) 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 Sapiens.

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 (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 Sapiens expired on November 21, 2007, without being exercised.

The debentures (series A), options (series A) and warrants (series 1) were, traded on TASE only.

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Note 11 – Debentures (Cont.):

D. Convertible debentures (Cont.):

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.

During the years 2009, 2008 and 2007, 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 thousands of the outstanding debentures (series A) that were retired and removed from circulation on the TASE.

On December 5, 2009, the Company repaid the fourth and final payment of the principal of the debentures (series A).

As of December 31, 2009 and 2008, the net balance of the convertible debt was \$ 0 and \$ 5,380, respectively. Amortization of the deemed discount and the changes in the fair value of the embedded derivatives charged to expenses were \$ 459 and \$ 308 thousands for 2009 and 2008, respectively. The debt issuance expenses, which were classified as other assets, and the deemed discount, are amortized over the term of the debentures (series A), using the effective interest rate method.

Note 12 - Employee Option Plans:

A. In March 2008, Formula's shareholders approved the adoption of Formula's 2008 Employee and Office Holders Share Option Plan, referred to as "the plan". Pursuant to the plan, the company may grant from time to time to the company and its subsidiaries' employees and officers holders (which are not Formula's controlling shareholders) options to purchase up to 400,000 ordinary shares of Formula. The plan is administered by the Company's board of directors or by an option committee to be appointed by the board. The plan provides that options may be granted, from time to time, to such grantees to be determined by the board or the option committee, at an exercise price and under such terms to be determined at their sole and absolute discretion. Options may be granted under the plan through January 2018.

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Note 12 - Employee Option Plans (Cont.):

In January 2009, Formula granted to the CEO, in connection with his new service agreement, options to purchase 396,000 ordinary shares. These options vest over a three-year period, commencing on December 17, 2008, on a quarterly basis. The exercise price of the options is NIS 0.01 per share. The options shall expire six years of the date of grant. These options are amortized in accordance to the group's options amortization methodology. In April 2010 the CEO exercised all the options to shares.

The fair value of the options shares are the fair value of the shares at the grant date, \$926 thousands (\$2.34 per share).

B. The Company's subsidiaries granted options to their employees to purchase shares in the respective companies.

The options were mainly granted during the years 1999-2009. In general, the options expire 7-10 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, which stipulate, inter alia, that the subsidiaries will be able to claim the benefit that was charged to the employees as an expense for tax purposes, if and when the employees become liable for tax on the benefit mentioned above. For further information with respect to expenses relating to the benefit to the employees, and additional disclosure required by ASC 718, see Note 1.W.

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Note 12 - Employee Option Plans (Cont.):

The following table is a summary of the status of option plans in Magic as of December 31, 2009, 2008 and 2007:

	Year ended December 31, 2009			Year ended December 31, 2008			Year ended December 31, 2007	
	Number of Options	Weighted Average Exercise Price \$	Weighted Average remaining contractual term Years	Number of Options	Weighted Average Exercise Price \$	Weighted Average remaining contractual term Years	Number of Options	Weighted Average Exercise Price \$
Options outstanding at the beginning of the year	2,390,045	2.31		3,673,528	2.22		2,352,632	2.52
Granted	350,000	0.88		145,000	1.12		1,773,332	1.78
Exercised	(42,546)	1.36		(351,830)	0.65		(218,205)	1.18
Forfeited	(770,300)	1.79		(1,076,653)	2.35		(234,231)	2.98
Outstanding at the end of the year	1,927,199	2.28	5.51	2,390,045	2.31	6.4	3,673,528	2.22
Vested and expected to vest at the end of the year	1,881,429	2.31	5.43	2,113,510	2.37	6.07	3,489,741	2.21
Exercisable at the end of the year	1,512,823	2.56	4.66	1,581,051	2.53	5.12	2,407,532	2.22
Weighted average fair value of options granted during the year *		0.87			0.68			1.31

*The fair value of each option granted is estimated on the date of grant, using the binomial model for the years 2009, 2008 and 2007 with the following weighted-average assumptions for each of the three years in the period ended December 31, 2009, 2008 and 2007: expected volatility of 63%, of 56%-65%, and 51%-73%, respectively; risk-free interest rates of 2.73-3.7%, 1.83% and 3.46-5.05% respectively; dividend yields of 0% for each year, and a weighted average expected life of the option of 2.35-3 years, 2.48-3 years and 2.48-3 years, respectively. The weighted-average grant-date fair value of options granted during the twelve months period ended December 31, 2009, 2008 and 2007 were \$ 0.87, \$ 0.68 and \$ 1.31, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on December 31, 2009. This amount is changed based on the fair market value of Magic shares. Total intrinsic value of options exercised for the twelve months ended December 31, 2007, 2008 and 2009 were \$ 168, \$ 383 and \$ 26 thousands respectively. As of December 31, 2009, there was a \$ 163 thousands of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under Magic stock option plans. This cost is expected to be recognized over a period of approximately 3 years.

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Note 12 - Employee Option Plans (Cont.):

The following is a summary of the status of option plans in Matrix as of December 31, 2009, 2008 and 2007 and changes during the years then ended:

	Year ended December 31, 2009			Year ended December 31, 2008		Year ended December 31, 2007	
	Number of Options	Weighted Average Exercise Price \$	Weighted Average remaining contractual term Years	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Options outstanding at the beginning of the year	2,779,252	3.16		2,967,981	3.08	2,949,291	1.625
Granted	-	-		200,000	2.93	2,050,000	3.437
Exercised	(528,681)	1.75		(271,525)	1.88	(1,995,730)	1.68
Forfeited	(79,108)	1.81		(117,204)	3.56	(35,580)	1.564
Outstanding at the end of the year	2,171,463	3.29	2	2,779,252	3.16	2,967,981	3.08
Vested and expected to vest at the end of the year	2,171,463	3.29	2	2,779,252	3.16	2,967,981	3.08
Exercisable at the end of the year	1,506,844	3.25	1.05	929,252	1.81	1,275,516	1.72
Weighted average fair value of options granted during the year *		-			0.87		1.3

*The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions used for grants: expected volatility: 2008 -24%-31%; 2007-24%-25%; risk-free interest rate (in NIS terms) of 2008 - 4.3%-5.3%; 2007 - 5.3%-5.5%, dividend yields of 50% for each year and expected life: 3-3.5 years. The aggregate intrinsic value of the vested and expected to vest options for December 31, 2009, 2008 and 2007 were \$ 3,280, \$ 27 and \$ 3,045 thousands, respectively. Total intrinsic value

of options exercised for the twelve months ended December 31, 2009, 2008 and 2007 were \$ 654, \$ 477 and \$ 2,508 thousands, respectively.

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Note 12 - Employee Option Plans (Cont.):

The following is a summary of the status of options plans in Sapiens as of December 31, 2009, 2008 and 2007 and changes during the years then ended:

	Year ended December 31, 2009			Year ended December 31, 2008		Year ended December 31, 2007	
	Number of options	Weighted Average Exercise Price \$	Weighted Average remaining contractual term Years	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Options outstanding at the beginning of the year	2,698,350	3.45	6.37	2,825,900	4.01	2,441,050	4.68
Changes during the year:							
Granted	286,012	1.24	5.42	244,000	1.76	691,000	2.39
Exercised	-	-	-	(50,000)	1.74	(29,569)	2.35
Forfeited	(677,399)	4.24	5.14	(321,550)	7.59	(276,581)	5.53
Options outstanding at the end of the year	2,306,963	2.16	5.23	2,698,350	3.45	2,825,900	4.01
Vested and expected to vest at the end of the year	2,276,720	2.17	5.23	2,571,450	3.51	2,721,650	4.02
Options exercisable at year-end	1,702,103	2.44	5.21	1,852,350	3.99	2,130,900	4.58
Weighted-average fair value of options granted during the year*		0.59			0.64		1.38

* The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following weighted average assumption: expected volatility: 2009- 90%-93%, 2008 - 78%, 2007 - 89%, risk-free interest rate 2009 - 1.79%-2.46%, 2008 - 2.95%, 2007 - 4.2% dividend yield of 0% for all years and expected life: 2009 - 4.25 years, 2008 - 4.25 year and 2007 - 6.25 years. The aggregate intrinsic value is the difference between Sapiens closing stock price on the last trading day of the fiscal year 2009 and the exercise price, multiplied by the number of in-the-money options that would have been received by the option holders had all option holders exercised their options on December 31, 2009. These aggregate intrinsic value changes based on the fair market value of Sapiens shares.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was \$0, \$96,500, \$17,666, respectively. Compensation expense recognized amounted to \$259, \$165 and \$115 thousands for the years ended December 31, 2009, 2008 and 2007, respectively.

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Note 12 - Employee Option Plans (Cont.):

As of December 31, 2009, there was a \$477 thousands of total unrecognized compensation cost related to non-vested options granted under the Plan and the Special Plan, which is expected to be recognized over a period of up to four years.

In April 2009, Sapiens's Board of Directors approved a re-pricing of some of Sapiens's stock options held by Sapiens's management. Since there was no incremental value as a result of the modification, no additional expense was recorded in respect of the re-pricing of the respective options.

Note 13 - Commitments and Contingencies:

A. Commitments:

Some of the Company's subsidiaries have commitments to the Chief Scientist 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 Office of the Chief Scientist if revenue is generated from the sale of the said software products.

The balance of the contingent liability in respect of the aforesaid amounted to approximately \$6.7 million as of December 31, 2009.

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 \$13.2 million 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 \$2.9 million 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.

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Note 13 - Commitments and Contingencies (Cont.):

D. Others:

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

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

E. Legal Proceedings:

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.

F. Lease Commitments:

The following are details of the future minimum lease commitments of office equipment, office space and motor vehicles under non-cancelable operating leases as of December 31, 2009:

	U.S. \$ in thousands
2010	20,331
2011	11,205
2012	7,057
2013	4,122
2014 and thereafter	198
	42,913

Rent expenses for the years 2009, 2008 and 2007, were approximately \$14 million, \$15.6 million and \$23.7 million, respectively.

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Note 14 - Equity:

A. Share Capital Authorized, Issued and Outstanding:

	December 31, 2009			December 31, 2008		
	Authorized	Issued	Outstanding	Authorized	Issued	Outstanding
Ordinary shares, NIS 1 par value each	25,000,000	13,224,780	13,200,000	25,000,000	13,224,780	13,200,000

1. Formula's shares are traded in the TASE and its ADS, each representing one ordinary share of NIS 1 par value, on the NASDAQ.

2. Formula hold 24,780 of its ordinary shares.

3. In 2008, the Company paid dividend of approximately \$10 million and declared on dividend of approximately \$30 million which paid in January 2009.

4. For Employee and Office Holders Share Option Plan see Note 12.

Note 15 - Income Taxes:

A. Tax Laws in Israel:

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

Some operations of certain subsidiaries have been granted the status of an "Approved Enterprise" which was granted under the Law before April 1, 2005. According to the provisions of the Law, the subsidiaries have elected the "alternative benefits" program and as such are entitled to tax exemption of two to four years and to a reduced tax rate of 10%-25% depending on the level of foreign investment in the technologies. The benefits commence with the date on which taxable income is first earned. The period of tax benefits detailed above is subject to a limit of the earlier of 12 years from the commencement of production or 14 years from receiving the approval.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above Law, regulations published thereafter and the certificates of approval for the specific investments in an "Approved Enterprise". In the event of failure to comply with these conditions, the benefits may be canceled and the subsidiaries may be required to refund the amount of the benefits, in whole or in part, including interest.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Income Taxes (Cont.):

A. Tax Laws in Israel (Cont.):

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

The tax-exempt income attributable to an "Approved Enterprise" can be distributed to shareholders without subjecting the Company to taxes only upon the complete liquidation of the Company. If this net retained tax-exempt income is distributed the Company, would be taxed at the corporate tax rate applicable to such income as if the Company had not elected the alternative tax benefits (currently 25% of the gross dividend).

The Company does not anticipate paying dividends in the foreseeable future. Accordingly, no deferred tax liabilities have been provided on income attributable to the Company's "Approved Enterprises".

Income from sources other than the "Approved Enterprise" during the period of benefits will be taxable at general corporate tax rates.

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be beneficial by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the beneficial Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits

2. 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 accelerated, depreciation as stipulated by regulations published under the Inflationary Adjustments Law and the right to deduct, for tax purposes, over a period of 3 years.

3. Tax Rates Applicable to Income in Israel:

Until 2008, results for Israeli tax purposes were measured on a real basis as adjusted for the increase in 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 have been measured in nominal values, excluding certain adjustments for changes in the CPI carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions.

Note 15 - Income Taxes (Cont.):

A. Tax Laws in Israel (Cont.):

3. Tax Rates Applicable to Income in Israel (cont.):

The general corporate tax rate in Israel in 2009 was 26%. The corporate tax rate is to be reduced in 2010 and to 25%. On July 23, 2009, the Israel Economic Efficiency Law (Legislation Amendments for Applying the Economic Plan for 2009 and 2010), 2009 (hereinafter – the 2009 Amendment), became effective, stipulating, among other things, an additional gradual decrease in tax rates in 2011 and thereafter, as follows: 2011-24%, 2012-23%, 2013-22%, 2014-21%, 2015-20% and 2016 and thereafter-18%.

B. Subsidiaries outside Israel:

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

C. Cumulative Tax Losses:

The Company and its subsidiaries have cumulative losses for tax purposes as of December 31, 2009 totaling approximately \$158.9 million, of which \$139.2 million is in respect of companies in Israel (December 31, 2008 - \$173.7 million), and approximately \$19.7 million in respect of companies abroad (December 31, 2008 - \$36.5 million). The likelihood of the utilization of the majority of these losses in the future is not more likely than not inter alia, due to the fact that the Company's capital losses can be deductible only against capital gains which are not predictable by their nature.

Therefore, the Company recorded a valuation allowance with respect to the attributable to these losses carried forward.

D. Income Tax Assessments:

In 2007, the Company paid approximately \$250 thousands, as taxes for the years 2001-2004, after reaching an agreement with the Israeli tax authorities for those years. In addition the Company has closed years to tax as result of tax assessment until 2007

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Income Taxes (Cont.):

E. Deferred Taxes:

1.Composition:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Net operating losses carried forward	38,663	54,461
Software development costs	(682)	(892)
Allowances and reserves	1,688	3,426
Adjustments to cash basis in subsidiary	(2,907)	(4,272)
	36,762	52,723
Valuation allowance	(25,735)	(41,031)
Total	11,027	11,692

2.Presentation in balance sheets:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Stated in current assets	3,735	2,976
Stated in other assets	9,499	13,218
Stated in long term liabilities	(2,207)	(4,502)
Total (included in balance sheets)	11,027	11,692

F. Income before Taxes on Income:

	Year ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
Domestic	24,762	17,900	15,452
Foreign	12,030	7,728	7,482
Total	36,792	25,628	22,934

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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Income Taxes (Cont.):

G. Income taxes Included in Statements of Operations:

	2009	Year ended December 31, 2008	2007
	(U.S. \$ in thousands)		
Current taxes:			
In Israel	6,884	4,803	3,767
Abroad	819	1,264	650
	7,703	6,067	4,417
Income Taxes adjustments in Israel in respect of prior years	118	(907)	(468)
Deferred taxes, net	484	(1,881)	(2,058)
Total	8,305	3,279	1,891

Note 15 - Income Taxes (Cont.):

H. Theoretical Tax:

The following is reconciliation between the theoretical tax expense, assuming that all income was taxed at statutory tax rates, and the actual income tax expense, as recorded in the statement of operations:

	2009	Year ended December 31, 2008		2007
		(U.S. \$ in thousands)		
Income before income taxes, as per the statement of operations	36,792	25,628		22,934
Statutory tax rate in Israel	26 %	27 %		29 %
Theoretical tax expense	9,566	6,920		6,651
Reconciliation:				
Non-deductible expenses	441	193		705
Tax-exempt income ,change in tax rate and reduced tax rates in companies which have Approved Enterprises	425	8		173
Current losses (utilization of losses) and temporary differences for which deferred taxes were not recorded, net	627	(3,034)		(4,364)
Prior year losses and temporary differences for which deferred taxes were recorded, net	(2,979)	-		-
Write off of deferred taxes and tax advances	-	-		885
Taxes in respect of previous years	118	(907)		(468)
Effect of the Inflationary Adjustments Law	-	-		(1,726)
Other	107	99		35
Income taxes as per the statement of operations	8,305	3,279		1,891
Effective tax rate - in %	22.6 %	12.8 %		8.2 %

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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Income Taxes (Cont.):

I. Uncertain tax positions:

The Company and its subsidiaries adopted the provisions of ASC 740 on January 1, 2007. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC 740 and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits in the Company's subsidiaries is as follows:

	(U.S. \$ in thousands)
Balance as of January 1, 2007	830
Increases related to current year tax positions	50
Settlements	(150)
Balance as of December 31, 2007	730
Increases related to current year tax positions	4
Increase related to prior tax positions	22
Balance as of December 31, 2008	756
Reductions related to settlement of tax matters	(229)
Increase related to prior tax positions	10
Addition of interest related to the unrecognized tax liabilities from previous years	142
Balance as of December 31, 2009	679

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Note 16 - Supplementary Financial Statement Information:

Balance Sheet:

A. Other Current Assets:

Composition:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Government departments	5,726	2,935
Employees (1)	355	408
Prepaid expenses and advances to suppliers	7,544	7,522
Deferred taxes	3,735	2,976
Debtors from a sale of fixed assets	1,306	-
Derivatives (2)	2,292	-
Other	1,491	1,584
Total	22,449	15,425

(1) Some of these balances are linked to the CPI, and bear interest at an annual rate of 4%.

(2) Matrix has two SWAP agreements, both lasts until the year of 2010. Matrix does not apply hedge accounting. The agreements are:

In September 2009, Matrix engaged in a SWAP agreement for the sale of the initial agreement regarding the NIS 200,000 thousands (approximately \$52,980 thousands as of December 31, 2009). According to the agreement which lasts until December 2010, Matrix 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 thousands asset.

In December 2008 Matrix entered into a SWAP agreement with Bank Le'umi for NIS 200,000 thousands (approximately \$52,980 thousands as of December 31, 2009). According to the agreement which lasts until December 2010, Matrix has committed to buy CPI for a fixed rate of 1.712% for the whole period. As of December 31, 2008, the fair value of the derivative was a \$260 thousands liability. As of December 31, 2009, the fair value of this derivative is a \$1,957 thousands asset.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplementary Financial Statement Information (Cont):

A. Other Current Assets (Cont.):

In 2009, 2008 and 2007, Sapiens entered into put option contracts in the amount of \$ 5,800, \$ 10,800 and \$ 2,500 thousands, 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 thousands, respectively, presented in the statements of operations as financial income.

In 2009, 2008 and 2007, Sapiens entered into put option contracts in the amount of \$ 5,800, \$ 10,800 and \$ 2,500 thousands, 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 thousands, respectively, presented in the statements of operations as financial income.

As of December 31, 2009 the fair values of the Magic's forward contracts were \$10 thousands. The Company measured the fair value of the contracts in accordance with ASC 820. Gain recognized in the statement of income during 2009 was \$90 cash flow hedging and \$38 thousands non designated hedging. An additional \$5 thousands was recognized in other than Comprehensive Income.

B. Liabilities to Banks:

Composition:

	December 31, 2009	Linkage basis	December 31, 2009 2008 (U.S. \$ in thousands)	
	Interest rate %			
Bank overdraft	3%-6.25%	Unlinked	36	190
Short-term bank loans	P+1.6%	Unlinked	3,179	158
Current maturities of long-term loans from banks			6,840	8,133
Total			10,055	8,481

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplementary Financial Statement Information (Cont.):

C. Other Accounts Payable:

Composition:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Employees and other wage and salary related liabilities	30,787	30,840
Government institutions	12,558	8,199
Deferred income and customer advances	30,838	25,454
Accrued expenses and other current liabilities (*)	16,741	10,759
Total	90,924	75,252

(*) As of December 31, 2009 accrued expenses include dividend to non-controlling interests in amount of \$ 6,694.

D. Financial Expenses, Net:

Composition:

	Year ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
Financing income	4,160	8,951	6,898
Financing costs related to long-term debt	(5,982)	(8,781)	(6,604)
Financing costs related to short-term credit and others	(2,590)	(4,597)	(3,083)
Gain (loss) from marketable securities, net.(1) (2)	4,181	(1,481)	(830)
Total	(231)	(5,908)	(3,619)

(1) Includes gains (losses) from trading securities still held by the company for the years 2009, 2008 and 2007 in the amounts of \$1,362, \$(1,530) and \$(202) thousands respectively.

(2) Includes impairment of available for sale marketable securities for the year 2009 in amount of \$143 thousands due to credit loss (see Note 4).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - Supplementary Financial Statement Information (Cont.):

E. Other Expenses, Net:

Composition:

	2009	Year ended December 31, 2008 (U.S. \$ in thousands)	2007
Gain (Loss) on sale of fixed assets, net	247	341	(7)
Impairment of fixed assets	-	-	(137)
Impairment in value of cost based investment	(59)	(502)	(512)
Other	(492)	(419)	(94)
Total	(304)	(580)	(750)

F. Operating Segments:

The Company operates in two reportable business segments: IT Services and proprietary software solutions.

Software Services:

The following is a list of the Group's principal activities: applications development, systems integration, migration of IT platforms, IT consulting, e-services, outsourcing, conversion services, application and implementation of ERP & CRM systems, imported software products and a training school.

The Group provides these IT services across the full system development lifecycle, including the definition of business requirements, system analysis, technical specifications, coding, testing, training, implementation and maintenance. The Group performs its projects on-site or at its own facilities.

Proprietary Software Products:

The Group designs, develops and markets proprietary software solutions for sale in selected niche markets worldwide. The following is a list of the proprietary software solutions that are marketed by the Group:

Modernization solutions, Magic-technology, Magic eMerchant, solutions for law enforcement, application software for long term care industry, car rental solutions, solutions for banking and finance, solutions for telecommunications, CRM systems, Sapiens eMerge, re-engineering and solutions for the insurance industry.

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

Software Services:

Matrix

Proprietary Software Products:

Magic

Sapiens

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - Supplementary Financial Statement Information (Cont.):

G. Operating Segments (Cont.):

The Company evaluates the performances of each segment, software services and proprietary software products, based on operating income/loss. Headquarters and finance expenses are allocated proportionally between the segments:

	Software Services (*) (U.S. \$ in thousands)	Proprietary Software Products	Total
Revenues:			
2009	368,345	101,045	469,390
2008	397,790	105,453	503,243
2007	313,901	100,823	414,724
Inter-segment sales:			
2009	153	3	156
2008	135	61	196
2007	-	-	-
Operating income :			
2009	26,318	11,009	37,327
2008	26,082	6,371	32,453
2007	23,563	1,701	25,264
Financial income (expenses):			
2009	377	(608)	(231)
2008	(4,648)	(1,260)	(5,908)
2007	(1,246)	(2,373)	(3,619)
Net income from continuing operations:			
2009	8,197	6,001	14,198
2008	9,190	2,124	11,314
2007	9,635	1,088	10,723

(*) Adjusted for the discontinued presentation of NextSource.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - Supplementary Financial Statement Information (Cont.):

G. Operating Segments (Cont.):

	Software Services (*)	Proprietary Software Products	Total
	(U.S. \$ in thousands)		
Identifiable assets including goodwill:			
2009	370,206	152,637	522,843
2008	359,648	147,304	506,952
Identifiable liabilities:			
2009	148,641	53,154	201,795
2008	147,234	36,528	183,762
Depreciation and amortization:			
2009	3,568	10,239	13,807
2008	3,646	8,771	12,417
2007	3,706	5,160	8,866
Investments in segment assets:			
2009	1,799	906	2,705
2008	2,481	1,507	3,988
2007	2,468	959	3,427

(*) Adjusted for the discontinued presentation of NextSource

Reconciliation between the data on income from the operating segments and the data in the consolidated financial statements:

	2009	2008	2007
	(U.S. \$ in thousands)		
Revenues:			
Revenues as above	469,546	503,439	414,724
Less inter-segment transactions	(156)	(196)	-
Revenues as per statements of operations	469,390	503,243	414,724

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - Supplementary Financial Statement Information (Cont.):

G. Operating Segments (Cont.):

	2009	2008
	(U.S. \$ in thousands)	
Identifiable assets:		
Total assets of operating segments	522,843	506,952
Assets not identifiable to a particular segment	64,753	77,996
Elimination of inter-segment assets and other	(21,184)	(15,940)
Total assets from continuing operations as per consolidated balance sheets	566,412	596,008
Identifiable liabilities:		
Total liabilities of operating segments	201,795	183,762
Liabilities not identifiable to a particular segment	93,032	129,584
Elimination of inter-segment liabilities and other	(24,016)	(18,997)
Total liabilities from continuing operations as per consolidated balance sheets	270,811	294,349

H. Geographical Information:

1. The Company's Long-Lived Assets are as follows:

	December 31,	
	2009	2008
	(U.S. \$ in thousands)	
Israel	8,791	13,344
United States	185	325
Other	1,013	1,340
Total	9,989	15,009

2. Revenues:

Revenues classified by geographic area:

	Year ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
Israel	368,230	393,391	319,444
International:			
United States	38,862	47,098	41,425
Other	62,298	62,754	53,855
Total	469,390	503,243	414,724

Classification was based on the location of the customers.

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FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - Supplementary Financial Statement Information (Cont.):

I. Earnings per Share:

The following table presents the computation of basic and diluted net earnings per share of continuing operation:

	2009	Year ended December 31, 2008 (U.S. \$ in thousands)	2007
Amount for basic earnings per share - income available to shareholders	14,198	11,314	10,723
Effect of dilutive securities of subsidiaries	-	-	(179)
Amount for diluted earnings per share - income available to shareholders	14,198	11,314	10,544
Weighted average shares outstanding			
Denominator for basic net earnings per share	13,200	13,200	13,200
Effect of dilutive securities	364	-	-
Denominator for diluted net earnings per share	13,564	13,200	13,200
Basic net earnings per share of continuing operation	1.08	0.84	0.82
Diluted net earnings per share of continuing operation	1.04	0.84	0.8

Note 17 - Discontinued operations:

A. On June 20, 2007, the Company completed the sale of its entire shareholding in BluePhoenix. BluePhoenix met the definition of a component under ASC 360. Accordingly, the results of operations of BluePhoenix have been classified as discontinued operations in the statement of operations and prior periods results have been reclassified accordingly. In addition comparative data of the assets and liabilities attributed to the discontinued operations have been reclassified in the balance sheet.

B. In 2007, Magic disposed of two of its subsidiaries (AAOD and Magic Italy). Both subsidiaries met the definition of a component under ASC 360. Accordingly, the results of operations of these subsidiaries and businesses and the gain resulting from the disposals have been classified as discontinued operations in the statement of operations and prior periods results have been reclassified accordingly. In addition, comparative data of the assets and liabilities attributed to the discontinued operations have been reclassified in the balance sheet.

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 17 - Discontinued operations (Cont.):

C. On October 22, 2009, the company completed the sale of its entire shareholding in Next source. The results of operations of NextSource have been classified as discontinued operations in the statement of operations and prior periods results have been reclassified accordingly. In addition comparative data of the assets and liabilities attributed to the discontinued operations have been reclassified in the balance sheet.

D. The following is the composition from discontinued operations (includes capital gains):

	Year Ended December 31,		
	2009	2008	2007
	(U.S. \$ in thousands)		
Revenues	64,328	87,564	110,341
Cost of revenues	57,996	78,488	81,527
Gross profit	6,332	9,076	28,814
Research and development costs, net	-	-	7,107
Selling, general and administrative expenses	5,647	8,156	15,092
Operating income	685	920	6,615
Financial expenses, net	(55)	(100)	(2,197)
Capital Gains on sale of shareholdings, net	4,284	-	28,950
Income before income taxes	4,914	820	33,368
Taxes on income	36	265	178
	4,878	555	33,190
Equity in losses of affiliates companies, net	-	-	(857)
Net income	4,878	555	32,333

FORMULA SYSTEMS (1985) LTD.
(An Israeli Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 18 - 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 million.
- B. In April 2010, Matrix distributed to its shareholders a cash dividend of 0.18 NIS per share, previously announced in March 2010. The aggregate amount distributed by Formula was approximately 10.7 million NIS.
- C. 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 \$ 11.8 million in cash, of which \$ 6.4 million was paid upon closing and the remaining amount is to be paid over a three year period.

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 REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of

MAGIC SOFTWARE ENTERPRISES LTD.

We have audited the accompanying consolidated balance sheets of Magic Software Enterprises Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and 2009, and the related consolidated statements of income, 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 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 reflect total assets of 15% and 14% as of December 31, 2008 and 2009, respectively, and total revenues of 36%, 39% and 36% for the years ended December 31, 2007, 2008 and 2009, respectively of the related consolidated totals. 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, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and 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 the 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 related 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 U.S. generally accepted accounting principles.

Tel-Aviv, Israel
April 26, 2010

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

37 Broadhurst Gardens, London NW6 3QT

Tel: 020 - 7624 2251 Fax: 020
- 7372 2328
E - mail: lc@levy-cohen.co.uk

To the Board of Directors and Shareholders of
MAGIC SOFTWARE ENTERPRISES (UK) LIMITED

We have audited the accompanying balance sheet of MAGIC SOFTWARE ENTERPRISES (UK) LIMITED (the "Company") as of December 31, 2009 and 2008, and the related statements operations, changes in shareholders' equity 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 audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and at December 31, 2009 and 2008, and the related statements operations, changes in shareholders' equity for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

LEVY COHEN & CO.
Registered Auditors and
Certified
Public Accountants

2nd March 2010

J. Cohen c.p.a (isr)
R. Shahmoon aca

Registered by The Institute of Chartered
Accountants in
England and Wales to carry out Company Audit
work

37 Broadhurst Gardens, London NW6 3QT

Tel: 020 - 7624 2251 Fax: 020
- 7372 2328
E - mail: lc@levy-cohen.co.uk

To the Board of Directors and Shareholders of
HERMES LOGISTICS TECHNOLOGIES LIMITED

We have audited the accompanying balance sheet of HERMES LOGISTICS TECHNOLOGIES LIMITED. (the "Company") as of December 31, 2009 and 2008, and the related statements operations, changes in shareholders' equity 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 audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and at December 31, 2009 and 2008, and the related statements operations, changes in shareholders' equity for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

LEVY COHEN & CO
Registered Auditors & Certified
Public Accountants

5th March 2010

J. Cohen c.p.a. (isr)
R. Shahmoon aca

Registered by The Institute of Chartered
Accountants in
England and Wales to carry out Company Audit
work

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Magic Software Japan K. K.

We have audited the accompanying balance sheets of Magic Software Japan K.K. (the “Company”) as of December 31, 2009 and 2008, and the related statements of operations 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the related statements of operations and cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Tokyo, Japan
February 3, 2010

KDA Audit Corporation

Magic Benelux B.V.

Auditor's report

Report on the financial statements

We have audited the accompanying balance sheets as at December 31, 2009 and 2008 and the related statements of operations for each of the three years in the period ended December 31, 2009 of Magic Benelux B.V., Houten.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the management board report, both in conformity with U.S. generally accepted accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Magic Benelux B.V.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Magic Benelux B.V. as at December 31, 2009 and 2008, and of its related statements of operations for each of the three years in the period ended December 31, 2009 in conformity with U.S. generally accepted accounting principles.

Dordrecht, January 29, 2010

Verstegen accountants en adviseurs,

Drs. L.K. Hoogendoorn RA MGA

To the Board of Directors and Shareholders of
Magic (Onyx) Magyarország Szoftverház K ft.

We have audited the accompanying balance sheet of Magic (Onyx) Magyarország Szoftverház Kft. (the “Company”) as of December 31, 2009 and 2008, and the related statements operations, changes in shareholders’ 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 audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and at December 31, 2009 and 2008, and the related statements operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

February 23, 2010

Maria Negyessy
Reg. Auditor

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 REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

SAPIENS INTERNATIONAL CORPORATION N.V.

We have audited the accompanying consolidated balance sheets of Sapiens International Corporation N.V. ("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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sapiens International Corporation N.V. 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 U.S. generally accepted accounting principles.

Tel-Aviv, Israel
April 28, 2010

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY &
KASIERER
A Member of Ernst & Young Global

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this amendment to the annual report on its behalf.

FORMULA SYSTEMS (1985) LTD.

By: /s/ Guy Bernstein
Guy Bernstein

May 10, 2010
Date

Chief Executive Officer

EXHIBIT INDEX

Exhibit No.

1.1	Memorandum of Association (1)
1.2	Articles of Association as amended on December 28, 2005 (2)
4.1	Form of Letter of Indemnification, dated December 28, 2005 (2)
4.2	English translation of Formula Systems (1985) Ltd. Employees and Office Holders Share Option Plan (2008)(3)
8	List of Subsidiaries +
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
13.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
13.2	Certification of the Chief Financial Officer pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002*
15.1	Consent of Ziv Haft registered certified public accountants (Isr.) BDO member firm +
15.2	Consent of Levy Cohen and Co. +
15.3	Consent of Levy Cohen and Co. +
15.4	Consent of Kost, Forer, Gabbay & Kaiserer +
15.5	Consent of Kost, Forer, Gabbay & Kaiserer +
15.6	Consent of Verstegen accountants en adviseurs +
15.7	Consent of KDA Audit Corporation +
15.8	Consent of Maria Negyessy +

* Filed herewith.

(1) Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-8858).

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- (2) Incorporated by reference to the Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2006.
- (3) Incorporated by reference to the Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 27, 2009.

+ Previously filed.
