

**FORMULA SYSTEMS (1985) Ltd.**  
**(An Israeli corporation)**  
**CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	<b>U.S. \$</b>	
	<b>(in thousands)</b>	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	75,363	82,575
Short-term investments .....	36,808	35,776
Trade receivables .....	139,415	132,489
Other accounts receivable .....	38,296	25,684
Inventories .....	3,697	3,808
	<u>293,579</u>	<u>280,332</u>
 <b>LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:</b>		
Loans and other investments .....	3,063	2,199
Investments in affiliates .....	19,083	20,257
	<u>22,146</u>	<u>22,456</u>
 <b>SEVERANCE PAY FUND</b> .....	<u>31,157</u>	<u>33,627</u>
 <b>PROPERTY AND EQUIPMENT, NET</b> .....	<u>23,072</u>	<u>23,123</u>
 <b>OTHER ASSETS, NET</b> .....	<u>272,830</u>	<u>270,597</u>
	<u>642,784</u>	<u>630,135</u>
 <b>CURRENT LIABILITIES:</b>		
Liabilities to banks and others .....	86,026	103,629
Trade payables .....	44,549	47,586
Other accounts payable .....	88,621	76,743
Debentures .....	8,038	8,004
Customer advances, net of work in progress .....	6,591	7,309
	<u>233,825</u>	<u>243,271</u>
 <b>LONG-TERM LIABILITIES:</b>		
Debentures .....	30,723	16,809
Provision for losses in formerly owned investee .....	1,971	1,971
Deferred taxes .....	1,144	1,282
Customer advances .....	691	645
Liabilities to banks and others .....	57,524	52,514
Liability due to activity acquisition .....	1,576	1,761
Accrued severance pay .....	37,716	39,726
	<u>131,345</u>	<u>114,708</u>
 <b>MINORITY INTEREST</b> .....	<u>110,761</u>	<u>108,707</u>
 <b>SHAREHOLDERS' EQUITY</b> .....	<u>166,853</u>	<u>163,449</u>
	<u>642,784</u>	<u>630,135</u>

**FORMULA SYSTEMS (1985) Ltd.**  
**(An Israeli corporation)**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>U.S. \$</b>	
	<b>(in thousands, except per share data)</b>	
Revenues.....	126,339	128,758
Cost of revenues .....	<u>84,927</u>	<u>83,432</u>
Gross profit.....	41,412	45,326
Research and development costs, net.....	6,503	5,508
Selling, general and administrative expenses .....	33,245	31,652
Depreciation and amortization.....	1,355	1,609
Restructuring and non-recurring costs.....	<u>635</u>	<u>758</u>
Operating (loss) income.....	(326)	5,799
Financial expenses, net.....	<u>(2,207)</u>	<u>(2,300)</u>
	(2,533)	3,499
Gain on realization of investments .....	11,470	1,965
Other income (expenses), net.....	<u>(1,767)</u>	<u>938</u>
Income before taxes on income .....	7,170	6,402
Taxes on income .....	<u>(95)</u>	<u>1,720</u>
	7,265	4,682
Equity in income (losses) of affiliated companies, net .....	1,043	(1,744)
Minority interest in profits, net .....	<u>(4,064)</u>	<u>(1,120)</u>
Net income .....	<u>4,244</u>	<u>1,818</u>
 <b>Earnings per share:</b>		
Basic .....	<u>0.32</u>	<u>0.16</u>
Diluted .....	<u>0.30</u>	<u>0.09</u>
 <b>Weighted average number of shares outstanding:</b>		
Basic .....	<u>13,200</u>	<u>11,600</u>
Diluted .....	<u>13,200</u>	<u>11,600</u>