SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F/A
Amendment No. 1

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

For the Fiscal Year Ended: December 31, 1999	Commission File No. 0-20892

ISG INTERNATIONAL SOFTWARE GROUP LTD.

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

Israel
(Jurisdiction of incorporation or organization)

Einstein Building, Tirat HaCarmel, Haifa, 39101, Israel
(Address of principal executive offices)

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

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

Ordinary Shares, NIS 0.1 Par Value
(Title of Class)

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

Indicate the number of shares outstanding of each of the registrant's classes of capital or common stock as of December 31, 1999:

8,531,778 Ordinary Shares, NIS 0.1 Par Value

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No

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

Item 17 __ Item 18 _X

This Report on Form 20-F is incorporated by reference into our Form F-3 Registration Statements File Nos. 333-5958, 333-10632 and 333-11972.

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This Amendment No. 1 the Annual Report on Form 20-F for the Fiscal Year ended December 31, 1999 with exhibits is being filed because of various revisions made through out the original filing, including Exhibit 99, to correct various spelling, grammatical and typographical errors which were present in the Form 20-F and to clarify certain statements which may have been unclear. There have been no revisions to the financial statements that were in the original Report, which are also included herein. This Amendment No. 1 contains the revised Annual Report in its entirety.

PART I

Item 1. DESCRIPTION OF BUSINESS

This Annual Report on Form 20-F, contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements reflect our current view with respect to future events and financial results. Forward looking statements usually include the verbs "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "understands" and other verbs suggesting uncertainty. We remind shareholders that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause our actual results, performance, levels of activity, or achievements, or industry results, to be materially different from any future results, performance, levels of activity, or achievements of us and our subsidiaries expressed or implied by such forward-looking statements. These uncertainties and other factors that could cause or contribute to such differences include, among other things, (i) the market's acceptance of ISG Navigator and our new e-Business products, (ii) rapid technological changes in the industry, (iii) increasing competition and (iv) general and economic business conditions.

We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in Exhibit 99 to this Form 20-F ("Additional Information Regarding Forward Looking Statements"). We will provide copies of Exhibit 99 to registered shareholders free of charge upon receipt of a written request submitted to our Secretary at ISG International Software Group Ltd., Einstein Building, Tirat HaCarmel, Haifa, 39101, Israel. Shareholders may also obtain copies of Exhibit 99 for a nominal charge from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549.

We design, develop, market and support e-Business and Business to Business, or B2B, integration solutions. Our principal product offering is ISG Navigator®, an e-Business information integration infrastructure product which is available on multiple platforms and provides database-independent access to many data bases and file systems. This product standardizes the interaction between data sources and application programs utilizing various universally accepted standards. In April 1999, we announced that Oracle Corporation, a leading database software supplier, had selected ISG Navigator to be embedded in Oracle 8i, its Internet server and will distribute ISG Navigator as its enterprise transparent gateway.

We also provide consulting, maintenance and other related services for our products including maintenance services to our legacy products: CorVision, an application generator, APTuser, a database retrieval and production report generator, and Mancal 2000, a logistics and financial application software package.

In February 2000 we acquired Bridges for Islands Ltd., the developer of BRAHMS™. BRAHMS™ is designed to be a B2B solution that will enable companies to quickly connect their back office business systems and processes with those of their partners and meet the

growing market needs of B2B exchanges. We expect that this product will be released later this year.

We were incorporated in Israel in 1988 and have subsidiaries in Israel, the United States, the United Kingdom, France, Australia and Hong Kong. Our executive headquarters are located at Einstein Building, Tirat HaCarmel, Haifa, Israel 39101, telephone number (972)-4-855-9666. Our United States-based subsidiary, International Software Group, Inc. maintains its principal offices at 67 South Bedford Street, Burlington, Massachusetts 01803, telephone number (781) 221-1450.

Products and Services

- ISG Navigator - an e-Business information integration infrastructure product.
- CorVision - an application generator for enterprise applications.
- APTuser - production report generator.
- Mancal 2000 - a financial and logistic application software.

ISG Navigator

Our goal is to enhance our position as a leading supplier of e-Business information integration infrastructure software.

ISG Navigator is an e-Business information integration infrastructure product based on (i) Microsoft's OLE DB standard for interaction between application programs and database systems that support a wide range of data models; (ii) Microsoft's ODBC standard for interaction between application programs and database systems that support relational data models; and (iii) JDBC standards which allow JAVA applications to access a database via the SQL or standard query language. SQL is a database query language which is used to query and manage data in RDBMS, a database management information system employing relational techniques for building, maintaining and providing access to data stored on a computer.

ISG Navigator enables the writing of applications that transparently access, through standard programming interfaces, a wide range of databases. ISG Navigator is optimized for distributed, enterprise-wide deployment.

ISG Navigator features

- ISG Navigator accesses different data sources transparently using standard interfaces.
- ISG Navigator promotes an expanded data model extending SQL to address heterogeneous databases that span pre-relational, relational, and post-relational models.

Market requirements addressed

ISG Navigator addresses today's most demanding enterprise data access requirements for:

- seamless, native data access to heterogeneous databases: pre-relational, relational, and post-relational;
- a total, integrated, industrial-strength solution for handling and optimizing both data access and connectivity; and
- allowing businesses to integrate their existing back-office systems into BLB and e-Business applications.

CorVision

CorVision is an application generator tool that runs on Digital VAX computers under the Open VMS operating system and allows developers to use either terminals or a Client/Server Windows application connected to VAX computers.

APTuser

APTuser is a production report generator able to access data residing in different databases and file managers such as Oracle, Ingres, Informix, Sybase, Rdb, Adabas, RMS and C-ISAM. APTuser is able to generate combined reports, which access all of these files and databases concurrently. APTuser is available for OpenVMS, HP/UNIX, IBM AIX, Data General Aviion and SUN Solaris operating systems

Mancal 2000

Mancal 2000 is a comprehensive financial and logistics software application package developed to address the accounting and material management requirements of large organizations.

BRAHMS

BRAHMS is a B2B software suite under development which is designed to provide the ability to link partners into existing exchanges and for rapidly creating private business partner exchanges. The software will include graphical tools for composing business rules and procedures and for defining any necessary transformations. A powerful Internet portal will enable the monitoring of Internet processes through reports and alerts sent to PDAs and other mobile devices. BRAHMS will employ Enterprise JAVA Beans standard messaging and XML to simplify the exchange of transactions across enterprise boundaries via the Internet.

Customer Support Services

We provide the following direct support services for our customers:

- Hot-line support
- Training
- Professional services

Hot-line Support. We provide technical advice and information on the use of our products through our hot-line support program. Our hot-line support teams are responsible for additional duties such as publishing technical bulletins, distribution of new software versions and distribution of program "patches." Our hot-line teams are located in the United States, Israel, France, the United Kingdom, Hong Kong and Australia.

Training. We provide training in the use of our products through regularly scheduled courses at our offices. The course curriculum includes courses in the use of our products, software development methodologies, product management overviews, system management and other product use training. Our customers receive documentation for each product, which generally includes user manuals, reference manuals, tutorials, installation guides and release notes.

Professional Services. We provide professional services to enable customers to use our products efficiently and effectively. We retain teams of skilled professionals who work with customers, usually at the customer's location, to enhance the customer's use of our products. In addition, these consultants provide regular training courses.

Sales and Marketing

Distribution Channels. Our products and services are sold in all of our worldwide territories through both direct and indirect channels, including distributors and value-added resellers, or VARs. We maintain a sales force in Israel, the United States, France, the United Kingdom, Australia and Hong Kong. Our sales force (including pre-sale personnel) is comprised of 7 sales persons in North America, 3 in Israel, 3 in France, 3 in the United Kingdom, 3 in Hong Kong and 2 in Australia. We have established an indirect sales organization for ISG Navigator. This indirect sales organization is comprised of hardware vendors and hardware resellers, database and other data source vendors, and international distributors.

We have entered into distribution and reseller agreements for ISG Navigator with Oracle, Tandem and Mitsui & Co., on a non-exclusive basis. The agreement with Tandem terminates on June 30, 2000 and the agreement with Mitsui terminates on December 31, 2001.

Customers

Our products are typically sold to large corporations and governmental and public institutions with in-house development staffs. We have over 1,000 installations worldwide. The

following table provides a breakdown by geographical area of our revenues, including maintenance revenues, during the last three fiscal years:

	Year Ended December 31,		
	1999	1998	1997
	(in thousands)		
Israel	$ 8,823	$ 4,374	$ 5,638
United States	4,711	5,598	3,636
Europe	5,340	2,994	1,269
Far East	1,189	1,498	674
Other	444	434	602
Total	$20,507	$14,898	$11,819

Competition and Pricing

The market for software products is fragmented and is intensely competitive. Competition in the industry is generally based on product performance, depth of product line, technical support and price. We compete both with international and local software product providers, many of whom have significantly greater financial, technical and marketing resources than us. We anticipate continued growth and competition in the software products market and, consequently, the entrance of new competitors into the market. Our existing and potential competitors may be able to develop software products and services that are as effective as, or more effective or easier to use than those offered by us. Such existing and potential competitors may also enjoy substantial advantages over us in terms of research and development expertise, manufacturing efficiency, name recognition, sales and marketing expertise and distribution channels. There can be no assurance that we will be able to compete successfully against current or future competitors or that competition will not have a material adverse effect on our future revenues and, consequently, on our business, operating results and financial condition.

We believe that the prices for our products compare favorably with those of competing products.

Research and Development

The software industry is characterized by rapid product change resulting from new technological developments, performance improvements and lower hardware costs and is highly competitive with respect to timely product innovation. We, through our research and development and support personnel, work closely with our customers and prospective customers to determine their requirements, to design enhancements and new releases to meet their needs and to adapt our products to new platforms, operating systems and databases.

Research and development activities for all products principally take place in our research and development facilities in Israel. As of December 31, 1999, we employed 38 full-time and 4 part-time persons in research and development.

We seek external resources for co-financing our development projects, mainly from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade. The Chief Scientist

participated in financing ISG Navigator, APTuser and the Hungarian version of Mancal 2000. Under the Israeli Law for the Encouragement of Industrial Research and Development, or the Research Law, research and development programs approved by the research committee of the Chief Scientist are eligible for grants of up to 50% of project expenditures if they meet certain criteria, in return for the payment of royalties from the sale of the product developed in accordance with the program. The terms of these grants prohibit the manufacture outside of Israel or the transfer of the technology developed pursuant to the terms of these grants to any person or entity without the prior consent of the Chief Scientist. The Research Law also provides that know-how from the research and development which is used to produce the product may not be transferred to third parties without the approval of the Chief Scientist. There can be no assurance that such consent, if requested, will be granted.

We have committed substantial financial resources to research and development for our software business with assistance from the Office of the Chief Scientist for selected research and development projects. During 1999, 1998 and 1997, our research and development expenditures were $4.5 million, $4.9 million and $4.2 million, respectively, for which the Chief Scientist reimbursed us approximately $26,000 in 1999, $557,000 in 1998 and $260,000 in 1997. We capitalized computer software development costs of $2.0 million, $2.1 million and $1.9 million in 1999, 1998 and 1997, respectively. We intend to increase the amount of our investment in product development activities during the foreseeable future.

Under the research and development approval letters of the Chief Scientist and pursuant to the Research Law, we are required to pay royalties at the rate of 2% to 5% of sales of products developed with grants received from the Chief Scientist, up to a dollar-linked amount equal to 100% to 150% of such grants. We paid $229,000, $154,000 and $87,000 in royalties to the Chief Scientist during the years 1999, 1998 and 1997, respectively.

Intellectual Property Rights and Software Protection

We do not hold any patents and rely upon a combination of security devices, copyrights, trademarks, trade secret laws and contractual restrictions to protect our rights in our products. Our policy has been to pursue copyright protection for our software and related documentation and trademark registration of our product names. In addition, our employees and independent contractors are generally required to sign non-disclosure agreements.

We have obtained trademark registrations for CorVision, CorVision Workbench, Builder, and ISG Navigator in the United States. The use and registration rights of our trademarks do not ensure that we have superior rights over other third parties that may have registered or used identical related marks on related goods or services. We believe that copyright protection, which generally applies whether or not a license agreement exists, is sufficient to protect our rights in our products. Our policy is for our customers to sign non-transferable software licenses providing contractual protection against unauthorized use of the software.

Preventing the unauthorized use of software is difficult, and unauthorized software use is a persistent problem in the software industry. However, we believe that, because of the rapid pace of technological change in the software industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our

employees, the frequency of product enhancements and the timeliness and quality of support services provided by us.

Employees

On December 31, 1999, we employed 213 persons full-time and 4 part-time, comprised of 38 persons (and 4 part-time) in research and development, 13 persons in product and customer support, 89 persons in software services, 47 persons in marketing and sales and 25 persons in sales management and administration, general administration and management. As of December 31, 1999, we had 83 full-time employees in Israel, 50 employees in the United States and 80 employees located in other countries.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Association) are applicable to our employees by order of the Israeli Ministry of Labor. These provisions concern mainly the length of the workday, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

Pursuant to Israeli law, we are legally required to pay severance benefits upon the retirement or death of an employee or the termination of employment of an employee without due cause. See Note 10 of Notes to Consolidated Financial Statements. Israeli employers and employees are required to pay predetermined amounts to the National Insurance Institute, which is similar to the United States Social Security Administration. In 1999 payments to the National Insurance Institute amounted to approximately 14.63% of wages, of which approximately two-thirds was contributed by employees with the balance contributed by the employer.

Our U.S. subsidiary maintains a 401(k) Savings and Profit Sharing Plan. The 401(k) Plan covers employees who have completed one year of service and have attained the age of 21. Employees who participate in the 401(k) Plan may elect to defer, in the form of before-tax contributions to the 401(k) Plan, an amount up to 12% of his or her compensation for each year. A participant's before-tax contributions cannot exceed $10,500 per year, adjusted for cost-of-living increases. Contributions to the 401(k) Plan made on behalf of a participant are invested in the manner directed by the participant. Before-tax contributions are fully vested and nonforfeitable at all times. Our subsidiary does not contribute to the 401(k) Plan.

Item 2. DESCRIPTION OF PROPERTY

Our executive offices and research and development facilities are located at Einstein Building, Tirat HaCarmel, Haifa, Israel 39101, where we occupy 6,000 square-feet. The premises are occupied under a lease expiring in March 2001. Our Tel-Aviv marketing and sales offices, constituting approximately 2,500 square feet, are occupied under a lease which expires on December 31, 2002. Operations for Meyad, one of our subsidiaries, are located in a 5,000 square-feet facility in Moshav Ya'ad (Galilee). The lease for the Meyad facility expires on

December 31, 2002. Our annual rental cost for all of our facilities in Israel was approximately $261,000 in 1999.

Our marketing and sales offices in the United States are located in an approximately 11,300 square-feet facility in Burlington, Massachusetts and are occupied under a lease expiring on October 31, 2001. The annual rental cost for that facility was approximately $298,000 in 1999. We intend to move to larger facilities in Massachusetts in the fall of 2001.

The aggregate annual rental cost for our sales and service offices in Hong Kong; Shanghai, the People's Republic of China; Sydney, Australia; London, England and Paris, France was approximately $100,000 in 1999.

Item 3. LEGAL PROCEEDINGS

We are not party to any material legal proceedings and are not aware of any pending or threatened litigation that would have a material adverse effect on our business or us.

Item 4. CONTROL OF REGISTRANT

The following table sets forth certain information as of May 15, 2000 regarding the beneficial ownership by (i) all shareholders known to us to own beneficially more than 10% of our Ordinary Shares, (ii) each of our directors, and (iii) all directors and executive officers as a group:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares
Arie Gonen	1,335,953	15.5%
Gruber & McBaine Capital Management, L.L.C.	1,053,600(2)	12.24
Shlomo Baumgarten	20,000(3)	*
Shlomo Inbar	6,667(4)	*
Stephen J. Kohn	6,667(4)	*
Roni Ferber	--	*
All directors and executive officers as a group (11 persons)	1,406,287(5)	16.3%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary Shares relating to options currently exercisable or exercisable within 60 days of May 15, 2000 are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons

named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D filed with the Commission on October 14, 1998 and reflecting ownership of Ordinary Shares as of September 18, 1998.

(3) Includes 12,000 Ordinary Shares subject to currently exercisable options.

(4) These Ordinary Shares are subject to currently exercisable options.

(5) Includes 62,334 Ordinary Shares subject to currently exercisable options.

Item 5. NATURE OF TRADING MARKET

Our Ordinary Shares are listed on the Nasdaq National Market under the symbol SISG. The following table sets forth, for the periods indicated, the range of high and low sales prices of the Ordinary Shares on the Nasdaq National Market:

1998	High	Low
First Quarter	$ 15-3/8	$ 7-1/16
Second Quarter	12-1/4	7-7/8
Third Quarter	10-1/4	6-1/8
Fourth Quarter	13-7/8	7-1/32
1999		
First Quarter	$ 14	$ 10-3/8
Second Quarter	13-1/4	8-1/16
Third Quarter	12	6-15/16
Fourth Quarter	16-3/8	6-3/4

At May 10, 2000, there were 63 holders of record and approximately 1,545 beneficial holders of our Ordinary Shares, of which 35 record holders holding approximately 75% of our Ordinary Shares had registered addresses in the United States.

We have never paid and do not intend to pay cash dividends on our Ordinary Shares in the foreseeable future. Our earnings and other cash resources will be used to continue the development and expansion of our business. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions. Under Israeli law, the declaration of any final dividends also requires shareholder approval, which may reduce but not increase such dividends from the amount recommended by the Board of Directors. In the event cash dividends are declared, such dividends will be paid in NIS.

Item 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITYHOLDERS

The Israeli Currency Control Law, 1978 imposes certain limitations concerning foreign currency transactions and transactions between Israeli and non-Israeli residents, which limitations may be regulated or waived by the Controller of Foreign Exchange at the Bank of Israel, through "general" and "special" permits. In May 1998, a new "general permit" was issued pursuant to which substantially all transactions in foreign currency are permitted. Any dividends or other distributions paid in respect of ordinary shares and any amounts payable upon the dissolution, liquidation or winding up of our affairs, as well as the proceeds of any sale in Israel of our securities to an Israeli resident are freely repatriable into non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on (or withheld from) such payments. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, U.S. shareholders will be subject to any such currency fluctuation during the period from when such dividend is declared through the date payment is made in U.S. dollars.

Neither our Memorandum of Association, Articles of Association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries that are in a state of war with Israel.

Item 7. TAXATION

General Corporate Tax Structure

Israeli companies are subject to “Company Tax” at the rate of 36% of taxable income. However, the effective tax rate payable by a company that derives income from an approved enterprise (as further discussed below) may be considerably less. Subject to relevant tax treaties, dividends or interest received by an Israeli corporation from foreign subsidiaries are generally subject to tax regardless of its status as an Approved Enterprise.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, as amended, commonly referred to as the Investment Law, provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Trade of the State of Israel, be designated as an approved enterprise. Each certificate of approval for an approved enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, *e.g.*, the equipment to be purchased and utilized pursuant to the program. An approved enterprise is entitled to benefits including Israeli Government cash grants and tax benefits in specified development areas. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific approved enterprise. If a company has more than one approval or only a portion of its capital investments is approved, its effective tax rate is the result of a weighted average of the applicable rates.

Taxable income of a company derived from an approved enterprise is subject to Company Tax at the maximum rate of 25% (rather than 36%) for the benefit period. This period

is ordinarily seven years (or ten years if the company qualifies as a foreign investors' company as described below) commencing with the year in which the approved enterprise first generates taxable income, and is limited to twelve years from commencement of production or 14 years from the date of approval, whichever is earlier. The Investment Law also provides that a company that has an approved enterprise within Israel will be eligible for a reduced tax rate for the remainder of the benefit period and is entitled to claim accelerated depreciation on buildings, machinery and equipment used by the approved enterprise during the first five years of the benefit period.

A company owning an approved enterprise may elect to forego entitlement to the grants otherwise available under the Investment Law and in lieu thereof participate in an alternative package of benefits. Under the alternative package of benefits, a company's undistributed income derived from an approved enterprise will be exempt from company tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the approved enterprise within Israel, and such company will be eligible for a reduced tax rate for the remainder, if any, of the otherwise applicable benefits period.

A company that has an approved enterprise program is eligible for further tax benefits if it qualifies as a foreign investors' company. A foreign investors' company is a company more than 25% of whose share capital and combined share and loan capital is owned by non-Israeli residents. A company which qualifies as a foreign investors' company and has an approved enterprise program is eligible for tax benefits for a ten year benefit period. The Company Tax rate applicable to distributed income earned in the benefit period and to income (distributed or not) earned in the benefit period is as follows:

For a company with foreign investment of ...	The Company Tax rate is
over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

In addition, the dividend recipient is taxed at the reduced rate applicable to dividends from approved enterprises (15%), if the dividend is distributed during the tax benefit period or within 12 years thereafter, yet, no time limit is applicable to dividends from a foreign investment company. The company must withhold this tax at source, regardless of whether the dividend is converted into foreign currency.

Subject to applicable provisions concerning income under the alternative package of benefits, all dividends are considered to be attributable to the entire enterprise and their effective tax rate is the result of a weighted average of the various applicable tax rates. We currently intend to reinvest any income derived from our approved enterprise programs and not to distribute such income as a dividend.

The Investment Center bases its decision as to whether or not to approve an application on the criteria set forth in the Investment Law and regulations, the then prevailing policy of the

Investment Center and the specific objectives and financial criteria of the applicant. Accordingly, we cannot assure you that any of our applications, if made, will be approved in the future.

The production facilities of the Company and its subsidiary, Meyad, have been granted AApproved Enterprise≅ status under the Investment Law.

We were granted "Approved Enterprise" status under the Investment Law with respect to our production facilities and two other projects. Pursuant to the provisions of the Investment Law, we chose the Alternative Package, which, as discussed above, is the waiver of grants in return for tax-exemption. Accordingly, income derived from each Approved Enterprise is tax-exempt for a period of two to four years, commencing with the year it first earns taxable income, and subject to Company Tax at the rate of 10% to 25% for additional periods of three to eight years.

Bridges for Islands has applied for approved enterprise status, which application is pending.

The tax benefits discussed above are conditioned upon fulfillment of the requirements stipulated by the aforementioned law and the regulations promulgated there, as well as the criteria set forth in the certificates of approval. In the event that we fail to comply with these conditions, the tax benefits could be canceled, in whole or in part, and we would be required to refund the amount of the canceled benefits, plus interest and certain inflation adjustments. We believe that we have been in full compliance with the aforementioned conditions through December 31, 1999.

Tax Benefits Under the Law for the Encouragement of Industry (Taxes), 1969

According to the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, an Industrial Company is a company resident in Israel, at least 90% of the income of which, in a given tax year, determined in Israeli currency (exclusive of income from some government loans, capital gains, interest and dividends), is derived from an Industrial Enterprise owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Under the Industry Encouragement Law, Industrial Companies are entitled to the following preferred corporate tax benefits:

- amortization of purchases of know-how and patents over an eight-year period for tax purposes;
- amortization of specified expenses incurred in connection with a public issuance of securities over a three-year period for tax purposes;
- the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli Industrial Companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We cannot assure you that we will continue to qualify as an Industrial Company or that the benefits described above will be available to us in the future.

Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, generally referred to as the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Its features which are material to us can be summarized as follows:

There is a special tax adjustment for the preservation of equity whereby some corporate assets are classified broadly into fixed assets and non-fixed assets. Where a company's equity, as defined in such law, exceeds the depreciated cost of fixed assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on such excess is allowed up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the depreciated cost of fixed assets exceeds a company's equity, then such excess multiplied by the applicable annual rate of inflation is added to taxable income.

- Subject to specific limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.

- Capital gains on specific traded securities are normally exempt from tax for individuals and are taxable for companies. However, dealers in securities are subject to the regular tax rules applicable to business income in Israel.

Capital Gains Tax

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus. The inflationary surplus accumulated from and after December 31, 1993, is exempt from any capital gains tax in Israel while the real gain is added to ordinary income, which is taxed at ordinary rates of 30% to 50% for individuals and 36% for corporations. Sales of securities of Israeli companies by both residents and non-residents of Israel (other than certain Israeli companies) that qualify as "Industrial Companies" or "Industrial Holding Companies" on recognized stock exchanges outside of Israel are presently exempt from the capital gains tax.

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with respect to Taxes on Income, as amended, the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.- Israel Tax Treaty and who is entitled to claim the benefits afforded to

such person by the U.S.-Israel Tax Treaty generally will not be subject to the Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to particular conditions. A sale, exchange or disposition of ordinary shares by a Treaty U.S. Resident who holds, directly or indirectly, shares representing 10% or more of our voting power at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

Taxation of Non-Residents

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax at the rate of 25% (12.5% for dividends not generated by an approved enterprise if the non-resident is a U.S. corporation and holds 10% of our voting power, and 15% for dividends generated by an approved enterprise) is withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident will be 25%. However, under the Investment Law, dividends generated by an approved enterprise are taxed at the rate of 15%.

Under an amendment to the Inflationary Adjustments Law, non-Israeli entities might be subject to Israeli taxes on the sale of traded securities in an Israeli company, subject to the provisions of any applicable double taxation treaty.

Tax Benefits and Government Support for Research and Development

Israeli tax law allows, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, relating to scientific research and development projects, if the expenditures are approved by the relevant Israeli Government ministry, determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking such deduction. Expenditures not so approved are deductible over a three-year period. However, expenditures from proceeds made available to us through government grants are not deductible according to Israeli law.

Proposed Tax Reform

On May 4, 2000, a committee chaired by the Director General of the Israeli Ministry of Finance, Avi Ben-Bassat, issued a report recommending a significant reform in the Israeli system of taxation. The proposed reform would significantly alter the taxation of individuals, and would also affect corporate taxation. In particular, the proposed reform would reduce, but not eliminate, the tax benefits available to approved enterprises such as ours. The Israeli cabinet has

approved the recommendation in principle, but implementation of the reform requires legislation by Israel's Knesset. We cannot be certain whether the proposed reform will be adopted, when it will be adopted or what form any reform will ultimately take.

Item 8. SELECTED FINANCIAL DATA

The following selected consolidated financial data for and as of the five years ended December 31, 1999, are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data as of December 31, 1997, 1996 and 1995 and for the years ended December 31, 1996 and 1995 have been derived from audited consolidated financial statements not included in this Annual Report and have also been prepared in accordance with U.S. GAAP. The selected Consolidated Financial Statements set forth below should be read in conjunction with and are qualified by reference to AManagement=s Discussion and Analysis of Financial Condition and Results of Operations≅ and our Consolidated Financial Statements included elsewhere in this Annual Report.

Income Statement Data:

	Year ended December 31,				
	1999	**1998**	**1997**	**1996**	**1995**
Revenues	$ 20,507	$ 14,900	$ 11,819	$ 10,508	$ 12,743
Cost of revenues	7,322	5,332	3,587	3,943	4,360
Gross profit	13,185	9,568	8,232	6,565	8,383
Research and development costs, net (1)	2,476	2,272	2,059	2,272	1,963
Selling and marketing expenses	8,544	7,012	5,202	4,828	4,485
General and administrative expenses	2,533	1,960	1,346	1,328	1,902
Operating income (loss)	(368)	(1,676)	(375)	(1,863)	33
Financial income (expenses), net	160	252	557	147	(20)
Loss before income taxes	(208)	(1,424)	182	(1,716)	13
Income taxes	188	--	--	--	--
Net income (loss)	$ (396)	$ (1,424)	$ 182	$ (1,716)	$ 13
Basic earnings (loss) per share	(0.05)	$ (0.17)	$ 0.02	$ (0.25)	$ 0.03
Number of shares used to compute basic earnings (loss) per share	8,365	8,157	8,088	6,880	5,530
Diluted earnings (loss) per share	$ (0.05)	$ (0.17)	$ 0.02	$ (0.25)	$ 0.03
Number of shares used to compute diluted earnings (loss) per share	8,365	8,157	8,555	6,880	6,330

Balance Sheet Data:

	December 31,				
	1999	**1998**	**1997**	**1996**	**1995**
Working capital	$ 7,636	$ 6,582	$ 11,202	$ 10,446	$ 88
Total assets	27,209	26,971	24,904	23,736	13,254
Short-term debt, including current maturities of long-term debt	140	607	653	740	1,402
Long-term debt, less current maturities	93	96	92	319	345
Shareholders' equity	19,516	17,735	19,186	16,991	5,541

(1) Total research and development costs are offset in part by royalty-bearing grants and the capitalization of certain computer software development costs.

Item 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Financial Statements and notes thereto included elsewhere in this Report.

We maintain our books and records in Israeli currency (in compliance with statutory requirements) and in United States dollars ("dollars"). Approximately 79% (41% in dollars) of our revenues in 1999, and approximately 78.0% (42.3% in dollars) of our revenues in 1998, were derived outside of Israel and received in currencies other than the New Israeli Shekel ("NIS"). In addition, a substantial portion of our costs is incurred in dollars. In view of the foregoing, our management considers the dollar to be the currency of the primary economic environment in which we operate and, therefore, transactions denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in Statement No. 52 of the Financial Accounting Standards Board.

The functional currency of each of our non-U.S. foreign subsidiaries and our Israeli subsidiaries has been determined to be their respective local currency, and therefore, other than with respect to our subsidiaries in the United States, our assets and liabilities are translated at year-end exchange rates and income statement items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of shareholders' equity.

Historical Background

We were incorporated in Israel in 1988 under the name I.S.G. Software Industries Ltd., commenced operations in 1989 when we acquired the marketing and certain ownership rights to APTools and APTuser from Milan, a corporation wholly owned by Mr. Gonen.

On March 18, 1994, we acquired Cortex in a pooling-of-interests merger transaction in accordance with the Accounting Principles Board Opinion No. 16. We exchanged 218,478 of our Ordinary Shares and a de minimis amount of cash for all of the issued and outstanding shares of the Common Stock of Cortex. All of the outstanding options and warrants of Cortex were exchanged for options and warrants for our Ordinary Shares at the identical exchange ratio used to consummate the merger.

Subsequent to the Cortex merger, we issued 230,000 of our Ordinary Shares in exchange for approximately $3.2 million of notes (including accrued interest) issued by Cortex during the period 1989 through 1993 for funds used for working capital purposes. We agreed that, if the average stock price of the Ordinary Shares issued for the Cortex notes failed to reach or exceed $3.2 million ($13.85 per share) during any one period of fifteen consecutive trading days in the two-year period ending March 17, 1996, we would issue to the noteholders cash or such additional shares (or a combination of cash and shares) which shares or cash (or combination thereof), together with the 230,000 initially issued shares, would at the price determined by this mechanism equal $3.2 million. In March 1996, we issued an additional 102,882 Ordinary Shares and paid $242,491 to extinguish this liability.

In September 1998, we completed the acquisition of all the outstanding shares of Infocom, S.A. and Infopar S.A.R.L., two privately-held French based software distributors under common control (together AInfocom≅) in consideration for $2.8 million including $77,000 of costs related to the acquisition. Pursuant to the agreement, we paid approximately $752,000 upon the closing of the transaction, and approximately $680,000 was paid on August 31, 1999. In addition, we issued convertible promissory notes for the remaining purchase price in the amount of approximately $1.4 million payable on December 31, 1999.

In February 2000, we acquired Bridges for Islands Ltd., an Israeli corporation which is developing a B2B integration solution, in consideration of $18 million, of which $4 million was paid in cash and the remaining balance by the issuance of 875,000 Ordinary Shares of our company. We have entered into a share price protection guarantee with the shareholders of Bridges for Islands, based on an issuance price of $16 per share, for a one year period.

In July 2000, we acquired Medatech Information Technology Ltd., a provider of software system integration services, for ordinary shares valued at $1.3 million and acquired 19.9% of the outstanding shares of Insol Ltd., a development stage provider of B2B system integration services (by the acquisition of 19.9% of the outstanding shares of VisOpt B.V., whose only asset is Insol), for ordinary shares valued at $6.5 million. In connection with our acquisition of the Insol shares we were provided with anti-dilution protection which will permit us to retain a 19.9% interest in Insol until the earlier of such time as Insol shall effect an initial public offering, or the ownership interest of the current principal shareholders of Insol is diluted below 30%. We issued 250,000 ordinary shares for the Insol shares and 50,000 ordinary shares for the Medatech shares. We have agreed to provide a share price protection guarantee to Medatech and Insol shareholders based on an assumed issuance price of $26 per share for a one-year period.

Accounting Policies

We generate revenues from licensing the rights to use our software products directly to end-users and indirectly through sub-license fees from distributors. We also generate revenues from sales of professional services, including consulting, implementation, project and training and maintenance.

Revenues from software license agreements are recognized upon delivery of the software when collection is probable; all license payments are due within one year; the license fee is otherwise fixed or determinable; no significant obligations with regard to implementation remain; and persuasive evidence of an arrangement exists.

Revenue from maintenance arrangements is deferred and recognized on a straight-line basis over the life of the related agreement, which is typically one year. Consulting and training revenue is deferred and recognized when provided to the customer. Customer advances and billed amounts due from customers in excess of revenue recognized are recorded as deferred revenue.

We recognize revenues from fixed price contracts relating to the modifications of the Mancal 2000 product according to specified milestones mentioned in the contracts. These milestones generally relate to the completion of the modifications of a module according to the

contract. We provide for any anticipated losses in the process of the adaptation during the period when such losses are incurred.

We adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2"), and Statement of Position 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2, "Software Revenue Recognition" ("SOP 98-4"), as of January 1, 1998. SOP 97-2 and SOP 98-4 provide guidance for recognizing revenue on software transactions and supersede Statement of Position 91-1. The adoption of SOP 97-2 and SOP 98-4 did not have a material impact on our financial results.

In December 1998, the AICPA issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"). SOP 98-9 amends SOP 98-4 to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 13, 1999. We have not yet determined the effect of the final adoption of SOP 98-9 on our financial condition or results of operations.

Results of Operations

The following table sets forth, for the periods indicated, selected financial information for the Company as a percentage of revenues:

	Year Ended December 31,		
	1999	1998	1997
Revenues:			
Products and maintenance	60 %	61 %	74 %
Services	40	39	26
	100	100	100
Cost of revenues:			
Products and maintenance	11	17	16
Services	24	19	14
Gross profit	65	64	70
Total research and development	22	33	36
Research and development, net	12	15	18
Selling and marketing	42	47	44
General and administrative	13	13	11
Operating loss	(2)	(11)	(3)
Financial income, net	1	2	5
Income taxes	(1)	--	--
Net income (loss)	(2) %	(9)%	2%

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Revenues

Revenues consist primarily of product sales and revenues from services (including service center income, project development, maintenance and support). Total revenues increased 38.0% to $20.5 million in 1999 from $14.9 million in 1998. This increase is mainly attributable to a 35% increase in product sales and maintenance, which rose to $12.3 million in 1999 from $9.1 million in 1998 and a 40.8% increase in revenues from software services, which rose to $8.2 million in 1999 from $5.8 million in 1998. The increase reflects our success in shifting our focus to consulting services for applications relating to ISG Navigator.

Gross Profit

Our gross profit increased 37.5% to $13.2 million in 1999 from $9.6 million in 1998, as a direct result of increased revenues in 1999.

Costs and Expenses

Cost of Revenues. Cost of revenues consists primarily of:

- production costs including media, packaging, freight and documentation;
- amortization of capitalized software;
- certain royalties and licenses payable to third parties, including the Chief Scientist and the Israel-U.S. Bi-National Industrial Research and Development Foundation; and
- support costs.

Our cost of revenues increased 37.7% to $7.3 million in 1999 from $5.3 million in 1998 as a direct result of the increase in revenues in 1999.

Research and Development, Net. Research and development expenses consist primarily of salaries of employees engaged in on-going research and development activities and other related costs. Grants from the Office of Chief Scientist are applied as a reduction to total research and development costs to calculate net research and development expenses. Total research and development costs decreased by 8.8% to $4.5 million in 1999 from $4.9 million in 1998. The decrease is principally attributable to a decrease in research and development activities for ISG Navigator. We capitalized $2.0 million of software developments costs in 1999 and $2.1 million in 1998. Royalty-bearing grants from the Chief Scientist decreased to $26,000 in 1999 from $557,000 in 1998. As a result of the foregoing, net research and development costs increased by 9% to $2.5 million in 1999 from $2.3 million in 1998. We expect that our research and development expenses will increase in 2000 as we add technical personnel and expand our product offerings.

Selling and Marketing, Net. Selling and marketing expenses consist primarily of costs relating to promotion, advertising, trade shows and exhibitions, compensation, sales support, travel and related expenses and royalties payable to the Israeli Government's Marketing Fund. Selling and marketing expenses increased by 21.4% to $8.5 million in 1999 from $7.0 million in 1998 due to the increase in investments made by us in marketing and the establishment of a sales force for ISG Navigator.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel and office maintenance and administrative costs. General and administrative expenses increased by 25% to $2.5 million in 1999 from $2.0 million in 1998. The increase is principally attributable to the acquisition of Infocom.

Operating Loss

Based on the foregoing, we suffered an operating loss of $368,000 in 1999 compared to an operating loss of $1.7 million in 1998.

Financial Income

Our financial income was offset in part by (i) interest expense and (ii) currency transaction adjustments between the dollar exchange rate and (a) the NIS and (b) the NIS adjusted for inflation imposed on our assets and liabilities in Israel.

In 1999, we had net financial income of $160,000 as compared to financial income of $252,000 in 1998. This decrease in financial income is attributable to the reduced amount of funds earning interest as our cash and cash equivalents declined to $4.3 million at December 31, 1999 compared to $4.9 million at December 31, 1998.

Net (Loss)

As a result of the foregoing, we had a net loss of $396,000 in 1999 compared to a net loss of $1.4 million in 1998.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Revenues

Total revenues increased by 26.1% to $14.9 million in 1998 compared to $11.8 million in 1997. This increase was mainly attributable to a 4.3% increase in product sales and maintenance, which rose to $9.1 million in 1998 from $8.7 million in 1997 and a 87.3% increase in revenues from software services, which rose to $5.8 million in 1998 from $3.1 million in 1997. The increase reflected our success in shifting our focus to consulting services to applications relating to ISG Navigator.

Gross Profit

Gross profit in 1998 increased to $9.6 million representing 64.2% of revenues, compared to gross profit of $8.2 million or 69.7% of revenues in 1997, as a result of the increase in revenues attributable to our consulting business.

Costs and Expenses

Cost of Revenues Cost of revenues consists primarily of consulting services costs and amortization of capitalized software. Our cost of revenues increased to $5.3 million in 1998 from $3.6 million in 1997 as a direct result of the increase in revenues.

Research and Development, Net. Total research and development costs increased by 16.5% to $4.9 million in 1998 from $4.2 million in 1997. The increase was principally attributable to an increase in research and development activities for ISG Navigator. We capitalized $2.1 million of software developments costs in 1998 as compared to $1.9 million in 1997. Royalty-bearing grants from the Chief Scientist increased to $557,000 in 1998 from $260,000 in 1997. As a result of the foregoing, net research and development costs increased by 10.3% to $2.3 million in 1998 from $2.1 million in 1997.

Selling and Marketing, Net Selling and marketing expenses increased by 34.8% to $7.0 million in 1998 from $5.2 million in 1997 due to the increase in our marketing investments and the establishment of a sales force for ISG Navigator.

General and Administrative. General and administrative expenses increased by 45.6% to $2.0 million in 1998 from $1.3 million in 1997. The increase was principally attributable to the acquisition of Infocom and increased compensation to our executive officers.

Operating Loss

Based on the foregoing, we suffered an operating loss of $1.7 million in 1998 compared to an operating loss of $375,000 in 1997.

Financial Income

Our financial income was offset in part by (i) interest expense and (ii) currency transaction adjustments between the dollar exchange rate and (a) the NIS and (b) the NIS adjusted for inflation imposed on our assets and liabilities in Israel.

In 1998, we had net financial income of $252,000 as compared to financial income of $557,000 in 1997. This decrease was attributable to higher borrowings and to decreased financial income from interest income.

Net Income (Loss)

As a result of the foregoing, we had a net loss of $1.4 million in 1998 compared to net income of $182,000 in 1997.

Liquidity and Capital Resources

Historically, we have financed our operations through cash generated by operations, funds generated by our public offering in 1992 (approximately $12 million), private equity investments (approximately $11.8 million), exercise of stock options and warrants (approximately $8.4 million) as well as from research and development and marketing grants primarily from the Government of Israel. In addition, we have also financed our operations through short-term loans and borrowings under available credit facilities.

Our principal commitments consist of obligations outstanding under operating leases. Capital expenditures were approximately $400,000 in 1999 and $900,000 in 1998. In 1999, the majority of our capital expenditures were principally for computer and electronic equipment and software, office furniture and equipment, and vehicle purchases. We currently do not have significant capital spending or purchase commitments. However, we anticipate an increase in capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel.

Net cash used in operating activities was $225,000 in 1999 and $671,000 was used in operating activities in 1998. The amount used in operating activities in 1998 was primarily attributable to our net loss in that year.

Net cash used in investing activities was $1.0 million in 1999 and $5.7 million in 1998. The decrease in 1999 mainly reflected the release of restricted cash from 1998 to 1999.

Net cash provided by financing activities was $587,000 for 1999, mainly from proceeds from the exercise of stock options by our employees. Net cash provided by financing activities was $78,000 in 1998.

As of December 31, 1999, we had $4.3 million in cash and cash equivalents and working capital of $7.6 million as compared to $4.9 million in cash and cash equivalents and working capital of $6.6 million at December 31, 1998. In March 2000 we raised net proceeds of approximately $13 million in a private placement, of which amount $5.3 million will be transferred to us from an escrow account upon the effectiveness of a prospectus we have filed with the Securities and Exchange Commission in order to register for resale the securities issued in the private placement. We believe that such funds will be sufficient to meet our operating, investing and debt service requirements for at least the next twelve months.

As of December 31, 1999, we had a bank line of credit of approximately $420,000.

Effective Corporate Tax Rate

Israeli companies are generally subject to income tax at the corporate rate of 36% of taxable income. We, together with our subsidiary, Meyad, have been granted the status of an "Approved Enterprise" under the Law for the Encouragement of Capital Investments, 1959 with respect to our production facilities. An enlargement project of ours was granted AApproved Enterprise≅ status in December 1998. In accordance with the provisions of the Investment Law, Meyad and we have elected to enjoy "alternative benefits," wherein a company waives the receipt of grants in return for a tax exemption. Income derived from an "Approved Enterprise" is

tax-exempt for a period of two to four years, commencing with the year it first earns taxable income, and is subject to corporate tax at the rate of 10% to 25% for additional periods of three to eight years based on the percentage of foreign investments in the Company.

Our taxes outside Israel are dependent on our operations in each jurisdiction as well as relevant laws and treaties. Under Israeli tax law, the results of our foreign consolidated subsidiaries, which have generally been unprofitable, cannot be consolidated for tax purposes with the results of operations of the parent company.

Since the majority of our sales are denominated and paid in U.S. dollars, we believe that inflation and fluctuations in the U.S. dollar exchange rate have no material effect on our sales. Inflation and U.S. dollar exchange rate fluctuations, however, have some influence on our expenses and, as a result, on our net income. The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the dollar.

Impact of Currency Fluctuations and of Inflation

The U.S. dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is (or is not) offset, or is offset on a lagging basis, by the devaluation of the NIS in relation to the U.S. dollar. Unless offset by a devaluation of the NIS, inflation in Israel will have a negative effect on our profitability as we incur expenses, principally salaries and related personnel expenses, in NIS. For several years prior to 1997, the rate of inflation in Israel exceeded the rate of devaluation of the NIS against the U.S. dollar and companies experienced increases in the U.S. dollar cost of their operations in Israel. This trend was reversed during 1997 and 1998. In 1999, the rate of inflation again exceeded the rate of devaluation of the NIS against the U.S. dollar. We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of such devaluation lags behind inflation in Israel.

The following table sets forth, for the periods indicated, information with respect to the rate of inflation in Israel, the rate of devaluation of the NIS against the U.S. dollar, and the rate of inflation in Israel adjusted for such devaluation:

Year ended December 31,	**Israeli price index**	Israeli inflation rate %	Israeli devaluation rate %	Israeli inflation adjusted for devaluation %
1995	310.0	8.1	3.9	4.1
1996	346.5	10.6	3.7	6.6
1997	370.7	7.0	8.8	(1.7)
1998	402.6	8.6	17.6	(7.7)
1999	408.0	1.3	—	1.3

A devaluation of the NIS in relation to the U.S. dollar has the effect of reducing the U.S. dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the U.S. dollar). Such a devaluation also has the effect of decreasing the U.S. dollar value of any asset which consists of NIS or receivables payable in NIS (unless such receivables are linked to the U.S. dollar). Conversely, any increase in the value of

the NIS in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked NIS assets and the U.S. dollar amounts of any unlinked NIS liabilities and expenses.

Because exchange rates between the NIS and the U.S. dollar fluctuate continuously (albeit with a historically declining trend in the value of the NIS), exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

Conditions in Israel

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. Accordingly, we are directly affected by political, economic and military conditions in Israel.

Political Conditions

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Israel signed a peace treaty with Egypt in 1979 and a peace treaty with Jordan in 1994. Since 1993, a joint Israeli-Palestinian Declaration of Principles and several other agreements have been signed between Israel and the Palestinians. As of the date of this Annual Report, Israel has not entered into any peace agreement with Syria or Lebanon. We cannot assure you as to whether any peace agreement with Syria or Lebanon will be signed.

Despite the progress towards peace between Israel and its Arab neighbors and the Palestinians, some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Although we are precluded from marketing our products to such countries, we believe that in the past the boycott has not had a material adverse effect on us. However, restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business.

All male adult citizens and permanent residents of Israel under the age of 48 are, unless exempt, obligated to perform up to 30 days of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, we cannot assess the full impact of such requirements on our workforce or business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of such obligations.

Economic Conditions

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and

other reasons, intervened in various sectors of the economy, by utilizing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and foreign currency exchange rates. In 1998, the Israeli currency control regulations were liberalized significantly, as a result of which Israeli residents may deal in foreign currency and non-residents of Israel may purchase and sell Israeli currency and assets. The Israeli government has periodically changed its policies in all these areas. There are currently no Israeli currency control restrictions on remittances of dividends on the ordinary shares or the proceeds from the sale of the shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time. In addition, Israeli residents are required to file reports pertaining to specific types of actions or transactions.

The Israeli government's monetary policy contributed to relative price and exchange rate stability in recent years, despite fluctuating rates of economic growth and a high rate of unemployment. We cannot assure you that the Israeli government will be successful in its attempts to keep prices and exchange rates stable. Price and exchange rate instability may have a material adverse effect on us.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the EEC, known now as the "European Union," concluded a Free Trade Agreement in July 1975 which confers some advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as the "EFTA," established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which includes redefinement of rules of origin and other improvements, such as allowing Israel to become a member of the Research and Technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, India, Turkey and other nations in Eastern Europe and Asia.

Item 9A. QUANTITIVE AND QUALITATIVE DISCLOSURE CONCERNING MARKET RISKS

We are exposed to a variety of risks, including changes in interest rates affecting primarily the interest received on short term deposits, and foreign currency fluctuations. We do not use derivative financial instruments.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short term deposits. Our short term deposits are held in U.S. dollars and bear annual interest of 5.5% to 6.5%, which is based upon the London Inter Bank Offered Rate (LIBOR). We place our short term deposits with major financial center U.S. banks. For purposes of specific risk analysis, we use sensitivity analysis to determine the impact that market risk exposure may have on the financial income derived from our short term deposits. The potential loss to us over one year that would result from a hypothetical change of 10% in the LIBOR rate would be approximately $20,000.

Foreign Currency Exchange Risk

We have operations in several countries in connection with the sale of our products. A substantial portion of our sales and expenditures are denominated in U.S. dollars. We have mitigated, and expect to continue to mitigate a portion of our foreign currency exposure through salaries (which represented at 1999 66.3% out of our total expenses), marketing and support operations in which all costs are local currency based. As a result, our results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates.

Item 10. DIRECTORS AND OFFICERS OF REGISTRANT

The following table lists our executive officers and directors.

Name	Age	Position with the Company
Arie Gonen	52	President, Chief Executive Officer and Chairman of the Board
Shlomo Baumgarten	50	Vice President-Finance, Chief Financial Officer, Secretary and Director
Dr. Dov Biran	48	Chief Technology Officer
Avi Cohen.......................................	38	Vice President – European Operations
Steven M. Fisch	56	President of International Software Group, Inc.
Meir Gabay......................................	35	Managing Director – ISG Israel
Daniel Goldberg	47	Vice President – Research and Development
Motti Vaknin	35	Vice President – Business Development (U.S.)
Roni Ferber......................................	55	Director
Shlomo Inbar	69	Director
Stephen J. Kohn..............................	59	Director

Our Articles of Association provide for a Board of Directors of not fewer than three nor more than eleven members. The Board is currently composed of 5 directors. All directors hold office until the next annual meeting of shareholders and until their successors shall have been elected. Officers serve at the pleasure of the Board of Directors, subject to the terms of any agreement between an officer and the Company.

Arie Gonen has served as our Chief Executive Officer and a director since December 1988. Prior thereto from 1976, he served as President of Milan Software Industries (1976) Ltd., an Israeli software company ("Milan"). Mr. Gonen received a B.Sc. in Electrical Engineering and a M.Sc. in Computer Sciences from the Technion Israel Institute of Technology.

Shlomo Baumgarten was elected Vice President-Finance and a director in October 1992, and previously served as our Comptroller since our incorporation in October 1988. Prior thereto from 1983, he was the Comptroller of Milan. Mr. Baumgarten holds a B.A. degree in Economics and Auditing from Haifa University.

Dr. Dov Biran was appointed as our Chief Technology Officer in March 2000. He was the founder of Bridges for Islands Ltd. in 1998 and served as its President from such date until he joined us. Previously and from 1985, he served as Lecturer at the Recanatti School of Business Administration, Tel Aviv University. He specializes in data communications, client/server and distributed systems. Mr. Biran holds a BA degree in Computer and Statistics, a MBA degree specializing in Information Systems and a Ph.D degree in Computer and Information Systems from the Tel Aviv University.

Avi Cohen was appointed Vice President-European Operations in March 2000. Previously and since January 1998, he served as Managing Director of ISG Israel. Mr. Cohen holds a BA degree in Economics and MBA in Management from Tel Aviv University.

Steven M. Fisch became an executive of International Software Group, Inc. in August 1993 and assumed the title of President in July 1994. Prior to joining us, he was, from January 1993 through August 1993, a Managing Director of the Columbia Group, a management services company. From December 1986 through November 1992, Mr. Fisch served in various executive capacities with ComputerVision Corporation, a computer systems manufacturer, most recently as Vice President and General Manager. Mr. Fisch received a B.S.E.E. in Electronics from Tufts University and an M.B.A. in Marketing and Finance form Temple University.

Meir Gabay was appointed Managing Director of ISG Israel in March 2000. Previously and since 1997, he was the CEO of Medatech Ltd. He previously served as a vice president of Medatech Ltd. for four years. Mr. Gabay holds a M.Sc. in Computer Sciences from the Technion.

Daniel Goldberg was appointed our Vice President – Research and Development in March 2000. Previously and since 1992, he served as Manager of the R&D Center of Decalog, a Sunguard company. Mr. Goldberg holds degrees in Economics and Management from Haifa University and the Techion.

Motti Vaknin was appointed our Vice President – Business Development (U.S.) in March 2000. Previously and since January 1999, he served as CEO of Bridges for Islands Ltd. From 1997 until January 1999 he served as Vice President Marketing of Shiron Satellite Communications, Ltd., a leading Internet satellite provider working in international markets. Previously and since 1994 he was the Head of the Information Center, appointed by the Technion, at the Digital Communications Consortium. Mr. Vaknin, a member of the Israeli bar, holds an LLB. degree and a B.A. degree in Law and Economics from Tel Aviv University.

Roni Ferber was appointed to the Board of Directors in October 1995 to fill a vacancy caused by the resignation of Ronen Yellin. Since December 1992, Mr. Ferber has been self-employed as a business consultant. From 1967 until December 1992, Mr. Ferber was General Manager and President of Nikuv Ltd., a publicly-traded software company located in Israel. Mr. Ferber serves as a director of Omnitech Eichut Ltd., a computer hardware vendor, and Zvi Sarfati Investing and Constructors Ltd., a construction company, both of which companies are publicly-traded on the Tel Aviv Stock Exchange.

Shlomo Inbar was elected a director in October 1992. Mr. Inbar, a retired General in the Israeli armed forces, served until 1981 in various positions within the Israeli Defense Forces and the Israeli Ministry of Defense, mainly in command of technologically-oriented endeavors. He also served as Military Attaché in the Israeli Embassies in the United States and Canada. During the period 1981-1987, Mr. Inbar was involved in business activities related mainly to technology and communications, including service as general manager of a subsidiary of Clal Industries (1983-1987), a diversified Israeli industrial enterprise. During the years 1987-1991, he served as Senior Vice President and member of the Board of Directors of Prepaid Card Services, Inc., an American corporation involved in the fields of electronics and communications. Since August 1992, he has also served as a member of the Board of Directors of Bezeq, the Israel Communications Company Ltd. Mr. Inbar also serves as a director of Haneviim Hotel Construction Co. Ltd., an Israeli publicly-traded hotel company. Mr. Inbar holds an LL.B.

degree in Jurisprudence from Tel-Aviv University and a B.Sc. degree in Electronics Engineering from the Technion.

Stephen J. Kohn was elected a director in October 1992. Since his retirement from Ernst & Young (United States) in June 1991, he has been an international business consultant. Mr. Kohn was employed by Ernst & Young from 1976 to 1991 and was a partner from 1979 until his retirement, except for a period in 1984 and 1985 during which he was a Vice President of Booz, Allen & Hamilton, a management consulting firm. At Ernst & Young, Mr. Kohn served as the National Director of Financial Institutions, Director of Management Consulting to Financial Institutions, and Deputy Chairman of the firm's International Financial Institutions Committee. Mr. Kohn is also a director of EduSoft Ltd., an Israeli educational software publisher and developer. He is a candidate for a Ph.D. in Economics from the City University of New York and holds a B.A. degree in Economics from Queens College of CUNY.

Ike Sagie, who served as an executive officer and director since April 1989, resigned from his position with us as of March 1, 2000.

Alternate Directors

Our Articles of Association provide, as allowed by Israeli law, that any director may, by written notice to us, appoint another person to serve as an alternate director (subject to the approval of a majority of the other directors in a written resolution or at the next meeting of the Board of Directors) and may cancel such appointment. The term of appointment of an alternate director may be for one meeting of the Board of Directors, or for a specified period, or until notice is given of the termination of the specified period, or of the appointment. Any person, whether or not already a director, may act as an alternate, and the same person may act as the alternate for several directors and have the number of votes equivalent to the number of directors who appointed him. No director currently intends to appoint any other person as an alternate director.

Independent and Outside Directors

The Israeli Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two outside directors. No person may be appointed as an outside director if the person or the person’s relative, partner, employer or any entity under the person’s control has or had, on or within the two years preceding the date of the person’s appointment to serve as outside director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an officer holder.

No person may serve as an outside director if the person's position or other activities create, or may create, a conflict of interest with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. If, at the time outside directors are to be appointed, all current members of the Board of Directors are of the same gender, then at least one outside director must be of the other gender.

In addition, the Nasdaq National Market requires us to have at least three independent directors on our Board of Directors and to establish an audit committee, at least a majority of whose members are independent of management. We intend to appoint new directors who will qualify both as independent directors under the Nasdaq National Market requirements and as outside directors under the Israeli Companies Law.

Audit Committee

The Companies Law provides that public companies must appoint an audit committee. Our audit committee is currently composed of Messrs. Ferber, Inbar and Kohn. The responsibilities of the audit committee include identifying irregularities in the management of the company's business and approving related-party transactions as required by law. An audit committee must consist of at least three members, and include all of the company's outside directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two outside directors are serving as members of the audit committee and at least one of the outside directors was present at the meeting in which an approval was granted.

Internal Audit

The Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. A person who does not satisfy the Companies Law's independence requirements may not be appointed as an internal auditor. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Our internal auditor complies with the requirements of the Companies Law.

Approval of Related Party Transactions Under Israeli Law

The Companies Law codifies the fiduciary duties that "office holders", including directors and executive officers, owe to a company. An "office holder" as defined in the Companies Law is a director, general manager, chief business manager, deputy general manager, vice general manager, chief business manager, executive vice president, vice president, other manager directly subordinate to the managing director or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care which a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means

to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and disclosing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder. Each person listed as a director or executive officer in the table under "— Directors and Officers" above is an office holder. Under the Companies Law, all arrangements as to compensation of office holders who are not directors require approval of our Board of Directors, and the compensation of office holders who are directors must be approved by our Audit Committee, Board of Directors and shareholders.

The Companies Law requires that an office holder promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, as not being adverse to the company's interest. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself (with further shareholder approval required in the case of extraordinary transactions). An office holder who has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present during the board of directors or audit committee discussions and may not vote on this matter.

The Companies Law also provides that some transactions between a public company and a controlling shareholder, or transactions in which a controlling shareholder of the company has a personal interest but which are between a public company and another entity, require the approval of the board of directors and of the shareholders. Moreover, an extraordinary transaction with a controlling shareholder or the terms of compensation of a controlling shareholder must be approved by the audit committee, the board of directors and shareholders. The shareholder approval for an extraordinary transaction must include at least one-third of the shareholders who have no personal interest in the transaction and are present at the meeting. The transaction can be approved by shareholders without this one-third approval, if the total shareholdings of those shareholders who have no personal interest and voted against the transaction do not represent more than one percent of the voting rights in the company. In addition, a private placement of securities that will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company's outstanding share capital, requires approval by the board of directors and the shareholders of the

company. The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company, unless there is a 50% shareholder of the company. Regulations under the Companies Law provide that the Companies Law's tender offer rules do not apply to a company whose shares are publicly traded outside of Israel, if pursuant to the applicable foreign securities laws and stock exchange rules there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders.

Indemnification of Directors and Officers

The Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his duty of loyalty, but may exculpate in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care. Our Articles of Association provide that, subject to any restrictions imposed by corporate law, we may enter into a contract for the insurance of the liability of any of our office holders with respect to:

- a breach of his duty of care to us or to another person;
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice our interests; or
- a financial liability imposed upon him in favor of another person in respect of an act performed by him in his capacity as an office holder.

In addition, we may indemnify an office holder against:

- a financial liability imposed on him in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court in respect of an act performed in his capacity as an office holder; and
- reasonable litigation expenses, including attorneys' fees, expended by such office holder or charged to him by a court, in proceedings we institute against him or instituted on our behalf or by another person, or in a criminal charge from which he was acquitted, all in respect of an act performed in his capacity as an office holder.

These provisions are specifically limited in their scope by the Companies Law, which provides that a company may not indemnify an office holder, nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty unless the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

- a breach by the office holder of his duty of care if such breach was done intentionally or in disregard of the circumstances of the breach or its consequences;

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

- any fine levied against the office holder as a result of a criminal offense.

Under the Companies Law, our shareholders may amend our Articles of Association to include either of the following provisions:

- A provision authorizing us to grant in advance an undertaking to indemnify an office holder, provided that the undertaking is limited to types of events which the board of directors deems to be anticipated and limited to an amount determined by the board of directors to be reasonable under the circumstances; or

- A provision authorizing us to retroactively indemnify an office holder.

In addition, pursuant to the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our Audit Committee and our Board of Directors and, in specified circumstances, by our shareholders.

We have indemnified our office holders to the fullest extent permitted by law, except that our shareholders have not yet approved an undertaking to indemnify officers in advance or a required amendment to our Articles of Association. We currently maintain directors and officers liability insurance with a per claim and aggregate coverage limit of $10 million including legal costs incurred in Israel.

Item 11. COMPENSATION OF DIRECTORS AND OFFICERS

During the fiscal year ended December 31, 1999, the aggregate remuneration paid to all our executive officers and directors as a group (7 persons) was approximately $611,000. We provide automobiles to our executive officers. Non-employee directors received an annual fee of $9,000 and an attendance fee of $3,000 per board meeting attended.

In 1995, our Audit Committee and Board approved and our shareholders ratified three-year employment contracts for each of Messrs. Gonen, Sagie and Baumgarten. Under the terms of such agreements, Messrs. Gonen, Sagie and Baumgarten received salaries of $8,000, $6,000 and $5,000 per month in 1999, respectively, payable in NIS and linked to the CPI. We agreed that the compensation of each of these individuals would be reviewed once a year at which time their monthly gross salary may be increased, but in no event may the adjusted gross salary of any of these individuals exceed 150% of their base salary. In addition, each of the agreements provide for the payment of bonuses as determined by the Board of Directors. The bonuses for Messrs. Gonen and Baumgarten may not exceed $48,000 and $30,000, respectively, in any year. The agreements further provided for the payment of bonuses of $36,000 and $24,000 to Messrs.

Gonen and Sagie at such time as license sales of our ISG Navigator product reached $1,000,000, which milestone was reached in 1997. Mr. Sagie=s bonus was paid on February 28, 1998. Mr. Gonen=s bonus was paid in September and October, 1998.

The agreement of Mr. Gonen also provides for the continued payment of his salary and certain prerequisites if we undergo a "change of control". In addition, the employment agreements of Messrs. Gonen and Baumgarten provide that we, subject to Board approval, may make loans to each of these officers which shall not exceed $25,000 to any one of them and upon such terms as determined by the Board of Directors.

Item 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

Under our 1992, 1994 and 1998 Stock Option Plans, incentive stock options or ISOs, as defined in Section 422 of the United States Internal Revenue Code of 1986, as amended, may be granted to our officers and employees or to any of our subsidiary, and options which do not qualify as ISOs or non-qualified options, may be granted to our employees, officers and directors or to any of our subsidiary. An aggregate of 1,500,000 Ordinary Shares are reserved for issuance under the plans. Ordinary Shares underlying any options which are canceled or not exercised become available for future grants. The plans will terminate in 2002, 2004 and 2008, unless previously terminated by the Board of Directors.

The plans are currently administered by our Board of Directors, which in the future may delegate such administration to a committee of directors. The Board or such committee has the authority to determine the persons to whom options will be granted, the number of Ordinary Shares to be covered by each option, the time or times at which options will be granted or exercised, and the other terms and provisions of the options. The exercise price of an ISO granted under the plans may not be less than 100% (110% in the case of a 10% shareholder) and the exercise price of a non-qualified option may not be less than 75% of the fair market value (as defined in the plan) of our Ordinary Shares on the date of the grant.

It is intended that each option granted under the plans will be exercisable in installments during the option term and shall not be transferable by the optionee other than by will or by the laws of descent and distribution. Options granted under the plans will terminate at such time (not to exceed ten years from the date of grant) and under such circumstances as the Board or Option Committee determines, generally not later than three months after a termination of employment, or one year in the event of termination by reason of the optionee's death or disability.

Options for 12,000 Ordinary Shares having an exercise price of $7.75 per share were granted under the 1994 Plan in 1999, and at December 31, 1999, 933 Ordinary Shares remained available for future grant under the 1994 Plan. Of the outstanding options, 14,999 options will expire in 2000, 37,300 options will expire in 2001, 284,283 options will expire in 2002, 355,566 options will expire in 2003 and the remaining 381,139 options will expire thereafter.

Options for 365,000 Ordinary Shares having exercise prices ranging from $6.875 to $13.25 per share were granted under the 1998 Plan in 1999 and at December 31, 1999 options

for 3,657 Ordinary Shares were available for future grant under such plan. Of the outstanding options 175,333 options having exercise prices of $2.25 to $10.62 per share were granted to our officers and directors (of which 90,000 options were granted in 1999, including 45,000 options subject to shareholder approval at our next general meeting of shareholders).

A total of 153,916 Ordinary Shares were issued in 1999 upon exercise of options previously granted under the plans, and 7,133 options having exercise prices ranging from $2.875 to $10.15 were exercised by our officers and directors in 1999.

In connection with a recent private placement of securities, we also issued warrants to the investors to purchase a total of 340,000 Ordinary Shares. Of such warrants, 170,000 warrants are exercisable at $25.00 per share and 170,000 warrants are exercisable at $21.25 per share. All of the warrants are subject to registration rights and expire in April 2005. Additionally, we issued warrants to purchase 85,000 Ordinary Shares at an exercise price of $20.00 per share to the placement agents. Additionally, in 1999 and in the first quarter of 2000 we issued warrants to purchase 20,000 Ordinary Shares to a financial advisor in Israel at an exercise price of $12.00 per share. Additionally, in 1999 the Company issued 25,000 shares to placement agents. In 1996 we issued warrants to our then financial relations firm, of such warrants, 25,000 warrants, exercisable at $8.00 per share and 35,000 warrants exercisable at $19.20 per share remain outstanding.

Item 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

None.

PART II

Item 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

Item 15. DEFAULTS UPON SENIOR SECURITIES

None.

Item 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

None.

PART IV

Item 17. FINANCIAL STATEMENTS

The Company has elected to furnish financial statements and related information specified in Item 18.

Item 18. FINANCIAL STATEMENTS

Attached. See Item 19(a).

Item 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

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S I G N A T U R E S

PURSUANT TO THE REQUIREMENTS OF SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT CERTIFIES THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM 20-F AND HAS DULY CAUSED THIS AMENDMENT TO THE ANNUAL REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

ISG INTERNATIONAL SOFTWARE GROUP LTD.
(REGISTRANT)

BY: _/s/Arie Gonen__________
Arie Gonen, President and
Chief Executive Officer

BY: _/s/Shlomo Baumgarten ___
Shlomo Baumgarten, Secretary and Chief
Financial and Accounting Officer

Dated: August 22, 2000

ISG INTERNATIONAL SOFTWARE GROUP LTD. AND SUBSIDIARIES

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Exhibit 1

EXHIBIT 99

ADDITIONAL INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Our Annual Report on Form 20-F for the year ended December 31, 1999 contains various forward-looking statements which reflect our current views with respect to future events and financial results. Forward-looking statements usually include the verbs "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "understands" and other verbs suggesting uncertainty. We remind shareholders that forward-looking statements are merely predictions which are inherently subject to uncertainties and other factors which could cause our actual results to differ materially from the forward-looking statement. Some of these uncertainties and other factors are discussed in the Annual Report. See Item 9 "Management's Discussion and Analysis of Financial Condition and Results of Operations." In this Exhibit 99, we have attempted to identify additional uncertainties and other factors which may affect its forward-looking statements.

Shareholders should understand that the uncertainties and other factors identified in the Annual Report and this Exhibit 99 do not constitute a comprehensive list of all the uncertainties and other factors, which may affect forward-looking statements. We have merely attempted to identify those uncertainties and other factors which, in its view at the present time, have the highest likelihood of significantly affecting its forward-looking statements. In addition, we do not undertake any obligation to update or revise any forward-looking statements or the list of uncertainties and other factors which could affect such statements.

Capitalized terms not otherwise defined below have been defined in the Annual Report.

We have a recent history of operating losses. We have incurred operating losses in five of the last six years. No assurance can be given that we will be able to operate profitably in the future.

Our operating results fluctuate significantly. Our quarterly results have fluctuated significantly in the past and are likely to fluctuate significantly in the future. Our future operating results will depend on many factors, including (but not limited to) the following:

- The size and timing of significant orders and their fulfillment;
- demand for our products;
- changes in our pricing policies or those of our competitors;
- the number, timing and significance of product enhancements;
- new product announcements by us and our competitors;
- our ability to successfully market newly acquired products and technologies;

- our ability to develop, introduce and market new and enhanced products on a timely basis;
- changes in the level of our operating expenses;
- budgeting cycles of our customers;
- customer order deferrals in anticipation of enhancements or new products that we or our competitors offer;
- product life cycles;
- software bugs and other product quality problems;
- personnel changes;
- changes in our strategy;
- seasonal trends and general domestic and international economic and political conditions, among others:
- currency exchange rate fluctuations and economic conditions in the geographic areas where we operate; and,
- the assurance of success in marketing new products or technologies.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast, and it is likely that our future operating results will be adversely affected by these or other factors.

Revenues are also difficult to forecast because the market for our products is rapidly evolving and our sales cycle, from initial evaluation to purchase, is lengthy and varies substantially from customer to customer. We typically ship product orders shortly after receipt and, consequently, order backlog at the beginning of any quarter has in the past represented only a small portion of that quarter's revenues. As a result, license revenues in any quarter depend substantially on orders booked and shipped in that quarter.

Due to all of the foregoing, we cannot predict revenues for any future quarter with any significant degree of accuracy. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely upon them as indications of future performance. Although we have experienced revenue growth in the past, we may not be able to sustain this growth rate, and you should not consider such past growth indicative of future revenue growth, or of future operating results.

Our operating results vary quarterly and seasonally. We have often recognized a substantial portion of our revenues in the last quarter of the year and in the last month, or even weeks or days, of a quarter. Our expense levels are substantially based on our expectations for future revenues and are therefore relatively fixed in the short-term. If revenue levels fall below

expectations, our quarterly results are likely to be disproportionately adversely affected because a proportionately smaller amount of our expenses varies with its revenues.

Our operating results reflect seasonal trends and we expect to continue to be affected by such trends in the future. We expect to continue to experience relatively higher sales in the fourth quarter ending December 31, and relatively lower sales in its third quarter ending September 30, as a result of reduced sales activity in Europe during the summer months. Due to the foregoing factors, in some future quarter our operating results may be below the expectations of public market analysts and investors. In such event, it is likely that the price of our Ordinary Shares would be materially adversely affected.

We may not succeed in penetrating the e-Business market. We may not have the resources, skills and product offerings that will be required to successfully penetrate the market for e-Business software. To succeed in these markets, we will need to:

- develop expertise in marketing and selling Internet-based applications;
- develop and cultivate new sales channels to market our applications to prospective customers;
- hire, train and integrate additional technical and sales personnel; and
- effectively establish and support relationships with end-users, with whom we have had limited interaction to date.

Our success in selling Internet-based software is dependent on the growth of the Internet as a commercial marketplace. Our success in selling Internet-based software is dependent in large part upon the continued acceptance and growth of the Internet as a commercial marketplace. Because the use of the Internet for e-Business and other applications is new and evolving, we cannot predict with any certainty that the Internet will continue to grow as a commercial marketplace in the long term. If the Internet does not continue to grow as a commercial marketplace, the marketing of our Internet-based software will not succeed.

We may meet difficulty in realizing the potential financial or strategic benefits of our recent and future business acquisitions and investments. We believe that the acquisition of Bridges for Islands Ltd. and the acquisitions of Medatech Information Technologies Ltd. and Insol Ltd. will assist us in reaching our goal of becoming a leading provider of e-Business software and services. Our recent acquisitions and pending acquisitions and future investments present risks commonly encountered in the acquisition of or investment in other businesses. The following are examples of such risks, one or more of which may apply to any such acquisition or investment:

- difficulty in combining the technology, operations or work force of the acquired business;
- adverse effects on our reported operating results due to the amortization of goodwill associated with acquisitions;

- diversion of management attention from running our existing business;
- increased expenses, including compensation expenses resulting from newly-hired employees; and
- the assurance of success in marketing new products or technologies.

We are subject to risks associated with international operations. We are based in Israel and generate a large percentage of our sales outside the United States. Our sales in the United States accounted for 42.0%, 41.1%, and 41.1% of our total revenues for the years ended December 31, 1997, 1998 and 1999, respectively. Although we continue to expand our international operations and commit significant management time and financial resources to developing direct and indirect international sales and support channels, we cannot be certain that we will be able to maintain or increase international market demand for our products. To the extent that we cannot do so in a timely manner, our business, operating results and financial condition will be adversely affected.

International operations are subject to inherent risks, including the following:

- the impact of possible recessionary environments in multiple foreign markets;
- longer receivables collection periods and greater difficulty in accounts receivable collection;
- unexpected changes in regulatory requirements;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences; and
- political and economic instability.

We cannot be certain that we, our distributors or resellers will be able to sustain or increase revenues from international operations or that the foregoing factors will not have a material adverse effect on our future revenues and, as a result, our business, operating results and financial condition.

We may be adversely affected by fluctuations in currency exchange rates. While our revenues are generally denominated in United States dollars and the French Franc, a significant portion of our expenses are incurred in NIS. If we were to determine that it was in our best interests to enter into any hedging transactions in the future, there can be no assurance that we will be able to so do or that such transactions, if entered into, will materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies into NIS were imposed, our business could be adversely affected. Although exposure to currency fluctuations to date has not had a material adverse effect on our business, there can

be no assurance such fluctuations in the future will not have a material adverse effect on revenues from international sales and, consequently the our business, operating results and financial condition.

We are subject to risks relating to proprietary rights and risks of infringement. We are dependent upon our proprietary software technology and we rely primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. We try to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. It is possible that others will develop technologies that are similar or superior to our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. It is difficult to police the unauthorized use of our products, and we expect software piracy to be a persistent problem, although we are unable to determine the extent to which piracy of our software products exists. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. We cannot be certain that our means of protecting our proprietary rights in the United States or abroad will be adequate or that our competition will not independently develop similar technology.

We are not aware that we are infringing upon any proprietary rights of third parties. It is possible, however, that third parties will claim infringement by us of their intellectual property rights. We believe that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. It would be time consuming for us to defend any such claims, with or without merit, and any such claims could:

- result in costly litigation;
- divert management’s attention and resources;
- cause product shipment delays; or
- require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all.

If there is a successful claim of product infringement against us and we are not able to license the infringed or similar technology, our business, operating results and financial condition would be materially adversely affected.

Shareholders may suffer additional dilution arising from the Bridges for Islands, Medatech and Insol Acquisitions. In connection with our acquisition of Bridges for Islands we issued 875,000 of our ordinary shares. We agreed that in the event that during a one year period, the average price for our ordinary shares is lower than $16 per share we will issue to the shareholders of Bridges for Islands additional shares in such number so that they will have received $14 million of our ordinary shares based on the one year average price of our ordinary shares. The right to receive the additional shares will terminate if the closing price of our ordinary shares on the Nasdaq Market is higher than $16 per share during a period of 45

consecutive trading days within the one year period. We will provide similar price protection in connection with our acquisitions of Medatech and Insol for a total consideration of 300,000 ordinary shares, having an agreed upon value of $7.8 million or $26 per share.

We depend on maintenance revenues from customers using CorVision and Mancal 2000 Software. A significant portion of our revenues derives from annual maintenance payments made by customers who use CorVision and Mancal 2000. In 1997, 1998 and 1999, these revenues, on a consolidated basis, totaled $4.4 million, $4.8 million and $3.9 million respectively. Annual maintenance for ISG Navigator has not been material to date. Some of these customers may replace these products with products from other vendors and, as a result, discontinue use of these products. This would result in a reduction in our maintenance revenues and adversely affect our operating results.

Our results may be adversely affected by competition. The market for software products is fragmented and is intensely competitive. Competition in the industry is generally based on product performance, depth of product line, technical support and price. We compete both with international and local software providers, many of whom have significantly greater financial, technical and marketing resources than us. We anticipate continued growth and competition in the software products market and, consequently, the entrance of new competitors into the market. Our existing and potential competitors may be able to develop software products and services that are as effective as, or more effective or easier to use than those offered by us. Such existing and potential competitors may also enjoy substantial advantages over us in terms of research and development expertise, manufacturing efficiency, name recognition, sales and marketing expertise and distribution channels. There can be no assurance that we will be able to compete successfully against current or future competitors or that competition will not have material adverse effect on our future revenues and, consequently, on our business, operating results and financial condition.

We may require additional capital in the future. Our working capital requirements and the cash flow provided by our operating activities are likely to vary greatly from quarter to quarter, depending on the timing of orders and deliveries, the build-up of inventories, and the payment terms offered to customers. We anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements for at least 12 months. No assurance can be given that we will not consume an unexpected and significant amount of our available resources. Our future capital requirements will depend on many factors, including continued progress in our expansion plans and the success of new product introductions. To the extent that the funds generated from our operations are insufficient to fund our operating and financial requirements, we may be required to raise additional funds through public or private financings or other sources. Any equity or debt financings, if available at all, may cause dilution to our then-existing shareholders. If additional funds are raised through the issuance of equity securities, the net tangible book value per share of our Ordinary Shares may decrease and the percentage ownership of then current shareholders may be diluted. We do not have any committed sources of additional financing, and there can be no assurance that additional financing, if necessary, will be available on commercially reasonable terms, if at all. If adequate funds are not available on terms acceptable to us, we may be required to delay, scale back or eliminate certain aspects of our operations or attempt to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to

certain of our technologies, products or potential markets. If adequate funds are not available, our business, financial condition and results of operations would be materially and adversely affected.

Our stock price is subject to volatility. The market price of our Ordinary Shares could be subject to wide fluctuations in response to announcements concerning us or our competitors, quarterly variations in operating results, announcements of technological innovations, the introduction of new products or changes in product pricing policies by us or our competitors, changes in analysts= earnings estimates, general market conditions in the industry, developments in the financial markets and other factors. In addition, the stock market has, from time to time, experienced extreme price and volume fluctuations that have particularly affected the market prices for technology companies and companies having a significant presence in Israel and that have often been unrelated to the operating performance of the affected companies. Broad market fluctuations of this type may adversely affect the market price of the Ordinary Shares.

We do not intend to pay cash dividends. Our policy is to retain earnings for use in our business and, for this reason, we do not intend to pay cash dividends on the Ordinary Shares in the foreseeable future.

Risks Relating to Operations in Israel

Our financial results may be adversely affected by inflation and currency fluctuations. Since we report our financial results in dollars, fluctuations in rates of exchange between the dollar and non-dollar currencies may have a material adverse affect on our results of operations. The majority of our expenses are paid in NIS (primarily salaries) and are influenced by the timing of, and the extent to which, any increase in the rate of inflation in Israel over the rate of inflation in the United States is not offset by the devaluation of the NIS in relation to the dollar. We believe that the rate of inflation in Israel has not had a material adverse effect on our business to date. However, our dollar costs in Israel will increase if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation in Israel. Over time, the NIS has been devalued against the dollar, generally reflecting inflation rate differentials. Likewise, our operations could be adversely affected if we are unable to guard against currency fluctuations in the future. We do not currently engage in any currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. We cannot guarantee that we will not enter into such transactions in the future or that such measures will adequately protect us from serious harm due to the impact of inflation in Israel.

Substantial portions of our operations are located in Israel. We are incorporated under the laws of, and our executive offices and research and development facilities are located in, the State of Israel. Although most of our sales are made to customers outside Israel, we are nonetheless directly affected by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, financial condition and results of operations. Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980's, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. Since the

establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. In addition, Israel and companies doing business with Israel have been the subject of an economic boycott by the Arab countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestine Liberation Organization and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, we cannot predict whether or in what manner these problems will be resolved.

Furthermore, all non-exempt male adult permanent residents of Israel under the age of 45, including some of our employees, are obligated to perform military reserve duty and may be called to active duty under emergency circumstances. While we have operated effectively despite these conditions in the past, we cannot assess what impact these conditions may have on us in the future, particularly if emergency circumstances occur.

We benefit from government programs and receive tax benefits. We currently receive some Israeli government grants and program and tax benefits. To remain eligible for these grants, programs and tax benefits, we must continue to meet certain conditions, including making some specified investments in fixed assets. If we fail to comply with these conditions in the future, the benefits we receive could be canceled and we may have to refund payments previously received under these programs or pay certain taxes. We cannot guarantee that these programs and tax benefits will be continued in the future, at their current levels or at all. If these programs and tax benefits are ended, our business, financial condition and results of operations could be negatively affected.