

Magic Software Enterprises Ltd
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2008 <u>(Unaudited)</u>	2007 <u>(Unaudited)</u>	2008 <u>(Unaudited)</u>	2007 <u>(Unaudited)</u>
Sales	16,030	14,252	31,100	28,083
Cost of sales	6,784	6,884	13,568	13,650
Gross profit	9,246	7,368	17,532	14,433
Software development costs, net	460	572	1,021	1,198
Selling, general and administrative expenses	7,188	6,375	15,049	12,346
Total operating expenses	7,648	6,947	16,070	13,544
Operating income	1,598	421	1,462	889
Financial income (expenses), net	178	(31)	359	76
Other income (expenses), net	(61)	25	(18)	50
Income before taxes	1,715	415	1,803	1,015
Taxes on income	51	107	75	249
	1,664	308	1,728	766
Minority interest	2	2	(2)	2
Equity in loss of affiliates	-	(30)	(8)	(20)
Net income before discontinued operation	1,666	280	1,718	748
Net income from discontinued operation	-	536	-	1,073
Net income after discontinued operation	1,666	816	1,718	1,821
Basic net earnings per ordinary share	0.05	0.03	0.05	0.06
Diluted net earnings per ordinary share	0.05	0.03	0.05	0.06
Weighted average number of ordinary shares used in computing basic net earnings per ordinary share	31,732	31,420	31,677	31,363
Weighted average number of ordinary shares used in computing diluted net earnings per ordinary share	32,047	31,955	31,978	31,973

Magic Software Enterprises Ltd
RECONCILIATION OF GAAP TO NON-GAAP RESULTS
(In thousands of U.S. dollars, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	<u>2008</u> (Unaudited)	<u>2007</u> (Unaudited)	<u>2008</u> (Unaudited)	<u>2007</u> (Unaudited)
GAAP operating income	1,598	421	1,462	889
Amortization of intangibles	512	657	1,050	1,479
Capitalization of software development	(754)	(848)	(1,610)	(1,612)
Stock-based compensation	89	27	580	61
Total adjustments to GAAP	<u>(153)</u>	<u>(164)</u>	<u>20</u>	<u>(72)</u>
Non-GAAP operating income	<u>1,445</u>	<u>257</u>	<u>1,482</u>	<u>817</u>
GAAP net income before discontinued operation	1,666	280	1,718	748
Total adjustments to GAAP as above	<u>(153)</u>	<u>(164)</u>	<u>20</u>	<u>(72)</u>
Non-GAAP net income before discontinued operation	<u>1,513</u>	<u>116</u>	<u>1,738</u>	<u>676</u>
GAAP net income	1,666	816	1,718	1,821
Total adjustments to GAAP as above	<u>(153)</u>	<u>(164)</u>	<u>20</u>	<u>(72)</u>
Non-GAAP net income	<u>1,513</u>	<u>652</u>	<u>1,738</u>	<u>1,749</u>
Non-GAAP basic earnings per share	<u>0.05</u>	<u>0.02</u>	<u>0.05</u>	<u>0.06</u>
Weighted average number of ordinary shares used in computing basic net earnings per ordinary share	<u>31,732</u>	<u>31,420</u>	<u>31,677</u>	<u>31,363</u>
Non-GAAP diluted earnings per share	<u>0.05</u>	<u>0.02</u>	<u>0.05</u>	<u>0.05</u>
Weighted average number of ordinary shares used in computing diluted net earnings per ordinary share	<u>32,047</u>	<u>31,955</u>	<u>31,978</u>	<u>31,973</u>

Magic Software Enterprises Ltd
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	<u>June 30,</u> <u>2008</u> (Unaudited)	<u>December 31,</u> <u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	30,363	12,178
Short term bank deposits	2	89
Marketable securities	3,673	4,090
Trade accounts receivable, net	12,379	12,941
Other accounts receivables and prepaid expenses	2,610	2,010
Receivables from a sale of subsidiary	-	16,000
Current assets from discontinued operations	35	41
Total Current Assets	<u>49,062</u>	<u>47,349</u>
Non-Current Assets		
Severance pay fund	2,218	1,925
Long-term lease deposits	420	472
Investment in an affiliated company	-	127
Property and equipment, net	5,610	5,758
Goodwill	16,335	15,986
Other intangible assets, net	11,237	10,681
Total Non-Current Assets	<u>35,820</u>	<u>34,949</u>
Total Assets	<u><u>84,882</u></u>	<u><u>82,298</u></u>
Current Liabilities		
Short-term credit from banks	141	3,621
Trade payables	2,665	2,999
Deferred revenues	6,722	2,314
Accrued expenses and other accounts payable	8,349	9,169
Current liabilities from discontinued operations	438	503
Total Current Liabilities	<u>18,315</u>	<u>18,606</u>
Non-Current Liabilities		
Long-term loans	112	132
Accrued severance pay	2,424	2,316
Minority interests	2	-
Total Non-Current Liabilities	<u>2,538</u>	<u>2,448</u>
Shareholders' Equity	<u>64,029</u>	<u>61,244</u>
Total Liabilities and Shareholders' Equity	<u><u>84,882</u></u>	<u><u>82,298</u></u>