



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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------------------------|------------------------------------|----------------------------|
| | <u>2008</u> (Unaudited) | <u>2007</u> (Unaudited) | <u>2008</u> (Unaudited) | <u>2007</u> (Unaudited) |
| Sales | 15,809 | 14,666 | 46,909 | 42,749 |
| Cost of sales | 6,648 | 7,078 | 20,216 | 20,728 |
| Gross profit | 9,161 | 7,588 | 26,693 | 22,021 |
| Software development costs, net | 676 | 681 | 1,697 | 1,879 |
| Selling, general and administrative expenses | 6,873 | 6,669 | 21,922 | 19,015 |
| Total operating expenses | 7,549 | 7,350 | 23,619 | 20,894 |
| Operating income | 1,612 | 238 | 3,074 | 1,127 |
| Financial income (expenses), net | 123 | (51) | 482 | 25 |
| Other income, net | 42 | 25 | 24 | 75 |
| Income before taxes | 1,777 | 212 | 3,580 | 1,227 |
| Taxes on income | 70 | 64 | 145 | 313 |
| Minority interest | (1) | (7) | (3) | (5) |
| Equity in loss of affiliates | - | (31) | (8) | (51) |
| Net income before discontinued operation | <u>1,706</u> | <u>110</u> | <u>3,424</u> | <u>858</u> |
| Net income from discontinued operation | <u>-</u> | <u>659</u> | <u>-</u> | <u>1,732</u> |
| Net income after discontinued operation | <u>1,706</u> | <u>769</u> | <u>3,424</u> | <u>2,590</u> |
| Basic net earnings per ordinary share | <u>0.05</u> | <u>0.02</u> | <u>0.11</u> | <u>0.08</u> |
| Diluted net earnings per ordinary share | <u>0.05</u> | <u>0.02</u> | <u>0.11</u> | <u>0.08</u> |
| Weighted average number of ordinary shares used in computing basic net earnings per ordinary share | <u>31,829</u> | <u>31,486</u> | <u>31,727</u> | <u>31,417</u> |
| Weighted average number of ordinary shares used in computing diluted net earnings per ordinary share | <u>32,159</u> | <u>31,831</u> | <u>32,039</u> | <u>31,970</u> |



Magic Software Enterprises Ltd
RECONCILIATION OF GAAP TO NON-GAAP RESULTS

(In thousands of U.S. dollars, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| GAAP operating income | 1,612 | 238 | 3,074 | 1,127 |
| Amortization of intangibles | 767 | 698 | 1,817 | 2,125 |
| Capitalization of software development | (421) | (698) | (2,031) | (2,310) |
| Stock-based compensation | (168) | 131 | 412 | 186 |
| Total adjustments to GAAP | 178 | 131 | 198 | 1 |
| Non-GAAP operating income | 1,790 | 369 | 3,272 | 1,128 |
| GAAP net income before discontinued operation | 1,706 | 110 | 3,424 | 858 |
| Total adjustments to GAAP as above before discontinued operation | 178 | 131 | 198 | 1 |
| Non-GAAP net income before discontinued operation | 1,884 | 241 | 3,622 | 859 |
| GAAP net income | 1,706 | 769 | 3,424 | 2,590 |
| Total adjustments to GAAP from discontinued operation | - | 38 | - | 167 |
| Total adjustments to GAAP as above | 178 | 131 | 198 | 1 |
| Non-GAAP net income | 1,884 | 938 | 3,622 | 2,758 |
| Non-GAAP basic earnings per share | 0.06 | 0.03 | 0.11 | 0.09 |
| Weighted average number of ordinary shares used in computing basic net earnings per ordinary share | 31,829 | 31,486 | 31,727 | 31,417 |
| Non-GAAP diluted earnings per share | 0.06 | 0.03 | 0.11 | 0.09 |
| Weighted average number of ordinary shares used in computing diluted net earnings per ordinary share | 32,159 | 31,831 | 32,039 | 31,970 |



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

| | <u>September 30,</u> <u>2008</u> (Unaudited) | <u>December 31,</u> <u>2007</u> |
|---|--|------------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 25,903 | 12,178 |
| Short term bank deposits | 3,291 | 89 |
| Marketable securities | 3,598 | 4,090 |
| Trade accounts receivable, net | 12,293 | 12,941 |
| Other accounts receivables and prepaid expenses | 2,686 | 2,010 |
| Receivables from a sale of subsidiary | - | 16,000 |
| Current assets of discontinued operations | 32 | 41 |
| Total Current Assets | <u>47,803</u> | <u>47,349</u> |
| Non-Current Assets | | |
| Severance pay fund | 2,058 | 1,925 |
| Long-term lease deposits | 312 | 472 |
| Investment in an affiliated company | - | 127 |
| Property and equipment, net | 5,507 | 5,758 |
| Goodwill | 16,244 | 15,986 |
| Other intangible assets, net | 10,889 | 10,681 |
| Total Non-Current Assets | <u>35,010</u> | <u>34,949</u> |
| Total Assets | <u>82,813</u> | <u>82,298</u> |
| Current Liabilities | | |
| Short-term credit from banks | 120 | 3,621 |
| Trade payables | 2,354 | 2,999 |
| Deferred revenues | 3,814 | 2,314 |
| Accrued expenses and other accounts payable | 8,581 | 9,169 |
| Current liabilities of discontinued operations | 406 | 503 |
| Total Current Liabilities | <u>15,275</u> | <u>18,606</u> |
| Non-Current Liabilities | | |
| Long-term loans | 59 | 132 |
| Accrued severance pay | 2,253 | 2,316 |
| Minority interests | 3 | - |
| Total Non-Current Liabilities | <u>2,315</u> | <u>2,448</u> |
| Shareholders' Equity | <u>65,223</u> | <u>61,244</u> |
| Total Liabilities and Shareholders' Equity | <u>82,813</u> | <u>82,298</u> |