

MAGIC SOFTWARE ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands (except per share data)

	Three months ended			Nine months ended	
	September 30,		June 30,	September 30,	
	2009	2008	2009	2009	2008
	Unaudited			Unaudited	
Revenues	13,504	15,809	13,595	40,869	46,909
Cost of Revenues	6,625	6,648	6,443	19,805	20,216
Gross profit	6,879	9,161	7,152	21,064	26,693
Research and development, net	358	676	260	957	1,697
Selling, general and administrative expenses	5,709	6,873	5,937	17,600	21,922
Total operating expenses, net	6,067	7,549	6,197	18,557	23,619
Operating income	812	1,612	955	2,507	3,074
Financial income (expenses), net	154	123	(78)	140	482
Other income (expenses), net	(63)	42	286	223	24
Income before taxes on income	903	1,777	1,163	2,870	3,580
Taxes on income	1	70	76	167	145
Income after taxes on income	902	1,707	1,087	2,703	3,435
Minority interest	-	(1)	-	-	(3)
Equity in losses of affiliates	-	-	-	-	(8)
Net income	902	1,706	1,087	2,703	3,424
Basic net earnings per share	0.03	0.05	0.03	0.08	0.11
Diluted net earnings per share	0.03	0.05	0.03	0.08	0.11
Weighted average number of shares used in computing net earnings per share					
Basic	31,894	31,829	31,894	31,894	31,727
Diluted	32,169	32,159	32,009	32,038	32,039

MAGIC SOFTWARE ENTERPRISES LTD.
RECONCILIATION BETWEEN GAAP AND NON-GAAP
STATEMENTS OF OPERATIONS FOR COMPARATIVE PURPOSES
U.S. dollars in thousands (except per share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	Unaudited		Unaudited	
GAAP operating income	812	1,612	2,507	3,074
Amortization of intangibles	950	767	2,700	1,817
Capitalization of software development	(771)	(421)	(2,356)	(2,031)
Stock-based compensation	64	(168)	189	412
Total adjustments to GAAP	243	178	533	198
Non-GAAP operating income	<u>1,055</u>	<u>1,790</u>	<u>3,040</u>	<u>3,272</u>
GAAP net income	902	1,706	2,703	3,424
Total adjustments to GAAP as above	243	178	533	198
Non-GAAP net income	<u>1,145</u>	<u>1,884</u>	<u>3,236</u>	<u>3,622</u>
Non-GAAP basic net earnings per share	<u>0.04</u>	<u>0.06</u>	<u>0.10</u>	<u>0.11</u>
Weighted average number of shares used in computing basic net earnings per share	<u>31,894</u>	<u>31,829</u>	<u>31,894</u>	<u>31,727</u>
Non-GAAP diluted net earnings per share	<u>0.04</u>	<u>0.06</u>	<u>0.10</u>	<u>0.11</u>
Weighted average number of shares used in computing diluted net earnings per share	<u>32,276</u>	<u>32,159</u>	<u>32,115</u>	<u>32,039</u>

MAGIC SOFTWARE ENTERPRISES LTD.
CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	<u>September 30,</u> <u>2009</u> (Unaudited)	<u>December 31,</u> <u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	20,392	27,309
Short-term bank deposits	12,557	1,810
Available for sale marketable securities	3,905	3,469
Trade receivable, net	11,935	13,140
Other accounts receivable and prepaid expenses	2,567	1,933
Current assets of discontinued operation	32	31
Total current Assets	<u>51,388</u>	<u>47,692</u>
LONG-TERM INVESTMENTS:		
Severance pay fund	385	316
Long-term lease deposits	267	235
Total long-term investments	<u>652</u>	<u>551</u>
Property and equipment, net	4,911	5,436
Goodwill	16,900	16,829
Other intangible assets, net	10,311	10,656
TOTAL ASSETS	<u><u>84,162</u></u>	<u><u>81,164</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term credit and current maturities of long term loans	76	147
Trade payables	2,845	2,988
Deferred revenues	3,664	1,643
Accrued expenses and other accounts payable	6,616	8,691
Current liabilities of discontinued operation	391	372
Total current liabilities	<u>13,592</u>	<u>13,841</u>
Long-term loans	17	33
Accrued severance pay	598	535
Total non-current Liabilities	<u>615</u>	<u>568</u>
SHAREHOLDERS' EQUITY	<u>69,955</u>	<u>66,755</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>84,162</u></u>	<u><u>81,164</u></u>