

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

	Three months ended			Year ended	
	December 31,	September 30,		December 31,	
	2009	2008	2009	2009	2008
	Unaudited			Unaudited	
Revenues	14,481	15,071	13,504	55,350	61,980
Cost of Revenues	6,459	6,923	6,625	26,264	27,139
Gross profit	8,022	8,148	6,879	29,086	34,841
Research and development, net	353	653	358	1,310	2,350
Selling, general and administrative expenses	5,918	6,302	5,709	23,518	28,224
Total operating expenses, net	6,271	6,955	6,067	24,828	30,574
Operating income	1,751	1,193	812	4,258	4,267
Financial income (expenses), net	98	(34)	154	238	448
Other income (expenses), net	1,791	(24)	(63)	2,014	-
Income before taxes on income	3,640	1,135	903	6,510	4,715
Taxes on income	167	54	1	334	199
Income after taxes on income	3,473	1,081	902	6,176	4,516
Minority interest	-	3	-	-	-
Equity in losses of affiliates	-	-	-	-	(8)
Net income	3,473	1,084	902	6,176	4,508
Basic net earnings per share	0.11	0.03	0.03	0.19	0.14
Diluted net earnings per share	0.11	0.03	0.03	0.19	0.14
Weighted average number of shares used in computing net earnings per share					
Basic	31,915	31,894	31,894	31,899	31,769
Diluted	32,314	32,010	32,169	32,107	32,032

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		Year ended	
	December 31,		December 31,	
	2009	2008	2009	2008
	Unaudited		Unaudited	
GAAP operating income	1,751	1,193	4,258	4,267
Amortization of intangibles	950	783	3,650	2,600
Capitalization of software development	(772)	(546)	(3,128)	(2,577)
Stock-based compensation	(59)	(168)	130	244
Total adjustments to GAAP	119	69	652	267
Non-GAAP operating income	1,870	1,262	4,910	4,534
GAAP net income	3,473	1,084	6,176	4,508
Total adjustments to GAAP as above	119	69	652	267
Non-GAAP net income	3,592	1,153	6,828	4,775
Non-GAAP basic net earnings per share	0.11	0.04	0.21	0.15
Weighted average number of shares used in computing basic net earnings per share	31,915	31,894	31,899	31,769
Non-GAAP diluted net earnings per share	0.11	0.04	0.21	0.15
Weighted average number of shares used in computing diluted net earnings per share	32,371	32,010	32,179	32,032

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

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	24,350	27,309
Short-term bank deposits	13,838	1,810
Available for sale marketable securities	3,680	3,469
Trade receivable, net	12,004	13,140
Other accounts receivable and prepaid expenses	3,869	1,933
Current assets of discontinued operation	27	31
Total current Assets	<u>57,768</u>	<u>47,692</u>
LONG-TERM ASSETS:		
Severance pay fund	404	316
Long-term assets	749	235
Total long-term investments	<u>1,153</u>	<u>551</u>
Property and equipment, net	1,762	5,436
Goodwill	16,735	16,829
Other intangible assets, net	<u>10,133</u>	<u>10,656</u>
TOTAL ASSETS	<u><u>87,551</u></u>	<u><u>81,164</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term credit and current maturities of long term loans	43	147
Trade payables	2,662	2,988
Deferred revenues	1,569	1,643
Accrued expenses and other accounts payable	25,159	8,691
Current liabilities of discontinued operation	314	372
Total current liabilities	<u>29,747</u>	<u>13,841</u>
Long-term loans	10	33
Accrued severance pay	606	535
Total non-current Liabilities	<u>616</u>	<u>568</u>
SHAREHOLDERS' EQUITY	<u>57,188</u>	<u>66,755</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>87,551</u></u>	<u><u>81,164</u></u>