

MAGIC SOFTWARE ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except per share data)

	Three months ended		Year ended	
	December 31,		December 31,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Revenues	\$15,071	\$15,679	\$61,980	\$58,428
Cost of Revenues	6,923	6,612	27,139	27,340
Gross profit	8,148	9,067	34,841	31,088
Research and development, net	653	837	2,350	2,716
Selling, general and administrative expenses	6,302	8,076	28,224	27,090
Total operating expenses	6,955	8,913	30,574	29,806
Operating income	1,193	154	4,267	1,282
Financial income (expenses), net	(34)	136	448	161
Other income (expenses), net	(24)	95	-	170
Income before taxes on income	1,135	385	4,715	1,613
Taxes on income	54	49	199	362
Minority interest	3	(17)	-	(22)
Equity in loss of affiliates	-	(35)	(8)	(86)
Net income before discontinued operation	1,084	284	4,508	1,143
Net income from discontinued operation	-	9,733	-	11,465
Net income	\$1,084	\$10,017	\$4,508	\$12,608
Basic net earnings per ordinary share	\$0.03	\$0.32	\$0.14	\$0.40
Diluted net earnings per ordinary share	\$0.03	\$0.31	\$0.14	\$0.39
Weighted average number of ordinary shares used in computing net earnings per share				
Basic	31,894	31,520	31,769	31,443
Diluted	32,010	31,993	32,032	32,023

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)

	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>	
GAAP operating income	1,193	154	4,267	1,282
Amortization of intangibles	783	583	2,600	2,761
Capitalization of software development	(546)	(717)	(2,577)	(3,027)
Stock-based compensation	(168)	248	244	434
Total adjustments to GAAP	<u>69</u>	<u>114</u>	<u>267</u>	<u>168</u>
Non-GAAP operating income	<u>1,262</u>	<u>268</u>	<u>4,534</u>	<u>1,450</u>
GAAP net income before discontinued operation	1,084	284	4,508	1,143
Total adjustments to GAAP as above before discontinued operation	<u>69</u>	<u>114</u>	<u>267</u>	<u>168</u>
Non-GAAP net income before discontinued operation	<u>1,153</u>	<u>398</u>	<u>4,775</u>	<u>1,311</u>
GAAP net income	1,084	10,017	4,508	12,608
Total adjustments to GAAP as above	<u>69</u>	<u>114</u>	<u>267</u>	<u>168</u>
Non-GAAP net income	<u>1,153</u>	<u>10,131</u>	<u>4,775</u>	<u>12,776</u>
Non-GAAP earnings per ordinary share (basic)	<u>\$0.04</u>	<u>\$0.32</u>	<u>\$0.15</u>	<u>\$0.41</u>
Weighted average number of ordinary shares used in computing basic net earnings per ordinary share	<u>31,894</u>	<u>31,520</u>	<u>31,769</u>	<u>31,443</u>
Non-GAAP diluted earnings per ordinary share	<u>\$0.04</u>	<u>\$0.32</u>	<u>\$0.15</u>	<u>\$0.40</u>
Weighted average number of ordinary shares used in computing diluted net earnings per ordinary share	<u>32,010</u>	<u>31,993</u>	<u>32,032</u>	<u>32,023</u>

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

	December 31,	December 31,
	2008	2007
	(Unaudited)	(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$27,309	\$12,178
Short-term bank deposits	1,810	89
Marketable securities	3,469	4,179
Trade accounts receivable, net	13,140	12,941
Other accounts receivables and prepaid expenses	1,933	2,010
Receivables from a sale of subsidiary	-	16,000
Current assets of discontinued operations	31	41
Total Current Assets	47,692	47,438
LONG-TERM INVESTMENTS:		
Severance pay fund	1,753	1,925
Long-term lease deposits	290	383
Investment in an affiliated company	-	127
Property and equipment, net	5,436	5,758
Goodwill	16,829	15,986
Other intangible assets, net	10,656	10,681
Total Non-Current Assets	34,964	34,860
<u>TOTAL ASSETS</u>	\$82,656	\$82,298
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term credit and current maturities of long term loans	\$147	\$3,621
Trade payables	2,988	2,999
Deferred revenues	1,643	2,314
Accrued expenses and other accounts payable	8,779	9,169
Current liabilities of discontinued operations	372	503
Total Current Liabilities	13,929	18,606
NON-CURRENT LIABILITIES:		
Long-term loans	33	132
Accrued severance pay	1,939	2,316
Total Non-Current Liabilities	1,972	2,448
SHAREHOLDERS' EQUITY	66,755	61,244
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$82,656	\$82,298