

PRESS RELEASE

Magic Software Reports Results for the First Quarter 2009

-- COMPANY REPORTS INCREASED PROFIT DESPITE CHALLENGING ECONOMIC CONDITIONS --

Or Yehuda, Israel, May 11, 2009 -- [Magic Software Enterprises Ltd.](#) (NASDAQ: MGIC), a provider of [application platforms](#) and [business and process integration](#) solutions, today announced its financial results for the first quarter, ended March 31, 2009. All references to \$ are to US Dollars.

Financial Highlights

- Total revenues were \$13.8 million, a decrease of 9% compared to \$15.1 million in the first quarter of 2008. The decrease is primarily a result of a strengthened dollar rate, which accounted for approximately 6% of the total revenue decrease. Recession factors in the US and Japan also accounted for approximately 3% of the decrease in revenue compared to the parallel period of 2008.
- Operating income amounted to \$0.7 million, compared to a loss of \$0.1 million recorded in the same period of 2008.
- Net income totaled \$0.7 million compared to \$0.1 million in the first quarter of 2008.
- Net income on a non-GAAP basis was \$0.9 million compared to \$0.3 million in the first quarter of 2008.
- Total cash and short-term investments as of March 31, 2009 increased by 10% to \$36.0 million compared to \$32.6 million as of December 31, 2008.

Comments of Management

Guy Bernstein, Chairman of Magic Software, commented on the results: "While the current environment remains challenging with longer sales cycles, our growth drivers continue to remain in place. We see increasing demand for our application platform and business integration solutions, especially as these products can enhance business competitiveness during economic downturns. We plan to remain cautious and focus on maintaining cost control and business flexibility that will allow us to react swiftly to market evolutions as they occur."

Summary of the Quarter

- Magic Software is now listed among the top 13 strategic vendors for application infrastructure by Gartner [Yefim V. Natis, Jess Thompson, Massimo Pezzini, Daniel Sholler, Kimihiko Iijima, 'A Summary of Magic Quadrants for Application Infrastructure', 3rd March 2009, ID G00165017].
- The uniPaaS application platform continues to gain recognition among authoritative media publications such as [Forbes.com](#), [SoftwareCEO](#) and [Computer Business Review](#) (CBR) in this quarter.
- Despite the severe recession in Japan, the company has gained new Japanese customers now using uniPaaS to develop RIA.
- Existing application platform partners worldwide are showing increased interest in migrating to uniPaaS to prepare for the new opportunities presented by RIA and SaaS.
- The iBOLT business and process integration suite has new connectors and adaptors for HL7 (healthcare), SAP R/3 and the Data Replicator for Salesforce.com. The expanded iBOLT range has facilitated project wins in Germany, the Netherlands, the United Kingdom and Japan, and has attracted significant media attention from specialist IT media publications including [InsideCRM](#) and [E3](#) in Germany.

Non-GAAP Financial Measures

This release includes non-GAAP operating income, net income, basic and diluted earnings per share and other non-GAAP financial measures. These non-GAAP measures exclude the following items:

- Amortization of purchased intangible assets;
- In-process research and development capitalization and amortization and;
- Equity-based compensation expense.

Magic Software's management believes that the presentation of non-GAAP measures provide useful information to investors and management regarding financial and business trends relating to the Company's financial condition and results of operations as well as the net amount of cash generated by its business operations after taking into account capital spending required to maintain or expand the business.

These non-GAAP financial measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles. Magic Software believes that non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with Magic Software's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate Magic Software's results of operations in conjunction with the corresponding GAAP measures.

Please refer to the Reconciliation of Selected Financial Metrics from GAAP to Non-GAAP tables below.

About Magic Software

Magic Software Enterprises Ltd. (NASDAQ: MGIC) is a leading provider of multiple-mode application platform solutions – including Full Client, Rich Internet Applications (RIA) or Software-as-a-Service (SaaS) modes - and business and process integration solutions. Magic Software has offices in 10 countries and a presence in over 50, as well as a global network of ISV's, system integrators, value-added distributors and resellers, and consulting and OEM partners. The company's award-winning code-free solutions give partners and customers the power to leverage existing IT resources, enhance business agility and focus on core business priorities. Magic Software's technological approach, product roadmap and corporate strategy are recognized by leading industry analysts. Magic Software has partnerships with global IT leaders including SAP AG, salesforce.com, IBM and Oracle. For more information about Magic Software and its products and services, visit www.magicsoftware.com.

Except for the historical information contained herein, the matters discussed in this news release include forward-looking statements that may involve a number of risks and uncertainties. Actual results may vary significantly based upon a number of factors including, but not limited to, risks in product and technology development, market acceptance of new products and continuing product conditions, both here and abroad, release and sales of new products by strategic resellers and customers, and other risk factors detailed in the Company's most recent annual report and other filings with the Securities and Exchange Commission.

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

	Three months ended	
	March 31,	
	2009	2008
	Unaudited	
Revenues	13,770	15,069
Cost of Revenues	<u>6,737</u>	<u>6,785</u>
Gross profit	<u>7,033</u>	<u>8,284</u>
Research and development, net	339	560
Selling, general and administrative expenses	5,954	7,860
Total operating expenses, net	<u>6,293</u>	<u>8,420</u>
Operating income (loss)	<u>740</u>	<u>(136)</u>
Financial income, net	64	180
Other income, net	-	39
Income before taxes on income	<u>804</u>	<u>83</u>
Taxes on income	90	23
Income after taxes on income	<u>714</u>	<u>60</u>
Equity in losses of affiliates	-	(8)
Net income	<u>714</u>	<u>52</u>
Basic net earnings per share	0.02	0.00
Diluted net earnings per share	0.02	0.00
Weighted average number of shares used in computing net earnings per share		
Basic	<u>31,894</u>	<u>31,763</u>
Diluted	<u>31,938</u>	<u>32,001</u>

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	
	March 31,	
	2009	2008
	Unaudited	
GAAP operating income (loss)	740	(136)
Amortization of intangibles	869	578
Capitalization of software development	(755)	(856)
Stock-based compensation	56	491
Total adjustments to GAAP	<u>170</u>	<u>213</u>
Non-GAAP operating income	<u>910</u>	<u>77</u>
GAAP net income	714	52
Total adjustments to GAAP as above	<u>170</u>	<u>213</u>
Non-GAAP net income	<u>884</u>	<u>265</u>
Non-GAAP basic net earnings per share	<u>0.03</u>	<u>0.01</u>
Weighted average number of shares used in computing basic net earnings per share	<u>31,894</u>	<u>31,763</u>
Non-GAAP diluted net earnings per share	<u>0.03</u>	<u>0.01</u>
Weighted average number of shares used in computing diluted net earnings per share	<u>31,947</u>	<u>32,001</u>

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

	<u>March 31,</u> <u>2009</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	20,447	27,309
Short-term bank deposits	12,645	1,810
Available for sale marketable securities	2,918	3,469
Trade receivable, net	11,746	13,140
Other accounts receivable and prepaid expenses	2,152	1,933
Current assets of discontinued operations	29	31
Total current Assets	<u>49,937</u>	<u>47,692</u>
LONG-TERM INVESTMENTS:		
Severance pay fund	169	188
Long-term lease deposits	326	290
Total long-term investments	<u>495</u>	<u>478</u>
Property and equipment, net	5,279	5,436
Goodwill	16,267	16,829
Other intangible assets, net	10,542	10,656
TOTAL ASSETS	<u>82,520</u>	<u>81,091</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term credit and current maturities of long term loans	115	147
Trade payables	2,943	2,988
Deferred revenues	4,996	1,643
Accrued expenses and other accounts payable	7,387	8,779
Current liabilities of discontinued operations	355	372
Total current liabilities	<u>15,796</u>	<u>13,929</u>
Long-term loans	77	33
Accrued severance pay	341	374
Total non-current Liabilities	<u>418</u>	<u>407</u>
SHAREHOLDERS' EQUITY	<u>66,306</u>	<u>66,755</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>82,520</u>	<u>81,091</u>