

PRESS RELEASE

Magic Software Reports Continued Strong Growth for Second Quarter of 2010

Company reports 58% year-over-year increase in revenues and doubled net income

Or-Yehuda, Israel, August 2nd, 2010 – [Magic Software Enterprises Ltd.](#) (NASDAQ: MGIC), a global provider of [on-premise and cloud-enabled application platforms](#) and [business integration solutions](#), today announced its financial results for the second quarter ended June 30, 2010. All dollar amounts are quoted in US Dollars.

Financial Highlights for the Second Quarter and Six-Month periods ended June 30, 2010

- Second quarter revenues increased 58% year-over-year;
- Operating income for the second quarter and first half more than doubled compared to the comparable periods last year;
- Operating income for the first half of 2010 doubled to \$3.8 million, compared to the same period last year;
- Net income for the first half of 2010 doubled to \$3.8 million, compared to the same period last year;
- Operating cash flow for the first half increased by 85% to \$8.7 million compared to the same period last year.

Results

For the second quarter ended June 30, 2010, total revenues were \$21.5 million, with net income of \$1.9 million, or \$0.06 per fully diluted share. This compares with revenues of \$13.6 million and net income of \$1.1 million, or \$0.03 per fully diluted share, for the same period last year.

Operating income was \$2.1 million, or \$0.06 per fully diluted share, for the second quarter of 2010. This compares to operating income of \$1.0 million, or \$0.03 per fully diluted share, for the same period a year ago.

For the six-month period ended June 30, 2010, total revenues were \$41.2 million, with net income of \$3.8 million, or \$0.12 per fully diluted share. This compares with revenues of \$27.4 million and net income of \$1.8 million, or \$0.06 per fully diluted share, for the same period last year.

Operating income was \$3.8 million, or \$0.12 per fully diluted share, for the first half of 2010. This compares to operating income of \$1.7 million, or \$0.05 per fully diluted share, for the same period a year ago.

Total cash, cash equivalents and short-term investments as of June 30, 2010 was \$25.8.

Management Commentary

Commenting on the results, Guy Bernstein, acting chief executive officer of Magic Software, said: "I am pleased to report that the positive momentum and strong growth continued in the second quarter with increased demand for our product and service offering in all regions."

Summary of the Quarter

- New customers and license sales for uniPaaS and iBOLT, particularly in Japan, Germany and France have increased;
- The new version of [uniPaaS application platform, version 1.9](#), providing enhanced RIA, Cloud and Mobile capabilities was released in April.
- The latest [iBOLT version 3.2](#) with new and improved connectors for Microsoft SharePoint 2010, Microsoft Dynamics CRM, Salesforce.com and HL7 was released in May.
- Significant media momentum for Magic's Cloud and Mobile enterprise application platform continues to build and include positive coverage from [TechWorld](#), [CloudVision](#), [CIO](#), [publicTechnology.net](#), [eWeek.com](#), [BCS](#) and [CRN](#).
- The number of new partners continued to increase. New partners signed on in the quarter include: Relational SA in Greece, ViCi Consulting in the Netherlands, Osiatis in France, Wizrom Software in Romania and Connect Distribution in Poland.

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.

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About Magic Software

[Magic Software Enterprises Ltd.](#) (NASDAQ: MGIC) is a global provider of on-premise and cloud-enabled application platform solutions – including full client, rich internet applications (RIA), mobile or Software-as-a-Service (SaaS) modes – and business and process integration solutions. Magic Software has 13 offices worldwide and a presence in over 50 countries with a global network of ISVs, system integrators, value-added distributors and resellers, as well as 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 visit about Magic Software and its products and services, visit www.magicsoftware.com, and for more about our industry-related news, business issues and trends, read the [Magic Software Blog](#).

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.

Magic is the trademark of Magic Software Enterprises Ltd. All other trademarks are the trademarks of their respective owners.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	<u>Unaudited</u>		<u>Unaudited</u>	
Revenues	21,468	13,595	41,179	27,365
Cost of Revenues	12,666	6,443	23,913	13,180
Gross profit	8,802	7,152	17,266	14,185
Research and development, net	409	260	1,040	599
Selling, marketing and general and administrative expenses	6,325	5,937	12,404	11,891
Total operating costs and expenses	6,734	6,197	13,444	12,490
Operating income	2,068	955	3,822	1,695
Financial expenses, net	(429)	(78)	(316)	(14)
Other income, net	19	286	80	286
Income before taxes on income	1,658	1,163	3,586	1,967
Taxes on income	(246)	76	(168)	166
Net income	1,904	1,087	3,754	1,801
Net earnings per share attributable to Magic Software:				
Basic	<u>0.06</u>	<u>0.03</u>	<u>0.12</u>	<u>0.06</u>
Diluted	<u>0.06</u>	<u>0.03</u>	<u>0.12</u>	<u>0.06</u>
Weighted average number of shares used in computing net earnings per share				
Basic	<u>31,982</u>	<u>31,894</u>	<u>31,982</u>	<u>31,894</u>
Diluted	<u>32,507</u>	<u>32,009</u>	<u>32,429</u>	<u>31,973</u>

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	Unaudited		Unaudited	
GAAP operating income	2,068	955	3,822	1,695
Amortization of capitalized software and other intangible assets	1,007	881	1,957	1,750
Capitalization of software development	(856)	(830)	(1,567)	(1,585)
Stock-based compensation	23	69	59	125
Total adjustments to GAAP	<u>174</u>	<u>120</u>	<u>449</u>	<u>290</u>
Non-GAAP operating income	<u>2,242</u>	<u>1,075</u>	<u>4,271</u>	<u>1,985</u>
GAAP net income	1,904	1,087	3,754	1,801
Total adjustments to GAAP as above	174	120	449	290
Non-GAAP net income	<u>2,078</u>	<u>1,207</u>	<u>4,203</u>	<u>2,091</u>
Non-GAAP basic net earnings per share	<u>0.07</u>	<u>0.04</u>	<u>0.13</u>	<u>0.07</u>
Weighted average number of shares used in computing basic net earnings per share	<u>31,982</u>	<u>31,894</u>	<u>31,982</u>	<u>31,894</u>
Non-GAAP diluted net earnings per share	<u>0.06</u>	<u>0.04</u>	<u>0.13</u>	<u>0.07</u>
Weighted average number of shares used in computing diluted net earnings per share	<u>32,552</u>	<u>32,123</u>	<u>32,476</u>	<u>32,035</u>

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

	<u>June 30,</u> <u>2010</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	21,071	24,350
Short-term bank deposits	1,106	13,838
Available-for-sale marketable securities	3,593	3,680
Trade receivables, net	15,453	12,004
Other accounts receivable and prepaid expenses	3,190	3,869
Current assets of discontinued operation	-	27
Total current Assets	<u>44,413</u>	<u>57,768</u>
LONG-TERM RECEIVABLES:		
Severance pay fund	310	404
Other Long-term receivables	1,463	749
<u>Total other long-term receivables</u>	<u>1,773</u>	<u>1,153</u>
PROPERTY AND EQUIPMENT, NET	1,811	1,762
IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL, NET	34,334	26,868
TOTAL ASSETS	<u>82,331</u>	<u>87,551</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term credit and current maturities of long term loans	23	43
Trade payables	2,282	2,662
Accrued expenses and other accounts payable	10,201	25,159
Deferred revenues	5,641	1,569
Current liabilities of discontinued operation	-	314
Total current liabilities	<u>18,147</u>	<u>29,747</u>
NON CURRENT LIABILITIES:		
Long-term loans	5	10
Liability due to acquisition activities	3,150	-
Accrued severance pay	512	606
Total non-current Liabilities	<u>3,667</u>	<u>616</u>
EQUITY	<u>60,517</u>	<u>57,188</u>
TOTAL LIABILITIES AND EQUITY	<u>82,331</u>	<u>87,551</u>