

PRESS RELEASE

Magic Continues Growth Streak with Record Q3 2013 Non-GAAP Operating Income of \$6.0 Million, an Increase of 31% Year over Year; Revenues for Q3 2013 Grew 9% Year over Year to \$35.6 Million

Non-GAAP operating income for the first nine months increased 17% to a record \$15.9 million; Revenues for the first nine months increased 14% year over year to \$103.8 million

Or Yehuda, Israel, November 6, 2013 – [Magic Software Enterprises Ltd. \(NASDAQ and TASE: MGIC\)](#), a global provider of [mobile](#) and [cloud-enabled application](#) and [business integration platforms](#), announced today its [financial results](#) for the third quarter and first nine months of 2013.

Financial Highlights for the Third Quarter Ended September 30, 2013

- Revenues for the third quarter increased 9% year over year to \$35.6 million from \$32.6 million.
- Non-GAAP operating income for the third quarter increased 31% to \$6.0 million, compared to \$4.6 million in the same period last year; Operating income increased 21% to \$5.0 million, compared to \$4.1 million in the same period last year.
- Non-GAAP net income for the third quarter increased 23% to \$5.5 million, compared to \$4.5 million in the same period last year; Net income increased 2% to \$4.2 million (or \$0.11 per fully diluted share) compared to \$4.1 million (or \$0.11 per fully diluted share) in the same period last year. The increase in net income was negatively impacted by tax expenses recorded with respect to utilization of deferred tax assets. In accordance with U.S. generally accepted accounting principles, the Company records deferred tax expenses on utilization of carry-forward tax losses.

Financial Highlights for the Nine-Month Period Ended September 30, 2013

- Revenues for the first nine months of 2013 increased 14% to \$103.8 million compared to \$90.7 million in the same period last year.
- Non-GAAP operating income for the first nine months of 2013 increased 17% to \$15.9 million compared to \$13.6 million in the same period last year; Operating income for the first nine months of 2013 increased 13% to \$13.7 million compared to \$12.2 million in the same period last year.
- Non-GAAP net income for the first nine months of 2013 increased 3% to \$13.5 million compared to \$13.1 million in the same period last year; Net income for the first nine months of 2013 decreased 6% to \$11.2 million (or \$0.30 per fully diluted share), compared to \$11.9 million (or \$0.32 per fully diluted share) in the same period last year. The decrease in net income was mainly attributable to tax expenses recorded with respect to utilization of deferred tax assets.
- Operating cash flow for the first nine months of 2013 totaled \$13.1 million.
- Total cash, cash equivalents and short-term investments as of September 30, 2013, amounted to \$39.2 million, with no debt.

Comments of Management

Guy Bernstein, Chief Executive Officer of [Magic Software Enterprises](#), said, “We are pleased to report another record quarter with strong year-over-year growth across all areas of our business and all regions. We are seeing great interest in the recent enhancements we have made to enrich our enterprise mobility, integration and services offerings. We are committed to maximizing our opportunities by continuing to strengthen our positions in these growth markets now and in the years to come.”

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
- Equity-based compensation expense
- Unwinding of discount in connection with liabilities due to acquisitions
- Related tax effects of the above items

Magic Software’s management believes that the presentation of non-GAAP measures provides 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.

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

About Magic Software Enterprises

Magic Software Enterprises Ltd. (NASDAQ and TASE: MGIC) is a global provider of mobile and cloud-enabled application and business integration platforms.

For more information, visit www.magicsoftware.com.



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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. These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Magic is a registered trademark of Magic Software Enterprises Ltd. All other product and company names mentioned herein are for identification purposes only and are the property of, and might be trademarks of, their respective owners.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	Unaudited		Unaudited	
Revenues	35,596	32,578	103,766	90,650
Cost of Revenues	20,733	19,583	61,588	52,601
Gross profit	14,863	12,995	42,178	38,049
Research and development, net	979	892	2,781	2,134
Selling, marketing and general and administrative expenses	8,914	7,981	25,719	23,765
Total operating costs and expenses	9,893	8,873	28,500	25,899
Operating income	4,970	4,122	13,678	12,150
Financial expenses, net	(74)	15	(594)	(183)
Other income, net	-	69	-	136
Income before taxes on income	4,896	4,206	13,084	12,103
Taxes on income	357	(25)	1,134	42
Net income	4,539	4,231	11,950	12,061
Change in redeemable non-controlling interests	(208)	-	(401)	-
Net income attributable to non-controlling interests	(142)	(116)	(359)	(131)
Net income attributable to Magic's shareholders	4,189	4,115	11,190	11,930
Net earnings per share				
Basic	0.11	0.11	0.30	0.33
Diluted	0.11	0.11	0.30	0.32
Weighted average number of shares used in computing net earnings per share				
Basic	36,877	36,541	36,877	36,485
Diluted	37,405	37,062	37,240	37,129

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		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	<u>Unaudited</u>		<u>Unaudited</u>	
GAAP operating income	4,970	4,122	13,678	12,150
Amortization of capitalized software and other intangible assets	1,982	1,418	5,510	4,311
Capitalization of software development	(1,066)	(1,131)	(3,566)	(3,344)
Stock-based compensation	70	143	255	440
Total adjustments to GAAP	<u>986</u>	<u>430</u>	<u>2,199</u>	<u>1,407</u>
Non-GAAP operating income	<u>5,956</u>	<u>4,552</u>	<u>15,877</u>	<u>13,557</u>
GAAP net income	4,189	4,115	11,190	11,930
Amortization of capitalized software and other intangible assets	1,982	1,418	5,510	4,311
Capitalization of software development	(1,066)	(1,131)	(3,566)	(3,344)
Stock-based compensation	70	143	255	440
Unwinding of discount in connection with liabilities due to acquisitions	50	-	265	-
Amortization expenses attributed to redeemable non-controlling interests	(55)	-	(115)	-
Deferred taxes on the above items	334	(62)	(3)	(219)
Total adjustments to GAAP	<u>1,315</u>	<u>368</u>	<u>2,346</u>	<u>1,188</u>
Non-GAAP net income	<u>5,504</u>	<u>4,483</u>	<u>13,536</u>	<u>13,118</u>
Non-GAAP basic net earnings per share	<u>0.15</u>	<u>0.12</u>	<u>0.37</u>	<u>0.36</u>
Weighted average number of shares used in computing basic net earnings per share	<u>36,877</u>	<u>36,541</u>	<u>36,877</u>	<u>36,485</u>
Non-GAAP diluted net earnings per share	<u>0.15</u>	<u>0.12</u>	<u>0.36</u>	<u>0.35</u>
Weighted average number of shares used in computing diluted net earnings per share	<u>37,437</u>	<u>37,129</u>	<u>37,287</u>	<u>37,234</u>

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

	<u>September 30,</u> <u>2013</u> <u>Unaudited</u>	<u>December 31,</u> <u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	38,300	37,744
Available-for-sale marketable securities	861	890
Trade receivables, net	30,595	28,367
Other accounts receivable and prepaid expenses	<u>6,258</u>	<u>6,696</u>
Total current assets	<u>76,014</u>	<u>73,697</u>
LONG-TERM RECEIVABLES:		
Severance pay fund	410	351
Other long-term receivables	<u>3,381</u>	<u>2,287</u>
Total long-term receivables	3,791	2,638
PROPERTY AND EQUIPMENT, NET	1,889	1,898
IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL, NET	<u>79,516</u>	<u>74,721</u>
TOTAL ASSETS	<u>161,210</u>	<u>152,954</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	3,597	4,722
Accrued expenses and other accounts payable	17,526	17,188
Deferred tax liabilities	2,857	3,422
Deferred revenues	<u>7,447</u>	<u>4,160</u>
Total current liabilities	<u>31,427</u>	<u>29,492</u>
NON CURRENT LIABILITIES:		
Long term liabilities	1,874	750
Liability due to acquisition activities	1,389	1,192
Accrued severance pay	<u>1,271</u>	<u>1,245</u>
Total non-current liabilities	<u>4,534</u>	<u>3,187</u>
Redeemable non- controlling interest	2,344	1,914
EQUITY:		
Magic Shareholders' equity	121,971	117,786
Non-controlling interests	934	575
Total equity	<u>122,905</u>	<u>118,361</u>
TOTAL LIABILITIES AND EQUITY	<u>161,210</u>	<u>152,954</u>