SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of September 2018

MAGIC SOFTWARE ENTERPRISES LTD.
(Name of Registrant)

5 HaPlada Street, Or-Yehuda, Israel 6021805
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ________

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAGIC SOFTWARE ENTERPRISES LTD.
(Registrant)

By: /s/ Amit Birk
Amit Birk
VP, General Counsel

Date: September 20, 2018

EXHIBITS

The following exhibits are attached:

99.1 Condensed Interim Consolidated Financial Statements as of June 30, 2018 (Unaudited)

99.2 Management's Discussion and Analysis of Results of Operations for the Six Months ended June 30, 2018

Exhibit 99.1

MAGIC SOFTWARE ENTERPRISES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

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CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2018 Unaudited	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 78,220	$ 76,076
Short-term bank deposits	1,099	732
Marketable securities (Note 4)	11,919	14,138
Trade receivables (net of allowance for doubtful accounts of $ 3,710 and $ 3,852 at June 30, 2018 and December 31, 2017, respectively)	81,165	82,051
Other accounts receivable and prepaid expenses	10,874	8,643
Total current assets	183,277	181,640
LONG-TERM RECEIVABLES:		
Severance pay fund	3,101	3,226
Deferred tax assets	3,017	2,990
Other long-term receivables	4,607	2,015
Total long-term receivables	10,725	8,231
PROPERTY AND EQUIPMENT, NET	3,191	3,468
INTANGIBLE ASSETS, NET	45,901	51,011
GOODWILL	95,897	98,189
Total assets	$ 338,991	$ 342,539

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2018 Unaudited	December 31, 2017
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$ 9,316	$ 9,771
Trade payables	13,026	12,185
Accrued expenses and other accounts payable	26,244	27,789
Liabilities due to acquisition activities	1,080	3,906
Deferred revenues and customer advances	9,082	5,586
Total current liabilities	58,748	59,237
LONG TERM LIABILITIES:		
Long-term debt	25,491	27,814
Long-term liabilities due to acquisition activities	108	581
Deferred tax liabilities	10,937	11,331
Accrued severance pay	3,856	4,174
Total long-term liabilities	40,392	43,900
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NON-CONTROLLING INTEREST (Note 2)	25,615	25,839
EQUITY:		
Magic Software Enterprises equity:		
Share capital:		
Ordinary shares of NIS 0.1 par value - Authorized: 50,000,000 shares at June 30, 2018 and December 31, 2017; Issued and Outstanding: 44,489,203 and 44,488,578 shares at June 30, 2018 and December 31, 2017, respectively	1,040	1,040
Additional paid-in capital	183,455	183,445
Accumulated other comprehensive income (loss)	(4,212)	83
Retained earnings	29,993	25,713
Total equity attributable to Magic Software Enterprises' shareholders	210,276	210,281
Non-controlling interests	3,960	3,282
Total equity	214,236	213,563
Total liabilities, redeemable non-controlling interest and equity	$ 338,991	$ 342,539

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Six months ended June 30,	
	2018	2017
	Unaudited	
Revenues:		
Software	$ 12,012	$ 10,488
Maintenance and technical support	15,210	14,434
Consulting services	112,725	101,318
Total revenues	139,947	126,240
Cost of revenues:		
Software	4,916	4,672
Maintenance and technical support	1,933	1,950
Consulting services	87,879	79,157
Total cost of revenues	94,728	85,779
Gross profit	45,219	40,461
Operating costs and expenses:		
Research and development, net	3,118	3,523
Selling and marketing	14,335	13,595
General and administrative	12,215	10,664
Total operating costs and expenses	29,668	27,782
Operating income	15,551	12,679
Financial expense (income), net	(447)	822
Income before taxes on income	15,998	11,857
Taxes on income	3,410	2,834
Net income	12,588	9,023
Net income attributable to redeemable non-controlling interests	1,417	872
Net income attributable to non-controlling interests	873	304
Net income attributable to Magic Software Enterprises' shareholders	$ 10,298	$ 7,847
Net earnings per share attributable to Magic Software Enterprises' shareholders:		
Basic earnings per share	$ 0.23	$ 0.18
Diluted earnings per share	$ 0.23	$ 0.18

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
	Unaudited	
Net income	$ 12,588	$ 9,023
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments, net	(5,552)	8,643
Unrealized gain (loss) from available-for-sale securities	(95)	45
Gain reclassified into earnings from marketable securities	-	(106)
Total other comprehensive income (loss), net of tax	(5,647)	8,582
Total comprehensive income	6,941	17,605
Comprehensive income attributable to redeemable non-controlling interests	260	3,511
Comprehensive income attributable to non-controlling interests	678	355
Comprehensive income attributable to Magic Software Enterprises' shareholders	$ 6,003	$ 13,739

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Attributable to the Company's shareholders						
	Number of Shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Non-controlling interests	Total equity
Balance as of December 31, 2016	44,355,770	1,036	182,785	(7,428)	19,825	423	196,641
Exercise of stock options	132,808	4	582	-	-	-	586
Stock-based compensation	-	-	78	-	-	-	78
Redeemable non-controlling interests reclassification to non-controlling interests	-	-	-	-	-	2,440	2,440
Dividend	-	-	-	-	(9,554)	(571)	(10,125)
Other comprehensive income	-	-	-	7,511	-	54	7,565
Net income	-	-	-	-	15,442	936	16,378
Balance as of December 31, 2017	44,488,578	1,040	183,445	83	25,713	3,282	213,563
Exercise of stock options	625	-	2	-	-	-	2
Stock-based compensation	-	-	8	-	-	-	8
Accretion of redeemable non-controlling interests	-	-	-	-	(235)	-	(235)
Dividend	-	-	-	-	(5,783)	-	(5,783)
Other comprehensive loss	-	-	-	(4,295)	-	(195)	(4,490)
Net income	-	-	-	-	10,298	873	11,171
Balance as of June 30, 2018 (unaudited)	44,489,203	1,040	183,455	(4,212)	29,993	3,960	214,236

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30, 2018	Six months ended June 30, 2017
	Unaudited	
Cash flows from operating activities:		
Net income	$ 12,588	$ 9,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,346	6,891
Stock-based compensation	8	30
Amortization of marketable securities premium and accretion of discount	125	134
Gains reclassified into earnings from marketable securities	-	(106)
Increase in trade receivables, net	(3,864)	(8,557)
Increase in other long term and short term accounts receivable and prepaid expenses	(2,243)	(1,376)
Increase in trade payables	1,117	64
Change in value of loans	(1,456)	3,049
Increase (decrease) in accrued expenses and other accounts payable	(137)	1,495
Increase in deferred revenues	3,766	4,199
Change in deferred taxes, net	(164)	(371)
Net cash provided by operating activities	16,086	14,475

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30, 2018	Six months ended June 30, 2017
	Unaudited	
Cash flows from investing activities:		
Capitalized software development costs	(1,893)	(2,140)
Purchase of property and equipment	(400)	(872)
Cash paid in conjunction with acquisitions, net of acquired cash	(3,484)	(3,808)
Proceeds from maturity and sale of marketable securities	2,000	2,225
Investment in marketable securities and short-term bank deposits	(367)	(2,589)
Short-term loan to a related-party	-	1,183
Net cash used in investing activities	(4,144)	(6,001)
Cash flows from financing activities:		
Proceeds from exercise of options by employees	2	332
Dividend paid	(5,977)	(3,697)
Dividend paid to non-controlling interests	-	(209)
Dividend paid to redeemable non-controlling interests	(1,413)	(1,251)
Short-term credit, net	-	497
Long-term loan received	546	6,423
Repayment of long-term loans	(1,550)	(94)
Net cash provided by (used in) financing activities	(8,392)	2,001
Effect of exchange rate changes on cash and cash equivalents	(1,406)	1,505
Increase in cash and cash equivalents	2,144	11,980
Cash and cash equivalents at the beginning of the year	76,076	75,314
Cash and cash equivalents at end of the period	$ 78,220	$ 87,294

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

NOTE 1:- GENERAL

Magic Software Enterprises Ltd., an Israeli company ("the Group" or "the Company"), is a global provider of: (i) proprietary application development and business process integration platforms that accelerate the planning, development, deployment and integration of on-premise, mobile and cloud business applications ("the Magic Technology"); (ii) selected packaged vertical software solutions; as well as (iii) a vendor of software services and IT outsourcing software services.

Magic Technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. To complement its software products and to increase its traction with customers, the Group also offers a complete portfolio of software services in the areas of infrastructure design and delivery, application development, technology planning and implementation services, communications services and solutions, and supplemental IT professional outsourcing services. The Company reports its results on the basis of two reportable business segments: software services (which include proprietary and non-proprietary software solutions, maintenance and support and related services) and IT professional services.

The principal markets of the Group are in United States, Israel, Europe and Japan.

NOTE 2:- BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES GENERAL

Principals of consolidation:

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. Intercompany balances and transactions, including profit from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

Changes in the parent's ownership interest in a subsidiary with no change of control are treated as equity transactions, with any difference between the amount of consideration paid and the change in the carrying amount of the non-controlling interest, recognized in equity.

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of ASC 810 "Consolidation" and ASC 480-10-S99-3A, "Distinguishing Liabilities from Equity".

Unaudited condensed interim financial information:

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 20-F of the Company for the year ended December 31, 2017.

Operating Results for the six months period ending June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements as of that date.

NOTE 2:- BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES GENERAL (Cont.)

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2017, contained in the Company’s Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2018, have been applied consistently in these unaudited condensed interim consolidated financial statements, except for, during the first half of 2018, changes associated with recent accounting standards for revenue recognition and change in accounting policy regarding the presentation of the adjustment to the net income attributable to Magic Software Enterprises’ shareholders as a result of accretion of redeemable non-controlling interest as detailed below.

Use of Estimates:

The preparation of the condensed interim consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. The Company’s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The most significant assumptions are employed in estimates used in determining values of goodwill and identifiable intangible assets and their subsequent impairment analysis, redeemable non-controlling interests, revenue recognition, tax assets and tax positions, legal contingencies, research and development capitalization, contingent consideration related to acquisitions and stock -based compensation costs. Actual results could differ from those estimates.

Changes in accounting policies

a. Effective as of January 1, 2018, the Company has followed the provisions of Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). The guidance provides a unified model to determine how revenue is recognized. See Note 3 for further details.

The following is a description of principal activities from which the Company generates revenue. Revenues are recognized when control of the promised goods or services are transferred to the customers in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company enters into contracts that can include various combinations of products and software and IT services, as detailed below, which are generally capable as being distinct from each other and accounted for as separate performance obligations.

The Company derives its revenues from licensing the rights to use software (proprietary and non-proprietary), provision of related services, maintenance and technical support as well as from other software and IT professional services (either fixed price or based on time and materials). The Company sells its software primarily through direct sales force and indirectly through distributors and value added resellers.

The Company accounts for its software sales and related services in accordance with ASC 606. Software sales may be perpetual or time limited in its nature. In accordance with ASC 606, the Company will continue to recognize revenue from its software sales at the time of delivery when the customer accepts control of the software. The Company has concluded that its software is distinct as the customer can benefit from the software on its own.

NOTE 2:- BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES GENERAL (Cont.)

For contracts with customers that contain multiple performance obligations, the Company accounts for each individual performance obligation separately, if they are distinct from each other. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of software sales are typically estimated using the residual approach. Standalone selling prices of software and IT services are typically estimated based on observable transactions when these services are sold on a standalone basis.

Post contract support includes annual maintenance contracts providing for unspecified upgrades for new versions and enhancements on a when-and-if-available basis for an annual fee. The right for an unspecified upgrade for new versions and enhancements on a when-and-if-available basis do not specify the features, functionality and release date of future product enhancements for the customer to know what will be made available and the general timeframe in which it will be delivered. The Company considers the post contract support performance obligation as a distinct performance obligation that is satisfied over time, and as such, it recognizes revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the software, typically twelve (12) months.

Revenues from contracts that involve significant customization to customer-specific specifications are performance obligations the Company generally accounts for as performance obligations satisfied over time. The underlying deliverable is owned and controlled by the customer, and does not create an asset with an alternative use to the Company. The Company recognizes revenue of such contracts using cost based input methods, which recognize revenue and gross profit as work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss for the entire contract.

Deferred revenues, which represent a contract liability, include unearned amounts received under maintenance and support (mainly) and amounts received from customers for which revenues have not yet been recognized.

Revenue from third-party sales is recorded at a gross or net amount according to certain indicators. The application of these indicators for gross and net reporting of revenue depends on the relative facts and circumstances of each sale and requires significant judgment.

The Company pays commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales or profit goals. Sales commissions are considered incremental costs of obtaining a contract with a customer and are deferred and amortized. The Company is required to capitalize and amortize incremental costs of obtaining a contract, such as certain sales commission costs, on a systematic basis that is consistent with the transfer to the customer of the performance obligations to which the asset relates. Amortization expenses related to these costs are included in sales and marketing expenses in the accompanying consolidated statements of operations.

b. The Company changed its accounting policy regarding the presentation of the adjustment to the net income attributable to Magic Software Enterprises' shareholders as a result of accretion of redeemable non-controlling interest. According to the new accounting policy, the Company presents the accretion amount in the calculation of the earnings per share in the notes of the financial statements, compared to the previous presentation on the face of the consolidated statements of income, since Company's management believes that reflecting the effects of the accretion as an adjustment to income available to Magic Software Enterprises' shareholders in the earnings per share note is a more appropriate presentation. The change in policy had no effect on previously reported net income or Magic Software Enterprises' shareholders' equity.

NOTE 2:- BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES GENERAL (Cont.)

Recently Issued Accounting Pronouncements:

In June 2016, the FASB Issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The standard will be effective beginning January 1, 2020, with early adoption permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial Statements

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842), whereby, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Companies may not apply a full retrospective transition approach. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is evaluating the potential impact of this pronouncement.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." These amendments expand the scope of Topic 718, Compensation - Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. This ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. The guidance is effective for the interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the potential effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 (ASU 2017-04): Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

NOTE 3:- REVENUE RECOGNITION

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. ASC 606 requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the prior guidance. The Company adopted ASC 606 on January 1, 2018 for all open contracts at the date of initial application, and applied the standard using modified retrospective approach, with the cumulative effect of applying ASC 606 recognized as an adjustment to the opening retained earnings balance. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The adoption of ASC 606 did not have a significant impact on the Company's financial statements.

Under ASC 606, an entity recognizes revenue when or as it satisfies a performance obligation by transferring software license or Software services to the customer, either at a point in time or over time. The Company recognizes its revenues from software sales at a point in time upon delivery of its software license. The Company recognizes revenue over time on significant customization contracts that are covered by contract accounting standards using cost inputs to measure progress toward completion of its performance obligations, which is similar to the method prior to the adoption of ASC 606.

NOTE 3:- REVENUE RECOGNITION (Cont.)

The following table includes estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period and are part of a contract that has an original expected duration of more than one year:

	Remainder of 2018	2019	2020	2021 and thereafter
Software license and related revenues and consulting services	$ 2,661	$ 4,946	$ 4,824	$ 769

In connection with the adoption of ASC 606, the Company is required to capitalize incremental costs that are related to sales during the period, consisting primarily of sales commissions earned when contracts are signed. As of January 1, 2018, the date the Company first adopted ASC 606, the Company did not have capitalized contract acquisition costs related to contracts that were not completed. For contracts that have a duration of less than one year, the Company follows ASC 606's practical expediency, and expenses these costs when incurred; for contracts with life exceeding one year, the Company records these costs in proportion to each completed contract performance obligation.

For disaggregation of revenue, refer to note 9.

Contract balances:

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	June 30, 2018 (unaudited)
Trade receivables	$ 75,584
Accrued revenues (short and long-term contract assets)	13,529
Deferred revenues (short-term contract liabilities)	9,082

The Company receives payments from customers based upon contractual payment schedules; trade receivable are recorded when the right to consideration becomes unconditional, and an invoice is issued to the customer. Contract assets include amounts related to the Company's contractual right to consideration for completed performance objectives not yet invoiced. Contract liabilities (deferred revenue) include payments received in advance of performance under the contract, and are realized with the associated revenue recognized under the contract.

During the six months period ended June 30, 2018, the Company recognized $7,832 that was included in deferred revenues (short-term contract liability) balance at January 1, 2018.

In accordance with ASC 606, the disclosure of the impact of adoption to the Company's condensed interim consolidated statements of income and balance sheets was as follows:

	Six months ended June 30, 2018		
	ASC 606	ASC 605	impact
		Unaudited	
Revenue	$ 1,252	$ 50	$ 1,202

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

NOTE 3:- REVENUE RECOGNITION (Cont.)

The Company pays commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales or profit goals. Sales commissions are considered incremental costs of obtaining a contract with a customer and are deferred and amortized. The Company capitalizes and amortizes incremental costs of obtaining a contract, such as certain sales commission costs, on a systematic basis that is consistent with the transfer to the customer of the performance obligations to which the asset relates. The Company generally expenses sales commissions as they are incurred when the amortization period would have been less than one year. Amortization expenses related to these costs are included in sales and marketing expenses in the accompanying condensed interim consolidated statements of operations.

The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

NOTE 4:- MARKETABLE SECURITIES

The Group invests in marketable debt securities, which were classified at fair value through profit or loss and as available-for-sale securities. The following is a summary of marketable securities:

a. Composition:

	June 30, 2018	December 31, 2017
Fair value through profit or loss (1)	$ 1,166	$ 1,209
Available-for-sale	10,753	12,929
	$ 11,919	$ 14,138

(1) The Group recognized trading gains in the amount of $21 and $0 during the six months period ended June 30, 2018 and 2017, respectively.

b. The following is a summary of marketable securities which are classified as available-for-sale:

	June 30, 2018				December 31, 2017			
	Amortized cost	Unrealized losses	Unrealized gains	Market value	Amortized cost	Unrealized losses	Unrealized gains	Market value
Available-for-sale:								
Corporate bonds	$ 10,905	$ (152)	$ -	$10,753	$ 12,987	$ (58)	$ -	$12,929
Total available-for-sale marketable securities	$ 10,905	$ (152)	$ -	$10,753	$ 12,987	$ (58)	$ -	$12,929

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

NOTE 4:- MARKETABLE SECURITIES (Cont.)

Marketable securities with contractual maturities within one year and from one to three years are as follows:

	Amortized cost	Unrealized gains (losses) Gains	Unrealized gains (losses) Losses	Market value
Due within one year	$ 4,513	$ -	$ (34)	$ 4,479
Due after one year through three years	$ 6,392	$ -	$ (118)	$ 6,274
Total	$ 10,905	$ -	$ (152)	$ 10,753

The total fair value of marketable securities with outstanding unrealized losses as of June 30, 2018 amounted to $10,753, while the unrealized losses for these marketable securities amounted to $152. Of the $152 unrealized losses outstanding as of June 30, 2018, a portion of which in the amount of $45 was related to marketable securities that were in a loss position for more than 12 months and the remaining portion of $107 was related to marketable securities that were in a loss position for less than 12 months.

As of June 30, 2018 and December 31, 2017, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss).

The following is the change in the other comprehensive income of available-for-sale securities during the six months ended June 30, 2018:

	Other comprehensive income (loss)
Other comprehensive income from available-for-sale securities as of January 1, 2018	$ (57)
Losses reclassified into earnings from marketable securities	-
Unrealized losses from available-for-sale securities	(95)
Other comprehensive income from available-for-sale securities as of June 30, 2018	$ (152)

The following is the change in the other comprehensive income of available-for-sale securities during the six months ended June 30, 2017:

	Other comprehensive income (loss)
Other comprehensive income from available-for-sale securities as of January 1, 2017	$ 40
Gains reclassified into earnings from marketable securities	(106)
Unrealized losses from available-for-sale securities	45
Other comprehensive loss from available-for-sale securities as of June 30, 2017	$ (21)

NOTE 5:- FAIR VALUE MEASURMENTS

In accordance with ASC 820, the Company measures its investment in marketable securities and foreign currency derivative contracts at fair value. Generally, equity funds are classified within Level 1, this is because these assets are valued using quoted prices in active markets. Foreign currency derivative contracts, certain corporate bonds and convertible bonds are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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

NOTE 5:- FAIR VALUE MEASURMENTS (Cont.)

Contingent consideration is classified within Level 3. The Company values the Level 3 contingent consideration using discounted cash flow of the expected future payments, whose inputs include interest rate.

The Company's financial assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments as of the following dates:

	December 31, 2017			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate bonds	$ -	$ 12,929	$ -	$ 12,929
Convertible bonds	-	1,209	-	1,209
Total financial assets	$ -	$ 14,138	$ -	$ 14,138
Liabilities:				
Contingent consideration	$ -	$ -	$ 1,333	$ 1,333
Total financials liabilities	$ -	$ -	$ 1,333	$ 1,333

	June 30, 2018			
	Fair value measurements using input type Unaudited			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate bonds	$ -	$ 10,753	$ -	$ 10,753
Convertible bonds	-	1,166	-	1,166
Total financial assets	$ -	$ 11,919	$ -	$ 11,919
Liabilities:				
Contingent consideration	$ -	$ -	$ 504	$ 504
Total financials liabilities	$ -	$ -	$ 504	$ 504

Fair value measurements using significant unobservable inputs (Level 3):

	June 30, 2018	December 31, 2017
	Unaudited	
Opening balance	$ 1,333	$ 3,088
Payment of contingent consideration	(946)	(2,109)
Increase in fair value of contingent consideration	139	1,587
Decrease in fair value of contingent consideration	-	(1,287)
Decrease in liability against other receivables	-	(118)
Amortization of interest and exchange rate	(22)	172
Closing balance	$ 504	$ 1,333

NOTE 6:- COMMITMENTS AND CONTINGENCIES

From time to time, the Company and/or its subsidiaries are subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to intellectual property, contracts, employment and other matters. The Company accrues a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter.

Lawsuits have been brought against the Company in the ordinary course of business. The Company intends to defend itself vigorously against those lawsuits.

In August 2009, an Israeli software company and one of its owners initiated an arbitration proceeding against the Company and one of its subsidiaries, claiming an alleged breach of a non-disclosure agreement between the parties, or the First Arbitration. The software company sought damages in the amount of approximately NIS 52 million (approximately $13.4 million). The arbitrator rendered his decision in January 2015 and determined that we should pay damages in the amount of $2.4 million.

In September 2016, the same software company sought damages of NIS 34,106 million against the Company and one of its subsidiaries in an arbitration proceeding taking place between the parties (the “Arbitration Proceeding”). In the Arbitration Proceeding, the software company claims that warning letters that the Company sent to its clients in Israel and abroad, warning those clients against the possibility that the conversion procedure offered by the software company may amount to an infringement of the Company’s copyrights (the “Warning Letters”), as well as other alleged actions, have caused the software company damages resulting from loss of potential business. The Arbitration Proceeding is based on rulings given in the First Arbitration that was held between the parties in which it was decided that the Warning Letters constituted a breach of a non-disclosure agreement (NDA) signed between the parties, and upon damages that were awarded to the software company for the years 2009-2010. The software company claims that it was granted permission in the First Arbitration to seek damages relating to the years 2011 onwards in separate proceedings.

On January 23, 2017, the Company filed its statement of defense, maintaining, on various grounds, that the Lawsuit must be rejected, both in limine and on its merits. The software company filed its response on April 2, 2017. Both sides have submitted witness statements, as well as expert opinions relating to both financial issues, technical issues and Google Ads issues.

In view of: (i) the nature of the claims - both factual and legal - that were raised in the proceedings; (ii) the likelihood of an expert-based ruling; and (iii) the stage of the proceedings, where the witnesses and experts are yet to be cross-examined, it is impossible to properly evaluate the prospect of the Arbitration Proceeding being successful.

In February 2018, Comm-IT Ltd., a subsidiary of the Company commenced an action against a customer for payment of an overdue amount in the Supreme Court of the State of New York, New York County. In April 2018, the customer filed an answer in the action that included counterclaims asserting causes of action for breach of contract, fraud, and trespass to chattel. Based on the Company’s review of the allegations asserted in the counterclaims, it appears that the allegations do not have merit.

NOTE 7:- EQUITY

a. The Ordinary shares of the Company are listed on the NASDAQ Global Select Market in the United States and are traded on the Tel-Aviv Stock Exchange in Israel.

b. Stock Option Plans:

Under the Company’s 2007 Stock Option Plan, as amended (“the 2007 Plan”), options may be granted to employees, officers, directors and consultants of the Company and its subsidiaries. Pursuant to the original 2007 Stock Option Plan, the Company reserved 1,500,000 Ordinary shares for issuance. In 2012, the Company increased the number of Ordinary shares reserved for issuance under the 2007 Plan by additional 1,000,000 Ordinary shares.

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

NOTE 7:- EQUITY (Cont.)

On December 31, 2015 the Company's Board of Directors increased the amount of Ordinary shares reserved for issuance under the 2007 Plan by additional 250,000 Ordinary shares and extended the 2007 Plan by 10 years whereas it will expire on August 1, 2027. As of June 30, 2018, an aggregate of 1,000,000 Ordinary shares of the Company are available for future grants under the 2007 Plan. Each option granted under the 2007 Plan is exercisable for a period of ten years from the date of the grant of the option

The exercise price for each option is determined by the Board of Directors and set forth in the Company's award agreement. Unless determined otherwise by the Board of Directors, the option exercise price shall be equal to or higher than the share market price at the grant date. The options generally vest over 3-4 years. Any option that is forfeited or canceled before expiration becomes available for future grants under the 2007 Plan.

A summary of employee option activity under the 2007 Plan as of June 30, 2018 and changes during the six months ended June 30, 2018 are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2018	309,309	$ 4.38	3.97	$ 1,237
Granted	-	$ -		
Exercised	(625)	$ 4.00		
Forfeited	(21,875)	$ 6.89		
Outstanding at June 30, 2018	286,809	$ 4.19	3.25	$ 1,179
Exercisable at June 30, 2018	280,559	$ 4.15	3.21	$ 1,165

The aggregate intrinsic value in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on June 30, 2018. This amount is changed based on the market value of the Company's Ordinary shares. Total intrinsic value of options exercised during the six-month period ended June 30, 2018 and 2017 was $3 and $348, respectively. As of June 30, 2017, there was $3 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. This cost is expected to be recognized the second half of 2018.

c. On September 4, 2012, the Company's Board of Directors adopted a dividend distribution policy, subject to any applicable law. According to this policy, each year the Company will distribute a dividend of up to 50% of its annual distributable profits. It is possible that the Board of Directors will decide, subject to the conditions stated above, to declare additional dividend distributions. The Company's Board of Directors may at its discretion and at any time, change, the rate of dividend distributions and/or not to distribute a dividend, whether as a result of a one-time decision or a change in policy, all at its discretion.

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- EQUITY (Cont.)

On August 9, 2017, the Company's Board of Directors decided to amend the dividend distribution policy announced on September 5, 2012. According to the Company's amended policy, each year the Company will distribute a dividend of up to 75% of its annual distributable profits. The Company's Board of Directors may at its discretion and at any time, change, whether as a result of a one-time decision or a change in policy, the rate of dividend distributions and/or decide not to distribute a dividend, all at its discretion. On August 13, 2017, the Company declared a dividend distribution of $ 0.13 per share ($ 5,779 in the aggregate) which was paid on September 13, 2017. On February 28, 2018, the Company declared a dividend distribution of $ 0.13 per share ($ 5,784 in the aggregate) which was paid on March 26, 2018. Subsequent to the balance sheet date, on August 8, 2018, the Company declared a dividend distribution of $ 0.155 per share ($ 7,562 in the aggregate, see also Note 10) which was paid on September 5, 2018.

NOTE 8:- NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share:

	Six months ended June 30, 2018	Six months ended June 30, 2017
	Unaudited	
Net income attributable to Magic shareholders	$ 10,298	$ 7,847
Accretion of redeemable non-controlling interests	(235)	-
Net income attributable to Magic shareholders after accretion of redeemable non-controlling interests	10,063	7,847
Shares used to compute basic earnings per share	44,489,047	44,409,945
Effect of dilutive securities	143,897	165,657
Shares used to compute diluted earnings per share	44,632,944	44,575,602
Basic earnings per share	$ 0.23	$ 0.18
Diluted earnings per share	$ 0.23	$ 0.18

The total weighted average number of Ordinary shares related to the outstanding options excluded from the calculations of diluted earnings per share, since their effect was anti-dilutive, was 0 and 4,186 for the six months ended June 30, 2018 and 2017, respectively.

NOTE 9:- SEGMENT GEOGRAPHICAL INFORMATION

The Company's business is divided into the following geographic areas: Israel, Europe, United States, Japan and other regions. Total revenues are attributed to geographic areas based on the location of the customers.

The following table presents total revenues classified according to geographical destination for the six months ended June 30, 2018 and 2017:

	Six months ended June 30, 2018	Six months ended June 30, 2017
	Unaudited	
Israel	$ 51,043	$ 43,947
Europe	14,836	12,928
United States	66,313	60,500
Japan	4,830	4,688
Other	2,925	4,177
	$ 139,947	$ 126,240

NOTE 10:- SUBSEQUENT EVENTS

a. On July 12, 2018, the Company issued 4,268,293 ordinary shares at a price of $8.20 per share and in a total amount of $34,500 net of issuance expenses. The shares were issued to Israeli institutional investors and to our controlling shareholder, Formula Systems (1985) Ltd.

b. On August 8, 2018, the Company declared a dividend distribution of $0.155 per share ($7,562 in the aggregate) which was paid on September 5, 2018. The dividend distribution relates to the Company's earnings in the first half of 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OPERATIONS

The discussion and analysis which follows contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to future events and financial results. These include statements regarding our earnings, projected growth and forecasts, and similar matters which are not historical facts. We remind shareholders that forward-looking statements are merely predictions and therefore are inherently subject to uncertainties and other factors which could cause the actual future events or results to differ materially from those described in the forward-looking statements.

The condensed interim consolidated financial statements appearing elsewhere in this report should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended December 31, 2017. The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the operating results for the full fiscal year.

Overview

We are a global provider of (i) proprietary application development and business process integration platforms; (ii) selected packaged vertical software solutions; as well as (iii) a vendor of software services and IT outsourcing software services. Our software technology is used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, our technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. With respect to software services and IT outsourcing services, we offer a vast portfolio of professional services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, support services, cloud computing for deployment of highly available and massively-scalable applications and API's and supplemental outsourcing services. In addition, we offer a variety of proprietary comprehensive packaged software solutions through certain of our subsidiaries for: (i) revenue management and monetization solutions in mobile, wireline, broadband and mobile virtual network operator/enabler, or MVNO/E ("Leap"); (ii) enterprise management systems for both hubs and traditional air cargo ground handling operations from physical handling and cargo documentation through customs, seamless electronic data interchange, or EDI communications, dangerous goods, special handling, track and trace, security to billing ("Hermes"); (iii) enterprise human capital management, or HCM, solutions, to facilitate the collection, analysis and interpretation of quality data about people, their jobs and their performance, to enhance HCM decision making ("HR Pulse"); (iv) comprehensive systems for managing broadcast channels in the area of TV broadcast management through cloud-based on-demand service or on-premise solutions; and (vi) enterprise-wide and fully integrated medical platform ("Clicks"), specializing in the design and management of patient-file oriented software solutions for managed care and large-scale health care providers. The Clicks platform allows providers to securely access an individual's electronic health record at the point of care, and it organizes and proactively delivers information with potentially real time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.

Based on our technological capabilities, our software solutions enable customers to respond to rapidly-evolving market needs and regulatory changes, while improving the efficiency of their core operations. We have approximately 2,000 employees and operate through a network of over 3,000 independent software vendors, or ISVs, who we refer to as Magic Software Providers, or MSPs, and hundreds of system integrators, distributors, resellers, and consulting and OEM partners. Thousands of enterprises in approximately 50 countries use our products and services.

Our application development and business process integration platforms consist of:

- **Magic xpa** – a proprietary application platform for developing and deploying business applications.
- **AppBuilder** – a proprietary application platform for building, deploying, and maintaining high-end, mainframe-grade business applications.
- **Magic xpi** – a proprietary platform for application integration.
- **Magic xpc –** a hybrid integration platform as a service (iPaaS).

These software solutions enable our customers to improve their business performance and return on investment by supporting cost-effective and rapid delivery integration of business applications, systems and databases. Using our products, enterprises and MSPs can achieve fast time-to-market by rapidly building integrated solutions and deploy them in multiple environments while leveraging existing IT resources. In addition, our software solutions are scalable and platform-agnostic, enabling our customers to build software applications by specifying their business logic requirements in a high-level language rather than in computer code, and to benefit from seamless platform upgrades and cross-platform functionality without the need to re-write their applications. Our platforms also support the development of mobile applications that can be deployed on a variety of smartphones and tablets, and in a cloud environment. In addition, we continuously evolve our platforms to include the latest technologies to meet the demands of our customers and the markets in which they operate.

We sell our platforms globally through a broad channel network, including our own direct sales representatives and offices, independent country distributors, MSPs that use our technology to develop and sell solutions to their customers, and system integrators. We also offer software maintenance, support, training and consulting services to supplement with our products, thus aiding in the successful implementation of Magic xpa, Magic xpi, AppBuilder and Magic xpc projects, and assuring successful operation of the platforms once installed.

Our vertical packaged software solutions include:

- **Clicks** – a proprietary comprehensive core software solution for medical record information management system, used in the design and management of patient-files for managed care and large-scale healthcare providers. The platform is connected to each provider's clinical, administrative and financial data base system, residing at the provider's central computer, and allows immediate analysis of complex data with potentially real-time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.

- **Leap™** – a proprietary comprehensive core software solution for Business Support Systems, or BSS, including convergent charging, billing, customer management, policy control, mobile money and payment software solutions for the telecommunications, content, Machine to Machine/Internet of Things or M2M/IoT, payment and other industries.

- **Hermes Solution** – Hermes Air Cargo Management System is a proprietary, state-of-the-art, packaged software solution for managing air cargo ground handling. Hermes software covers all aspects of cargo handling, from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods and special handling, tracking and tracing, security and billing. Customers benefit through faster processing and more accurate billing, reporting and ultimately enhanced revenue. The system also features the Hermes Business Intelligence (HBI) solution, adding unprecedented data analysis capabilities and management-decision support tools. The Hermes solution is delivered on a licensed or fully hosted basis

- **HR Pulse –** A customizable single-tenant SaaS tool that helps organizations to monitor employee performance, progress and potential through a menu of templates that can create new HCM solutions, complement existing processes, and/or integrate with legacy HR systems already in use by organizations.

- **MBS Solution** – a proprietary comprehensive core system for TV broadcast management for use in managing broadcast channels.

In addition, we provide a broad range of advanced software professional services and IT outsourcing services in the areas of infrastructure design and delivery, end-to-end application development, technology planning and implementation services, as well as outsourcing services to a wide variety of companies, including Fortune 1000 companies. The technical personnel we provide generally supplement in-house capabilities of our customers. We have extensive and proven experience with virtually all types of telecom infrastructure technologies in wireless and wire-line as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services.

We have substantial experience in end-to-end development of high-end software solutions, beginning with collection and analysis of system requirements, continuing with architecture specifications and setup, to software implementation, component integration and testing. From concept to implementation, from application of the ideas of startups requiring the early development of an application or a device, to somewhat larger, more established enterprises, vendors or system houses who need our team of experts to take full responsibility for the development of their systems and products. With our ability to draw on our pool of resources, comprised of hundreds of highly trained, skilled, educated and flexible engineers, we adhere to timelines and budget and work in full transparency with our customers every step of the way to create a tailor-made and cost-effective solution to answer all of our customers' unique needs.

Recent Financings

In July 2018, we raised approximately $34.5 million, net of issuance expenses, in a private offering of 4,268,293 ordinary shares, to Israeli institutional investors and to our controlling shareholder, Formula Systems (1985) Ltd., at a price of $8.20 per share.

Vision and Focus Areas

Our vision of how the software industry will evolve is being driven by the change in enterprise mobility, cloud computing and Big Data. We believe that our technology and broad-based services will allow us to expand our offerings into the cloud and mobile enterprise markets with speed, scale and flexibility. We intend to remain focused on both the technology and business architectures that will enable our customers to take advantage of the cost efficiencies and competitive advantages conveyed by these technologies. We also intend to continue to prudently take advantage of opportunities to capture market transitions and to put our assets to use in existing and new markets as the recovery continues. We believe that our strategy and our ability to innovate and execute will enable us to improve our competitive position in difficult business conditions and may continue to provide us with long-term growth opportunities.

Key Factors Affecting our Business

Our operations and the operating metrics discussed below have been, and will likely continue to be affected by certain key factors as well as certain historical events and actions. The key factors affecting our business and results of operations include among others, dependence on a limited number of core product families, selected vertical software solutions and services, competition, ability to realize benefits from business acquisitions, dependence on a key customer for a significant percentage of our revenues and changes in the mix of revenues generated by different revenue elements affect our gross margins and profitability.

Discussion of Critical Accounting Policies and Estimations

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the notes to our consolidated financial statements. These policies have been consistently applied in all material respects. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate under the circumstances. We believe the following accounting policies are the most critical in fully understanding and evaluating our financial condition and results of our operations under U.S. GAAP.

We believe that the assumptions and estimates associated with revenue recognition, business combination, Impairment of long-lived assets and intangible assets subject to amortization and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

See our Annual Report on Form 20-F for the year ended December 31, 2017, filed with the SEC on April 29, 2018, for a discussion of additional critical accounting policies and estimates. Except for policy changes in accounting for revenues associated with our adoption of Topic 606 (see Note 3 “Revenue Recognition” in the Notes to Condensed Interim Consolidated Financial Statements in Item 1) and change in accounting policy regarding the presentation of the adjustment to the net income attributable to Magic Software Enterprises’ shareholders as a result of accretion of redeemable non-controlling interest, there have been no changes in our critical accounting policies as compared to what was previously disclosed in the Form 20-F for the year ended December 31, 2017.

Contractual Obligations

Our primary contractual obligations are from operating leases for office space. We also have an obligation for accrued severance pay, mainly to our Israeli employees as required under Israeli labor law. We are legally required to pay severance upon certain circumstances, primarily upon termination of employment by our company, retirement or death of the respective employee. Our liability for all of our Israeli employees is fully provided for by monthly deposits with insurance policies and by an accrual.

Off-Balance Sheet Arrangements

We have not engaged in nor been a party to any off-balance sheet transactions.

Explanation of Key Income Statement Items

Revenues. Revenues are derived from sales of software licenses (proprietary and non-proprietary), related professional services, maintenance and technical support and other IT professional services, which include, cloud computing and IT consulting and outsourcing services. Revenues may continue to be affected by factors including market uncertainty, which can result in cautious spending in our global markets; changes in the geopolitical environment; sales cycles; fluctuation of exchange rates; changes in the mix of direct sales and indirect sales and variations in sales channels.

Cost of Revenues. Cost of revenues for software sales consist primarily of software production costs, royalties and licenses payable to third parties, as well as amortization of capitalized and acquired software costs. Cost of revenues for maintenance and technical support and professional services consists primarily of personnel expenses, subcontracting and other related costs. Cost of revenues for software sales is affected by changes in the mix of products sold; price competition; sales discounts; fluctuation of exchange rates; and increases in labor costs. Service gross margin may be impacted by various factors such as the change in mix between technical support services and advanced IT professional services, the timing of technical support service contract initiations and renewals and the timing of our strategic investments in headcount and resources to support this business.

Research and Development Expenses, Net. Research and development costs consist primarily of personnel expenses of employees engaged in on-going research and development activities, subcontracting, development tools and other related expenses. The capitalization of software development costs is applied as reductions to gross research and development costs to calculate net research and development expenses.

Selling and Marketing Expenses. Selling and marketing expenses consist primarily of salaries and related expenses for sales and marketing personnel, sales commissions, third party royalties, marketing programs and campaigns, website related expenses, public relations, on-line advertising, industry analyst relations, promotional materials, travel expenses and conferences and trade shows exhibit expenses, as well as amortization of acquired customer relationships recorded as a result of business combinations.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, human resources and administrative personnel, professional fees, legal expenses, provisions for doubtful accounts, and other general and administrative corporate expenses.

Financial income (expenses), net. Net financial income (expenses) consists primarily of interest earned on cash equivalents deposits and marketable securities, bank fees and interest paid on loans received, interest expenses related to liabilities in connection with acquisitions and foreign currency translation adjustments.

Results of Operations

Revenues. Our revenues for the six months period ended June 30, 2018, increased by $13.7 million, or 11%, to $139.9 million from $126.2 million for the six months period ended June 30, 2017. The increase in revenues was attributable to all our revenue streams following increased demand for software and professional services offerings mainly in Israel and in the U.S..

Cost of Revenues. Our cost of revenues for the six months period ended June 30, 2018, increased by $8.9 million, or 10%, to $94.7 million from $85.8 million for the six months period ended June 30,2017. The increase in our cost of revenues is consistent with the increase in revenues from professional services.

Gross Margin. Our gross margin in the six months periods ended June 30, 2018 and 2017 was 32%.

Our operating expenses totaled $29.7 million and 27.8 million in the six months period ended June 30, 2018 and 2017, respectively. The increase in our operating expenses is attributable mainly to (i) an increase in our sales commission expenses which is consistent with the increase in our revenues and (ii) an increase in headcount of sales and marketing employees.

Financial Expenses, Net. We recorded net financial income of $0.4 million in the six months periods ended June 30, 2018 compared to net financial expenses of $0.8 million recorded in the six months period ended June 30, 2017. The decrease in financial expenses was mainly attributable to decrease in financial expenses related to exchange rate differences.

Taxes on Income. We recorded taxes on income of $3.4 million in the six months period ended June 30, 2018 compared to $2.8 million recorded in the six months period ended June 30, 2017. The increase in our taxes on income is in line with the increase in our operating income.

Net Income Attributable to Our Shareholders. Our net income increased from $7.8 million in the first half of 2017 to $10.3 million in the first half of 2018, primarily attributable to (i) an increase in gross profit of $4.8 million and (ii) a decrease in financial expenses of $1.3 million, which was offset by (i) an increase in operating expenses of $1.9 million, (ii) an increase in taxes on income of $0.6 million, and (iii) an increase in net income attributable to non-controlling interests of $1.0 million.

Liquidity and Capital Resources

As of June 30, 2018, we had approximately $91.9 million in cash and cash equivalents, short-term bank deposits and available-for-sale marketable securities, with net working capital of approximately $124.5 million and long term debts to banks and others of approximately $25.5 million compared to approximately $91.0 million in cash and cash equivalents, short-term bank deposits and available-for-sale marketable securities, with working capital of approximately $124.5 million and long term debts to banks and others of approximately $27.8 million, as of December 31, 2017.

Net cash provided by operating activities for the first half of 2018, was $16.1 million compared to $14.5 for the first half of 2017. Net cash provided by operations in the first half of 2018 consists primarily of $12.6 million of net income adjusted for non-cash activities, including depreciation and amortization of $6.3 million and an increase in deferred revenues of $3.8 million, offset by a decrease of $3.9 million in trade receivables, an increase of $2.2 million in other long term and short term accounts receivable and prepaid expenses and a net increase in value of loans which are denominated in NIS as a result of the devaluation of the NIS in relation to the U.S. dollar.

Net cash used in investing activities was approximately $4.1 million for the first half of 2018, compared to net cash used in investing activities of approximately $6.0 million for the first half of 2017. Net cash used in investing activities in the first half of 2018 was primarily attributable to cash paid in conjunction with acquisitions, net of acquired cash of $3.5 million and capitalized software development costs of $1.9 million, offset by proceeds from maturity and sale of marketable securities of $2.0 million.

Net cash used in financing activities was approximately $8.4 million for the first half of 2018 compared to $2.0 million of net cash provided by financing activities for the first half of 2017. Net cash used in financing activities in the first half of 2018 was primarily attributable to dividend distributions of $6.0 million, and dividends paid to redeemable non-controlling interests of $1.4 million.

Based our current operating forecast, we believe that our cash and cash equivalents (including available-for-sale marketable securities) and existing working capital, will be sufficient to meet our cash requirements for working capital and capital expenditures for at least the next 12 months. We assume that our cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, accounts receivable collections, payments of loans and the timing and amount of tax and other payments.