



Magic Software Announces Second Quarter Results With Year-Over-Year 22% growth in Net Profit and 21% Increase in License Revenue

OR YEHUDA, ISRAEL (August 5, 2004) -- Magic Software Enterprises Ltd. (Nasdaq: MGIC), a leading provider of state-of-the-art business integration and development technology, reported today its results for the quarter ended June 30, 2004, showing year-over-year growth of 22% in net profit and a 21% increase in licenses revenue.

Second Quarter Results

Second quarter revenues were \$16.67 million, a 9% increase over \$15.30 million achieved in the comparable quarter of 2003. License sales for the quarter reached \$5.48 million, an increase of 21% over \$4.53 million recorded in the same quarter of 2003. Application sales were \$1.78 million, an increase of 7% over \$1.66 million achieved in the comparable quarter of 2003, while revenues from maintenance and support, at \$3.07 million, increased 15% over \$2.67 million in the same period of 2003. Revenues from consulting and other services, at \$6.34 million, decreased 2% from \$6.45 million in the comparable quarter.

Gross profit in the second quarter of 2004 was \$10.2 Million, an increase of 8% over \$9.4 million recorded in the comparable quarter of 2003. Net profit for the second quarter was \$914,000 (or \$0.03 per share), an increase of 22% over net profit of \$752,000 (or \$0.03 per share) in the second quarter of 2003.

In the second quarter of 2004, Europe accounted for 42% of total revenue, while North America, Japan and rest of the world accounted for 32%, 17% and 9%, respectively.

Menachem Hasfari, CEO of Magic Software commented: "We are pleased with the Company's achievements this quarter, and especially with the growth of our sales in software licenses, which is mainly attributable to our integration platform, iBOLT."

"Of particular encouragement is the growth in iBOLT partnership recruitment", noted Hasfari. "27 new iBOLT partners have been recruited during the quarter in Europe, North and Latin America and Japan. This is in line with our strategy in building a strong community of iBOLT partners to ensure growth. Together with the upcoming launch of the ground-breaking Version 2 of iBOLT in October 2004, Magic is well placed to effectively meet the challenges of the business integration market."

Accomplishments

The following highlights were announced or occurred since Magic Software Enterprises' last earnings statement:

A number of existing major customers, including the Supreme Court of California and the court system of San Francisco, have agreed to extend their contract for technical support and professional services in addition to increasing their existing software licenses for the iBOLT Integration Suite and eDeveloper.

A six-month extension to an agreement with a world leader in package delivery and supply chain services for approximately \$500,000 in additional development services.

Magic's Solution Partner, Access Data Corporation (ADC) of Angel Fire, New Mexico, has successfully deployed and integrated the Magic-based Sleuth© system, which is a

comprehensive public safety records management solution, for the State of Colorado, Department of Corrections.

UK-based Denholm Logistics Ltd. will upgrade and enhance their freight and haulage systems using eDeveloper 9.4, Magic Software's flagship application development environment.

Magic Software's iBOLT Integration Suite was named in the SD Times 100 For "Innovative Leadership In The Software Development Industry."

Conference Call

Magic Software will host a conference call today, August 5th, 2004, at 10:00 a.m. EDT, 14:00 GMT and 17:00 in Israel, to discuss the Company's Second quarter financial results. To participate, interested parties should call the appropriate number listed below at least five to ten minutes prior to the start of the call:

North America: 1 866 276 1002 or 1 866 500 4964
Israel: 03 925 5910
All others: +972 3 925 5910

Callers should reference "Magic Software Q2 Earnings Conference Call" with the Operator.

Additionally, a live Webcast of the conference call can be accessed from the Magic Website <http://www.magicsoftware.com/investors>.

A replay of the conference call will be available at <http://www.magicsoftware.com/investors>.

About Magic Software Enterprises

Magic Software Enterprises, a member of the Formula Group (Nasdaq: FORTY), develops, markets and supports software development, deployment and integration technology that enables enterprises to accelerate the process of building and deploying applications that can be rapidly customized and integrated with existing systems. Magic technology, applications and professional services are available through a global network of subsidiaries, distributors and Magic solutions partners in approximately 50 countries. The Company's North American subsidiary is located at 17310 Redhill Avenue #270, Irvine, CA 92614-5637, telephone (800) 345-6244, (949) 250-1718, fax (949) 250-7404, <http://www.magicsoftware.com/>.

The Formula Group is an international information technology company principally engaged, through its subsidiaries and affiliates, in providing software consulting services, developing proprietary software products and producing computer-based solutions.

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.

Company Contact:

Hilel Kremer
CFO
Magic Software Enterprises Ltd.
(972) 538 9224
Hilelk@magicsoftware.com

Investor Relations Contact:

Ehud Helft/Kenny Green
Gelbart Kahana International
1-866-704-6710
Ehud@gk-biz.com
Kenny@gk-biz.com

Consolidated Balance Sheets

(US Dollars in Thousands)

| | June 30, 2004 (Unaudited) | December 31, 2003 |
|---------------------------------------------------|------------------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$9,220 | \$13,581 |
| Short term marketable securities | 4,226 | ---- |
| Accounts receivable | | |
| Trade receivables | 21,697 | 19,725 |
| Other receivables and prepaid expenses | 3,500 | 3,269 |
| Inventory | 397 | 188 |
| Total current assets | 39,040 | 36,763 |
| Severance pay fund | 1,947 | 1,781 |
| Long term deposits | 226 | 279 |
| Investments in affiliated companies | 190 | 100 |
| Fixed assets, net | 7,445 | 7,855 |
| Goodwill | 21,472 | 20,776 |
| Other assets, net | 10,186 | 10,246 |
| Total assets | \$80,506 | \$77,800 |
| Liabilities | | |
| Current liabilities | | |
| Short-term bank debt | \$1,871 | \$2,368 |
| Trade payables | 2,745 | 3,249 |
| Accrued expenses and other liabilities | 16,364 | 14,348 |
| Total current liabilities | 20,980 | 19,965 |
| Long-term loans | 78 | 288 |
| Accrued severance pay | 2,323 | 2,166 |
| Minority interests | 790 | 1,457 |
| Shareholders' equity | | |
| Share capital | 826 | 805 |
| Capital surplus | 105,443 | 104,685 |
| Treasury stock | (5,773) | (5,773) |
| Accumulated deficit | (44,161) | (45,793) |
| Total shareholders' equity | 56,335 | 53,924 |
| Total liabilities and shareholders' equity | \$80,506 | \$77,800 |

Unaudited Consolidated Statement of Operations

(US Dollars in Thousands)

| | Three Months ended June 30, | | Six Months ended June 30, | |
|------------------------------------------------------------|--------------------------------|-----------------|------------------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues | | | | |
| Software sales | \$5,481 | \$4,525 | \$10,942 | \$8,602 |
| Applications | 1,778 | 1,661 | 3,442 | 3,324 |
| Maintenance | 3,070 | 2,666 | 5,865 | 5,245 |
| Consultancy & other services | 6,338 | 6,449 | 12,872 | 13,256 |
| Total Revenues | \$16,667 | \$15,301 | \$33,121 | \$30,427 |
| Cost of Revenues | | | | |
| Software sales | \$1,099 | \$1,128 | \$2,347 | \$1,944 |
| Applications | 416 | 220 | 1,035 | 464 |
| Maintenance | 892 | 664 | 1,696 | 1,255 |
| Consultancy & other services | 4,074 | 3,867 | 7,843 | 8,450 |
| Total Cost of Revenues | \$6,481 | \$5,879 | 12,921 | 12,113 |
| Gross Profit | \$10,186 | \$9,422 | \$20,200 | \$18,314 |
| Research & development, net | 869 | 1,142 | 2,074 | 2,147 |
| Sales, marketing, and general & administrative expenses | 7,927 | 7,125 | 15,404 | 14,346 |
| Depreciation | 495 | 397 | 934 | 809 |
| Operating Income | \$895 | \$758 | \$1,788 | \$1,012 |
| Financial expenses (income), net | 41 | (185) | 156 | (230) |
| Income before taxes | 854 | 943 | 1,632 | 1,242 |
| Taxes on income | - | (95) | - | 14 |
| Income before minority interests | 854 | 848 | 1,632 | 1,228 |
| Minority interests in income of subsidiaries | 30 | 96 | 90 | 204 |
| Equity gains | 90 | | 90 | |
| Net income | \$914 | \$752 | \$1,632 | \$1,024 |
| Basic Earnings per Share | \$0.03 | \$0.03 | \$0.05 | \$0.03 |
| Diluted Earnings per Share | \$0.03 | \$0.03 | \$0.05 | \$0.03 |
| Weighted Avg. Shares Outstanding (000) | 31,162 | 29,474 | 31,109 | 29,492 |
| Diluted Weighted Avg. Shares Outstanding (000) | 32,335 | 30,021 | 32,335 | 29,768 |