



## Magic Software Reports Second Quarter Results

**Or Yehuda, Israel (August 17, 2006)** -- 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, 2006.

### Second Quarter Results

Total revenues for the second quarter ended June 30, 2006 were \$15.2 million, a decrease of 3% from the \$15.7 million reported in the comparable quarter of 2005.

License sales for the quarter, at \$3.9 million, decreased 11% from \$4.4 million in the second quarter of 2005. Application sales for the quarter were \$1.8 million, a decrease of 5% from \$1.9 million in the comparable quarter last year.

Revenue from maintenance and support, at \$3.8 million remained at the same level as in the second quarter of 2005. Consulting and other services revenue, at \$5.6 million, increased 2% from \$5.5 million for the comparable quarter of last year.

Gross profit margin for the second quarter of 2006 amounted to 53%, compared to a margin of 57% in the equivalent quarter in 2005.

Net loss for the second quarter of 2006 was \$1.337 million (or (\$0.04) per share) compared with a net loss of \$1.16 million (or \$0.04 per share) in the second quarter of 2005.

In the second quarter of 2006, Europe accounted for 35% of total revenue, while North America and Japan accounted for 37% and 16%, respectively. The rest of the world accounted for 12% of total revenue in the quarter.

### Results for the first half of 2006

Total revenue reached \$30.4 million, a decrease of 3% from \$31.2 million achieved in the first half of last year. License sales reached \$8.8 million, a decrease of 5% from the \$9.3 million achieved in the same period last year. Application revenue was \$3.2 million, a 22% decrease from the \$4.1 million achieved in the comparable 2005 period. Maintenance and support revenue totaled \$7.3 million, a 1% decrease from the \$7.4 million achieved in the same period of last year. Revenue from consulting and other services increased 7% over the same period last year, reaching \$11.1 million.

Gross profit reached \$16.5 million, a 10% decrease compared to the \$18.3 million achieved in the comparable period of last year.

Net loss totaled \$1.506 million (or (\$0.05) per share), compared to a net loss of \$0.996 million (or (\$0.03) per share) in the first half of 2005.

In the first half of 2006, Europe accounted for 35% of total revenue, while North America, Japan and rest of the world accounted for 35%, 18% and 12%, respectively. In the first half of 2005, Europe accounted for 40% of total revenue, while North America, Japan and the rest of the world accounted for 31%, 18% and 11% respectively.

Commenting on the quarter results, David Assia, Magic's CEO and Chairman of the Board said: "Our disappointing results this quarter can be attributed, to a large degree, to serious management problems at one of our major European subsidiaries, which has forced us to make a thorough re-structuring of our branch. We have recently appointed new local management and have consolidated our southern European operations. I anticipate that these changes will have a positive effect beginning in the fourth quarter.

We are continuing to grow our community of partners and have added over 20 new iBOLT partners this quarter. In addition we have also had excellent feedback for our new eDeveloper Version 10 composite application platform which was launched at the end of the quarter."

### **Accomplishments**

Since reporting its last earnings statement, Magic Software Enterprises has:

- Continued the successful execution of its SAP® Partners Program and crossed the 130 iBOLT SE Partners mark.
- Concluded a highly successful eDeveloper V10 introduction program. eDeveloper V10 became generally available as of June 30, 2006.
- Established an OEM Agreement with IBM, in which Magic Software will bundle IBM's DB2 Express with its new eDeveloper V10 Composite Applications platform.

Magic continues to strengthen its relationship with a worldwide community of software vendors and end-users who develop business applications powered by Magic's eDeveloper. Of particular note this quarter are:

- Farm Mutual, a large North American reinsurance company decided to use Magic's eDeveloper and iBOLT platforms to rebuild their operations infrastructure using eDeveloper.
- A major Israeli bank signed a site license agreement, enabling them to upgrade their entire operational systems to the eDeveloper platform, supporting the full Service Oriented Architecture (SOA).

This quarter has demonstrated a continuing customer reaffirmation of Magic as a strategic technology. Some of the iBOLT deals in the reported quarter include:

- Energywatch, an independent gas and electricity watchdog from UK that optimizes energy procurement deals
- A leading European systems supplier for the entire packaging management process
- A Worldwide leader of shipping services
- A commercial banking operation in Europe
- A UK based storage and distribution company
- B-Synch, which specializes in construction, added the iBOLT Integration Platform to its integration tool set
- Ekro, the world's largest veal producer, used iBOLT for automating manual communication with trading partners through Electronic Data Interchange (EDI)
- A major Israeli provider of mobile enterprise platforms has signed a OEM agreement to embed iBOLT into their mobile enterprise solutions which will be sold globally

### **eDeveloper V10 launch Highlights:**

- The test lab of the prominent US industry publication, Computer Reseller News, has awarded eDeveloper V10 with its "CRN Recommended" label, rating the product with 9 out of 10 stars. CRN highlighted its unique "composite programming of disparate technologies" features in comparison to traditional IDE's.
- The French magazine, Decision Distribution, described eDeveloper as one of the most advanced development environment available today.

- Another French magazine, Decision Informatique, singled out eDeveloper V10's cutting-edge Web-Services capabilities.
- The German magazine DV-Dialog portrayed the successful launch of eDeveloper V10 and described eDeveloper as an advanced development tool can be used to modernize organizational systems with its easy-to-use SOA features.

### **Conference Call**

Magic Software will host a conference call today, Thursday August 17th, 2006. The conference call will begin at 9am EST, 2pm GMT, or 4pm 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:

From the US: 1 866 652 8972  
From Canada: 1 888 604 5839  
From Israel: 03 918 0609  
All others: +972 3 918 0609

Callers should reference the Magic Software second quarter earnings conference call.

A replay of the conference call will be available approximately 48 hours after the call ends, and will be available for three months, at <http://www.magicsoftware.com/investors>.

### **About Magic Software Enterprises**

Magic Software, a subsidiary of Formula Systems, (Nasdaq:FORTY) provides a Service Oriented Platform (Application Integration, Business Process Management and Composite Applications) to rapidly develop, change and deploy solutions integrated with existing and legacy systems. Magic Software enables enterprises to increase their agility and rapidly adapt to business changes by aligning their IT with their business operations, by accelerating the evolution to a Service Oriented Architecture through Application Integration and by Business Process Management. Our customers develop and deploy applications that are rapidly customized and integrated with existing and legacy systems. Our products are built on 20 years of R&D and customer experience. We lead the industry in Composite Application Development. Magic technology, products and professional services are available through a global network of subsidiaries, distributors and over 2500 Magic Solutions Partners in approximately 50 countries. The Company's EMEA HQ offices are located in the Netherlands at Pelmolen 17 3994XX Houten, 0031-30.6566266. The company's North American subsidiary is located at 23046 Avenida de la Carlota Suite 300 Laguna Hills, CA 92653. Telephone (800) 345-6244, (949) 250-1718, fax (949) 250-7404, [www.magicsoftware.com](http://www.magicsoftware.com).

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

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## Consolidated Balance Sheets

(US Dollars in Thousands)

	June 30, 2006 (Unaudited)	December 31, 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$9,975	\$9,116
Short term deposits	170	368
Short term marketable securities	4,333	4,381
	14,478	13,865
Accounts receivables		
Trade receivables	13,276	14,572
Other receivables and prepaid expenses	3,262	2,832
Inventory	422	400
<b>Total current assets</b>	31,438	31,669
Severance pay fund	1,981	2,135
Long term deposits	622	805
Investments in affiliated companies	267	198
Fixed assets, net	6,577	6,955
Goodwill	21,800	20,762
Other assets, net	12,089	11,199
<b>Total assets</b>	\$74,774	\$73,723
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short-term bank debt	\$5,064	\$4,183
Trade payables	2,953	3,319
Accrued expenses and other liabilities	13,020	10,696
<b>Total current liabilities</b>	21,037	18,198
Long-term loans	243	165
Accrued severance pay	2,296	2,527
Minority interests	122	528
<b>Shareholders' equity</b>		
Share capital	830	829
Capital surplus	104,835	104,558
Treasury stock	(6,773)	(6,772)
Accumulated deficit	(47,816)	(46,310)
<b>Total shareholders' equity</b>	\$51,076	\$52,305
<b>Total liabilities and shareholders' equity</b>	\$74,774	\$73,723

## Unaudited Consolidated Statement of Operations

(US Dollars in Thousands)

	Three Months ended June 30,		Six Months ended June 30,	
	2006	2005	2006	2005
<b>Revenues</b>				
Software sales	\$3,930	\$4,408	\$8,776	\$9,278
Applications	1,776	1,894	3,182	4,101
Maintenance and support	3,848	3,858	7,334	7,404
Consultancy & other services	5,598	5,542	11,126	10,423
<b>Total Revenues</b>	<b>\$15,152</b>	<b>\$15,702</b>	<b>\$30,418</b>	<b>\$31,206</b>
<b>Cost of Revenues</b>				
Software sales	\$988	\$1,273	\$1,810	\$2,034
Applications	742	911	1,618	1,658
Maintenance and support	969	740	1,910	1,613
Consultancy & other services	4,379	3,821	8,531	7,618
<b>Total Cost of Revenues</b>	<b>\$7,078</b>	<b>\$6,745</b>	<b>13,869</b>	<b>12,923</b>
<b>Gross Profit</b>	<b>\$8,074</b>	<b>\$8,957</b>	<b>\$16,549</b>	<b>\$18,283</b>
Research & development, net	911	953	1,777	2,007
Sales, marketing, and general & administrative expenses	8,134	8,551	15,419	16,788
Depreciation	418	458	906	888
<b>Operating loss</b>	<b>(\$1,389)</b>	<b>(\$1,005)</b>	<b>(\$1,553)</b>	<b>(\$1,400)</b>
Financial income (expenses), net	167	(47)	96	(367)
Other income	-	-	-	1,169
Loss before taxes	(1,222)	(1,052)	(1,457)	(598)
Taxes on income	139	54	186	285
Loss before minority interests	(1,361)	(1,106)	(1,643)	(883)
Minority interests in income of subsidiaries	(12)	52	(68)	164
Equity gain (loss)	12	(2)	69	51
<b>Net Loss</b>	<b>(\$1,337)</b>	<b>(\$1,160)</b>	<b>(\$1,506)</b>	<b>(\$996)</b>
Basic and Diluted loss per Share	(\$0.04)	(\$0.04)	(\$0.05)	(\$0.03)
Basic and Diluted Weighted Avg. Shares Outstanding (000)	31,146	31,052	31,120	31,114