Magic Software Reports Results for the Second Quarter 2009

-- COMPANY REPORTS INCREASED PROFIT AND CASH DESPITE ECONOMIC SLOWDOWN --

Or Yehuda, Israel, August 4, 2009 -- Magic Software Enterprises Ltd. (NASDAQ: MGIC), a provider of application platforms and business and process integration solutions, today announced its financial results for the second quarter ended June 30, 2009. All references to $ are to US Dollars.

Financial Highlights

- Operating income in the second quarter increased to $1.0 million compared to $0.7 million in the first quarter of 2009.

- Operating income for the first half of 2009 grew to $1.7million, up from $1.5 million in the first half of 2008, representing a 16% increase.

- Net income for the second quarter rose to $1.1 million, up from $0.7 million in the first quarter of 2009.

- Net income for the first half of 2009 was $1.8 million, up from $1.7 million in the first half of 2008.

- In comparison to last year, the company reported a reduction in revenues mainly due to a slowdown in the Japanese and US markets.

- Total cash, cash equivalents and short-term investments as of June 30, 2009 increased to $37 million compared to $33 million at December 31, 2008.

- Cash flow from operations for the first half of 2009 amounted to $4.7 million.

Comments of Management

Guy Bernstein, Chairman of Magic Software, commented on the results: "While the outcome of the recession has affected our revenues, particularly in our Japanese and US markets, we succeeded in compensating with improved operational efficiency and shortened sales cycle. These measures have allowed us to present an increase in our profitability and cash balances. We are now starting to see signs of improvement in our US business, and we believe that these will translate into additional sales in the near future."

Summary of the Quarter

- The company won a significant number of new customers, many of which are in the US.

- The uniPaaS application platform continues to be adopted by worldwide customers, including the Norfolk and Norwich University NHS Trust in the UK.

- Despite the severe recession in Japan, the company is now implementing more than 50 uniPaaS RIA projects with Japanese customers and has won four new Japanese partners.

- The company is growing its presence in Eastern Europe with the win of new partners and customers such as DSB of the Czech Republic and AlphaSoft of Romania.

- Existing application platform partners worldwide are increasingly migrating to uniPaaS to prepare for the new opportunities presented by RIA and SaaS.

- The iBOLT business and process integration suite has new connectors and adaptors for HL7 (healthcare), Lotus Notes, and the Data Replicator for Salesforce.com. The expanded iBOLT range facilitated project wins in a number of countries including Austria, the US, and the Netherlands.

- The company's uniPaaS and iBOLT solutions attracted significant media attention in the quarter from specialist IT media publications including AjaxWorld, SDTimes, MicroScope, CRN, SaaSDirectory, CloudAve, IT Knowledge Exchange, SoftwareCEO, ZDNet, ComputerWorldUK, BTQ, CBR, businesscloud9, computing.co.uk, SOAWorld. For a full listing of our media coverage read here.

- Magic Software is listed by Gartner as a provider of SaaS/Cloud-Enabled Application Platforms and of Composite Applications. ['Hype Cycle for Application Development 2009', 22nd July 2009, ID G00168168].

- Magic Software is listed by Gartner as one of 13 strategic partners and long-term providers of application infrastructure, ['A Summary of Magic Quadrants for Application Infrastructure', 3rd March 2009, ID G00165017].

Non-GAAP Financial Measures

This release includes non-GAAP operating income, net income, basic and diluted earnings per share and other non-GAAP financial measures. These non-GAAP measures exclude the following items:

- Amortization of purchased intangible assets;
- In-process research and development capitalization and amortization and;
- Equity-based compensation expense.

Magic Software's management believes that the presentation of non-GAAP measures provide useful information to investors and management regarding financial and business trends relating to the Company's financial condition and results of operations as well as the net amount of cash generated by its business operations after taking into account capital spending required to maintain or expand the business.

These non-GAAP financial measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles. Magic Software believes that non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with Magic Software's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate Magic Software's results of operations in conjunction with the corresponding GAAP measures.

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

About Magic Software

Magic Software Enterprises Ltd. (NASDAQ: MGIC) is a leading provider of multiple-mode application platform solutions – including Full Client, Rich Internet Applications (RIA) or Software-as-a-Service (SaaS) modes - and business and process integration solutions. Magic Software has offices in 10 countries and a presence in over 50, as well as a global network of ISV's, system integrators, value-added distributors and resellers, and consulting and OEM partners. The company's award-winning code-free solutions give partners and customers the power to leverage existing IT resources, enhance business agility and focus on core business priorities. Magic Software's technological approach, product roadmap and corporate strategy are recognized by leading industry analysts. Magic Software has partnerships with global IT leaders including SAP AG, salesforce.com, IBM and Oracle. For more information about Magic Software and its products and services, visit www.magicsoftware.com, and for more about our industry related news, business issues and trends, read the Magic Software Blog.

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

Contacts

Hadas Gazit-Kaiser, CFO
Magic Software Enterprises Ltd.
Tel. +972 (0)3 538 9284
ir@magicsoftware.com

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

	Three months ended			Six months ended	
	June 30,		March 31,	June 30,	
	2009	**2008**	**2009**	**2009**	**2008**
		Unaudited			Unaudited
Revenues	13,595	16,030	13,770	27,365	31,100
Cost of Revenues	6,443	6,784	6,737	13,180	13,568
Gross profit	**7,152**	**9,246**	**7,033**	**14,185**	**17,532**
Research and development, net	260	460	339	599	1,021
Selling, general and					
administrative expenses	5,937	7,188	5,954	11,891	15,049
Total operating expenses, net	**6,197**	**7,648**	**6,293**	**12,490**	**16,070**
Operating income	**955**	**1,598**	**740**	**1,695**	**1,462**
Financial income (expenses), net	(78)	178	64	(14)	359
Other income (expenses), net	286	(61)	-	286	(18)
Income before taxes on income	**1,163**	**1,715**	**804**	**1,967**	**1,803**
Taxes on income	76	51	90	166	75
Income after taxes on income	**1,087**	**1,664**	**714**	**1,801**	**1,728**
Minority interest	-	2	-	-	(2)
Equity in losses of affiliates	-	-	-	-	(8)
Net income	**1,087**	**1,666**	**714**	**1,801**	**1,718**
Basic net earnings per share	0.03	0.05	0.02	0.06	0.05
Diluted net earnings per share	0.03	0.05	0.02	0.06	0.05
Weighted average number					
of shares used in computing net					
earnings per share					
Basic	31,894	31,732	31,894	31,894	31,677
Diluted	32,009	32,047	31,938	31,973	31,978

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

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
	Unaudited		**Unaudited**	
GAAP operating income	955	1,598	1,695	1,462
Amortization of intangibles	881	512	1,750	1,050
Capitalization of software development	(830)	(754)	(1,585)	(1,610)
Stock-based compensation	69	89	125	580
Total adjustments to GAAP	120	(153)	290	20
Non-GAAP operating income	1,075	1,445	1,985	1,482
GAAP net income	1,087	1,666	1,801	1,718
Total adjustments to GAAP as above	120	(153)	290	20
Non-GAAP net income	1,207	1,513	2,091	1,738
Non-GAAP basic net earnings per share	0.04	0.05	0.07	0.05
Weighted average number of shares used in computing basic net earnings per share	31,894	31,732	31,894	31,677
Non-GAAP diluted net earnings per share	0.04	0.05	0.07	0.05
Weighted average number of shares used in computing diluted net earnings per share	32,123	32,047	32,035	31,978

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

	June 30,	December 31,
	2009	**2008**
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	20,792	27,309
Short-term bank deposits	13,457	1,810
Available for sale marketable securities	2,594	3,469
Trade receivable, net	12,882	13,140
Other accounts receivable and prepaid expenses	2,807	1,933
Current assets of discontinued operation	31	31
Total current Assets	52,563	47,692
LONG-TERM INVESTMENTS:		
Severance pay fund	367	316
Long-term lease deposits	268	235
Total long-term investments	635	551
Property and equipment, net	4,999	5,436
Goodwill	16,505	16,829
Other intangible assets, net	10,490	10,656
TOTAL ASSETS	85,192	81,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term credit and current maturities of long term loans	89	147
Trade payables	3,175	2,988
Deferred revenues	6,014	1,643
Accrued expenses and other accounts payable	6,823	8,691
Current liabilities of discontinued operation	377	372
Total current liabilities	16,478	13,841
Long-term loans	31	33
Accrued severance pay	568	535
Total non-current Liabilities	599	568
SHAREHOLDERS' EQUITY	68,115	66,755
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	85,192	81,164