

Magic Software Enterprises Ltd
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Sales	\$ 17,632	\$ 15,117	\$ 50,804	\$ 45,536
Cost of revenues	7,936	7,312	23,320	21,179
Gross profit	9,696	7,805	27,484	24,357
Software development costs, net	1,140	1,338	3,236	3,114
Selling, general and administrative expenses	7,458	7,986	21,087	24,313
Restructuring expenses	-	2,125	-	2,125
Total operating expenses	<u>8,598</u>	<u>11,449</u>	<u>24,323</u>	<u>29,552</u>
Operating income (loss)	1,098	(3,644)	3,161	(5,195)
Financial income (expenses), net	(172)	191	(53)	286
Income (loss) before taxes	926	(3,453)	3,108	(4,909)
Taxes on income	<u>(119)</u>	<u>(55)</u>	<u>(462)</u>	<u>(241)</u>
	807	(3,508)	2,646	(5,150)
Minority interest	(7)	26	(5)	94
Equity gain (loss)	<u>(31)</u>	<u>(49)</u>	<u>(51)</u>	<u>20</u>
Net income (loss)	<u>769</u>	<u>(3,531)</u>	<u>2,590</u>	<u>(5,036)</u>
Basic net earnings (loss) per ordinary share	<u>\$ 0.02</u>	<u>\$ (0.11)</u>	<u>\$ 0.08</u>	<u>\$ (0.16)</u>
Diluted net earnings (loss) per ordinary share	<u>\$ 0.02</u>	<u>\$ (0.11)</u>	<u>\$ 0.08</u>	<u>\$ (0.16)</u>
Weighted average number of ordinary shares used in computing basic net earnings (loss) per ordinary share	31,486	31,210	31,417	31,150
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per ordinary share	31,831	31,210	31,970	31,150

Magic Software Enterprises Ltd
RECONCILIATION OF GAAP TO NON-GAAP RESULTS
(In thousands of U.S. dollars, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2007 <u>(unaudited)</u>	2006 <u>(unaudited)</u>	2007 <u>(unaudited)</u>	2006 <u>(unaudited)</u>
GAAP operating income (loss)	\$ 1,098	\$ (3,644)	\$ 3,161	\$ (5,195)
Amortization of intangibles	736	1,193	2,292	2,874
Capitalization of software development	(698)	(516)	(2,310)	(2,530)
Stock-based compensation	131	-	186	-
Total adjustments to GAAP	<u>169</u>	<u>677</u>	<u>168</u>	<u>344</u>
Non-GAAP operating income (loss)	<u>\$ 1,267</u>	<u>\$ (2,967)</u>	<u>\$ 3,329</u>	<u>\$ (4,851)</u>
GAAP net income (loss)	\$ 769	\$ (3,531)	\$ 2,590	\$ (5,036)
Total adjustments to GAAP as above	<u>169</u>	<u>677</u>	<u>168</u>	<u>344</u>
Non-GAAP net income (loss)	<u>\$ 938</u>	<u>\$(2,854)</u>	<u>\$ 2,758</u>	<u>\$ (4,692)</u>
Non-GAAP basic earnings (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>	<u>\$ (0.15)</u>
Weighted average number of ordinary shares used in computing basic net earnings (loss) per ordinary share	<u>31,486</u>	<u>31,210</u>	<u>31,417</u>	<u>31,150</u>
Non-GAAP diluted earnings (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>	<u>\$ (0.15)</u>
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per ordinary share	<u>31,831</u>	<u>31,566</u>	<u>31,970</u>	<u>31,568</u>

Magic Software Enterprises Ltd
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	As of	As of
	September 30,	December 31,
	2007	2006
	(unaudited)	(unaudited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,232	\$ 8,162
Short term bank deposits	87	69
Marketable securities	4,037	4,649
Trade accounts receivable	13,429	12,365
Other receivables and prepaid expenses	3,487	2,472
Inventory	280	328
Total Current Assets	33,552	28,045
Non-Current Assets		
Severance pay fund	2,215	2,176
Long term deposits	567	576
Investment in affiliated companies	162	213
Fixed assets, net	6,256	6,414
Goodwill	21,647	21,624
Other assets, net	10,966	10,863
Total Non-Current Assets	41,813	41,866
Total Assets	\$ 75,365	\$ 69,911
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term credit from banks	\$ 4,094	\$ 4,514
Trade accounts payable	3,237	3,491
Accrued expenses and other liabilities	13,880	11,399
Total Current Liabilities	21,211	19,404
Non-Current Liabilities		
Long-term loans	201	233
Accrued severance pay	2,555	2,499
Minority interests	137	131
Total Non-Current Liabilities	2,893	2,863
Shareholders' Equity	51,261	47,644
Total Liabilities and Shareholders' Equity	\$ 75,365	\$ 69,911