

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

	<u>Three months ended December 31,</u>		<u>Twelve months ended December 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	15,679	13,827	58,428	52,571
Cost of sales	6,612	6,279	27,340	25,167
Gross profit	9,067	7,548	31,088	27,404
Software development costs, net	837	458	2,716	2,462
Selling, general and administrative expenses	8,076	7,385	27,090	29,500
Restructuring expenses	-	167	-	2,153
Total operating expenses	8,913	8,010	29,806	34,115
Operating income (loss)	154	(462)	1,282	(6,711)
Financial income, net	136	218	160	332
Other income, net	95	278	170	278
Income (loss) before taxes	385	34	1,612	(6,101)
Taxes on income	49	39	362	310
	336	(5)	1,250	(6,411)
Minority interest	(17)	(37)	(22)	71
Equity gain (loss)	(35)	(4)	(86)	16
Net income (loss) before discontinued operation	284	(46)	1,142	(6,324)
Net income from discontinued operation	9,733	76	11,465	1,318
Net income (loss) after discontinued operation	10,017	30	12,607	(5,006)
Basic net earnings (loss) per ordinary share	\$0.32	\$0.0	\$0.40	\$(0.16)
Diluted net earnings (loss) per ordinary share	\$0.31	\$0.0	\$0.39	\$(0.16)
Weighted average number of ordinary shares used in computing basic net earnings (loss) per ordinary share	31,520	31,285	31,443	31,184
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per ordinary share	31,993	31,773	32,023	31,184

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

	Three months ended December 31,		Twelfth months ended December 31,	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
GAAP operating income (loss)	154	(462)	1,282	(6,711)
Amortization of intangibles	583	1,185	2,761	3,965
Capitalization of software development	(717)	(1,005)	(3,027)	(3,535)
Stock-based compensation	248	27	434	27
Total adjustments to GAAP	114	207	168	457
Non-GAAP operating income (loss)	268	(255)	1,450	(6,254)
GAAP net income (loss) before discontinued operation	284	(46)	1,142	(6,324)
Total adjustments to GAAP as above	114	207	168	457
Non-GAAP net income (loss) before discontinued operation	398	161	1,310	(5,867)
GAAP net income (loss)	10,017	30	12,607	(5,006)
Total adjustments to GAAP as above	114	207	168	457
Non-GAAP	10,131	237	12,775	(4,549)
Non-GAAP basic earnings (loss) per share	\$0.32	\$0.01	\$0.41	\$(0.15)
Weighted average number of ordinary shares used in computing basic net earnings (loss) per ordinary share	31,520	31,285	31,443	31,184
Non-GAAP diluted earnings (loss) per share	\$0.32	\$0.01	\$0.40	\$(0.15)
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per ordinary share	31,993	31,773	32,023	31,184

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

	As of December 31, 2007 (unaudited)	As of December 31, 2006 (unaudited)
ASSETS		
Current Assets		
Cash and cash equivalents	12,178	6,935
Short term bank deposits	89	69
Marketable securities	4,090	4,649
Trade accounts receivable	12,941	10,797
Other receivables and prepaid expenses	2,010	2,437
Inventory	124	249
Debtors from a subsidiaries sale	16,000	-
Total Current Assets	47,308	24,887
Non-Current Assets		
Severance pay fund	1,925	2,176
Long term deposits	472	522
Investment in affiliated companies	127	213
Fixed assets, net	5,758	6,049
Goodwill	15,986	15,693
Other assets, net	10,681	10,270
Assets from discontinued operation	41	11,362
Total Non-Current Assets	34,990	46,285
Total Assets	82,298	71,172
Current Liabilities		
Short-term credit from banks	3,621	4,514
Trade accounts payable	2,999	3,053
Accrued expenses and other liabilities	11,483	9,582
Total Current Liabilities	18,103	17,149
Non-Current Liabilities		
Long-term loans	132	233
Accrued severance pay	2,316	2,499
Minority interests	0	131
Liabilities from discontinued operation	503	3,516
Total Non-Current Liabilities	2,951	6,379
Shareholders' Equity	61,244	47,644
Total Liabilities and Shareholders' Equity	82,298	71,172