

MAGIC SOFTWARE ENTERPRISES LTD

Form 6-K

February 16, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**F O R M 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the month of February, 2005**

**MAGIC SOFTWARE ENTERPRISES LTD.**

(Name of Registrant)

5 HaPlada Street, Or-Yehuda, Israel 60218

(Address of Principal Executive Office)

**Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.**

**Form 20-F       Form 40-F**

**Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):**

**Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):**

**Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.**

**Yes       No**

**If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 -**

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**Company Contact:**

Investor Relations Contact

Hilel Kremer, CFO

Ehud Helft/Kenny Green

Magic Software Enterprises Ltd

Gelbert Kahana International

+972-3-538-9224

1-866-704-6710

hilelk@magicsoftware.com

Ehud@gk-biz.com,

Kenny@gk-biz.com

**Magic Software Reports Fourth Quarter**

**and Full Year 2004 Financial Results**

**Net income grows 129% and revenue 13% from 3rd quarter of 2004.**

**Annual net income grows 33% and revenue 3% over fiscal 2003.**

OR YEHUDA, ISRAEL (February 16, 2005) - Magic Software Enterprises Ltd. (Nasdaq NMS: MGIC), a leading provider of state-of-the-art business integration and development technology, reported today its results for the quarter and fiscal year ended December 31, 2004. The company reported net income growth of 129% and revenue growth of 13% over the third quarter of 2004, and net income growth of 33% and revenue growth of 3% as compared with the fiscal year ended December 31, 2003.

#### Fourth Quarter Results

Fourth quarter revenue reached \$17.03 million, a 13% increase over \$15.02 million reported for the third quarter of 2004 and a 2% decrease from \$17.30 million recorded in the comparable quarter in 2003.

License sales for the quarter reached \$4.96 million, a 5% increase from \$4.71 million as recorded in the third quarter of 2004 and a 22% decrease from \$6.36 million as reported in the fourth quarter of 2003. Application sales in the reported quarter, at \$2.65 million, grew 101% from \$1.32 million in the third quarter of 2004 and grew 18% from \$2.25 million in the comparable quarter in 2003. Revenue from maintenance and support, at \$3.48 million, increased 8% from the \$3.21 million achieved in the third quarter of 2004 and 22% from \$2.85 million as achieved in the fourth quarter of 2003. Revenue from consulting and other services, at \$5.94 million, grew 3% from \$5.77 as achieved in the third quarter of 2004 and 2% from \$5.83 as reported in the fourth quarter of 2003.

In the reported quarter, sales in Europe accounted for 37% of total revenue, while North America, Japan and the rest of the world accounted for 33%, 18% and 12% of total revenue respectively. Compared to the third quarter of 2004, sales in Europe grew 12%, while sales in North America, Japan and the rest of the world grew 11%, 12% and 15% respectively.

Gross profit in the reported quarter, at \$10.19 million, increased 10% from \$9.30 million as reported in the third quarter of 2004 and decreased 8% from gross profit of \$11.11 million as recorded in the comparable quarter in 2003.

Net profit for the fourth quarter of 2004 amounted to \$1.71 million (or \$0.05 per share), a 128% increase from \$0.75 million (or \$0.02 per share) as reported in the third quarter of 2004 and a 39% increase from \$1.23 million (or 0.04 per share) as reported in the comparable quarter in 2003.

#### Fiscal Year 2004 results

Total revenue in fiscal year 2004 reached \$65.2 million, an increase of 3% over the \$63.4 million achieved in 2003.

License sales in fiscal 2004 increased 5% over the \$19.7 million achieved in 2003, reaching \$20.6 million. Application revenue reached \$7.41 million, an increase of 2% over the \$7.28 million achieved in 2003. Maintenance and support revenue was \$12.56 million, a 16% increase from the \$10.85 million reported in the previous year, while revenue from consulting and other services totaled \$24.59 million, a 4% decrease from the \$25.55 million reported in fiscal year 2003.

Gross profit in 2004 reached \$39.69 million, a 1% increase over the \$39.25 million achieved in the same period last year.

Net profit totaled \$4.09 million (or \$0.13 per share), an increase of 33% over a net profit of \$3.07 million (or \$0.10 per share) in fiscal year 2003.

In fiscal year 2004, sales in Europe accounted for 39% of total revenue, while North America, Japan and the rest of the world accounted for 32%, 18% and 11% of total revenue respectively. Compared to fiscal year 2003, sales in Europe grew 3%, while sales in North America stayed the same and sales in Japan grew 21%.

Menachem Hasfari, CEO of Magic Software Enterprises, said: I am pleased to report improved results in the fourth quarter, exhibiting growth over the previous quarter in each of our business lines. iBOLT, Magic's growth engine, has performed well in the quarter and throughout 2004, reaching sales of over \$5 million dollars in its first full year of activity. In 2005, a significant part of Magic's marketing, business development and R&D resources is being targeted towards iBOLT in an effort to fully utilize its market potential. We believe that the upcoming release of the groundbreaking version 2.5 of iBOLT will strengthen our position and ability to compete effectively in the Integration and Business Process Management markets. We are making serious efforts in the area of customer care and customer retention, and our success so far has been reflected in the quarterly increase of 22% and the annual increase of 16% in maintenance and support revenue.

Hasfari continued: Our partnership with SAP, relating to a special edition of iBOLT for the SAP Business One product which we announced in November, has begun to open paths into the SAP worldwide partner community. A first installation was completed in Texas, USA, in record time and additional installations in various countries are forthcoming.

#### Accomplishments:

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

Some of the iBOLT deals announced, extended or completed in the reported quarter include:

\*

Uniq plc, a pan-European chilled foods group, which produces, sells and distributes products for retail grocery chains and food service outlets throughout Europe.

\*

John Menzies Distribution Ltd, a leading operator in the U.K. s news industry, distributing newspapers, magazines and periodicals.

\*

Freud Pozzo from Italy, one of the leading producers in the world of tools for the woodworking industry.

\*

Superior Court of California, County of San Francisco, for court management applications.

\*

NMB Heller NV, a Dutch joint venture between GE Capital Services and the ING Bank, continued development and implementation of Factorlink, an application for the financial sector.

Magic hosted a number of industry events with some of the leading industry experts, analysts and alliance partners (including IDS Scheer) to introduce iBOLT to potential customers and specifically to the Financial Sector.

SAP Partnership highlights:

\*

Magic signed a Services and Marketing Cooperation Agreement with SAP to introduce a Special Edition of iBOLT for SAP Business One. The Magic/SAP Partnership was the subject of two positive reports by leading analysts from Gartner Group and Forrester Research.

\*

Magic introduced iBOLT at several SAP Business One partners events and has been well received. Subsequently, SAP introduced Magic to local SAP offices worldwide and joint work has already begun in Europe, Japan and Israel.

\*

iBOLT Special Edition for SAP Business One has been successfully implemented at a SAP Business One customer, IFCO Systems, a U.S.-based international logistics service provider with approximately 140 locations worldwide.

### Conference Call

Magic Software will host a conference call today, Wednesday, February 16th, 2005. The conference call will begin at 10AM EST, 3PM GMT, or 5PM in Israel, to discuss the Company's fourth quarter and full year 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: 1 866 860 9642

From US or Canada: 1 866 485 2399

From Israel: 03 918 0610

All others: +972 3 918 0610

Callers should reference the Magic Software fourth quarter and annual 2004 results 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 Enterprises, a subsidiary of Formula Systems (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, Web site - [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.*

**Consolidated Balance Sheets***(US Dollars in Thousands)*

|   | December 31, 2004 | December 31, 2003 |
|---|-------------------|-------------------|
| <b>Assets</b>                           |                   |                   |
| <b><i>Current assets</i></b>            |                   |                   |
| Cash and cash equivalents               | \$7,580           | \$13,581          |
| Short term marketable securities        | 5,223             |                   |
|   | <b>12,803</b>     | <b>13,581</b>     |
| Accounts receivable                     |                   |                   |
| Trade receivables                       | 20,543            | 19,725            |
| Related parties                         | 43                | 48                |
| Other receivables and prepaid expenses  | 3,767             | 3,221             |
| Inventory                               | 433               | 188               |
| <b><i>Total current assets</i></b>      | <b>37,589</b>     | <b>36,763</b>     |
| Severance pay fund                      | 2,033             | 1,781             |
| Long term receivables and investments   | 388               | 379               |
| Fixed assets, net                       | 7,540             | 7,855             |
| Goodwill                                | 21,762            | 20,776            |
| Other assets, net                       | 10,973            | 10,246            |
| <b>Total assets</b>                     | <b>\$80,285</b>   | <b>\$77,800</b>   |
| <b>Liabilities</b>                      |                   |                   |
| <b><i>Current liabilities</i></b>       |                   |                   |
| Short-term bank debt                    | \$2,208           | \$2,368           |
| Trade payables                          | 2,920             | 3,249             |
| Accrued expenses and other liabilities  | 12,216            | 14,348            |
| <b><i>Total current liabilities</i></b> | <b>17,344</b>     | <b>19,965</b>     |
| Long-term loans                         | 109               | 288               |
| Accrued severance pay                   | 2,455             | 2,166             |
| Minority interests                      | 830               | 1,457             |
| <b>Shareholders' equity</b>             |                   |                   |
| Share capital                           | 826               | 805               |
| Capital surplus                         | 106,299           | 104,685           |



|  |                 |                 |
|--|-----------------|-----------------|
| Treasury stock                                   | (5,875)         | (5,773)         |
| Accumulated deficit                              | (41,703)        | (45,793)        |
| <b>Total shareholders' equity</b>                | <b>\$59,547</b> | <b>\$53,924</b> |
| <b>Total liabilities and shareholders equity</b> | <b>\$80,285</b> | <b>\$77,800</b> |

### Consolidated Statement of Operations

(US Dollars in Thousands)

|   | Three Months ended |                 | Twelve Months ended |                 |
|---|--------------------|-----------------|---------------------|-----------------|
|   | December 31,       |                 | December 31,        |                 |
|   | 2004               | 2003            | 2004                | 2003            |
| <b>Revenues</b>                                       |                    |                 |                     |                 |
| Software sales  | \$4,961            | \$6,361         | \$20,614            | \$19,712        |
| Applications  | 2,649              | 2,252           | 7,408               | 7,277           |
| Maintenance   | 3,477              | 2,852           | 12,555              | 10,853          |
| Consultancy & other services                          | 5,944              | 5,830           | 24,590              | 25,548          |
| <b>Total revenues</b>                                 | <b>\$17,031</b>    | <b>\$17,295</b> | <b>\$65,167</b>     | <b>\$63,390</b> |
| <b>Cost of revenues</b>                               |                    |                 |                     |                 |
| Software sales  | \$1,769            | \$1,546         | \$6,462             | \$5,105         |
| Maintenance   | 805                | 674             | 3,199               | 2,580           |
| Consultancy & other services                          | 4,271              | 3,966           | 15,818              | 16,454          |
| <b>Total cost of revenues</b>                         | <b>\$6,845</b>     | <b>\$6,186</b>  | <b>\$25,479</b>     | <b>\$24,139</b> |
| <b>Gross profit</b>                                   | <b>\$10,186</b>    | <b>\$11,109</b> | <b>\$39,688</b>     | <b>\$39,251</b> |
| Research & development, net                           | 1,036              | 1,385           | 3,845               | 4,775           |
| Sales, Marketing, General and administrative expenses | 7,849              | 7,813           | 30,778              | 29,087          |
| Depreciation  | 399                | 415             | 1,763               | 1,727           |
| <b>Operating income (loss)</b>                        | <b>\$902</b>       | <b>\$1,496</b>  | <b>\$3,302</b>      | <b>\$3,662</b>  |
| Financial income, net                                 | 1,023              | 108             | 912                 | 307             |
| Capital loss  |                    | 8               |                     | 42              |
| Income (loss) before taxes                            | 1,925              | 1,596           | 4,214               | 3,927           |

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|  |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| Taxes on income                                  |                | 106            | 281            | 230            |
| Income (loss) before minority                    | 214            | 1,490          | 3,933          | 3,697          |
| Interest   |                |                |                |                |
| Minority interests in                            | 5              | 224            | (78)           | 594            |
| income (losses) of subsidiaries                  |                |                |                |                |
| Equity gain (loss)                               | 6              | (36)           | 79             | (36)           |
| <b>Net income</b>                                | <b>\$1,712</b> | <b>\$1,230</b> | <b>\$4,090</b> | <b>\$3,067</b> |
| Earnings (loss) per share, basic and diluted     | \$0.05         | \$0.04         | \$0.13         | \$0.10         |
| Basic weighted avg. shares outstanding (000 s),  | 31,187         | 29,947         | 31,031         | 29,624         |
| Diluted weighted avg. shares outstanding (000 s) | 31,982         | 31,319         | 32,428         | 30,533         |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAGIC SOFTWARE ENTERPRISES LTD.

(Registrant)

By /s/ Menachem Hasfari

Menachem Hasfari

Chief Executive Officer

Date: February 16, 2005