

RETALIX LTD.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

U.S. \$ in thousands (except share and per share data)

	Three months ended March 31		Year ended December 31 2008 (*)
	2009	2008	(Unaudited)
	(Unaudited)	(Unaudited)	
REVENUES:			
Product sales	12,812	15,559	72,907
Service	34,120	38,374	148,720
T o t a l revenues	<u>46,932</u>	<u>53,933</u>	<u>221,627</u>
COST OF REVENUES:			
Cost of product sales	7,260	9,790	45,201
Cost of service	19,105	21,953	88,078
T o t a l cost of revenues	<u>26,365</u>	<u>31,743</u>	<u>133,279</u>
GROSS PROFIT	<u>20,567</u>	<u>22,190</u>	<u>88,348</u>
OPERATING EXPENSES:			
Research and development – net	6,831	10,775	38,357
Selling and marketing	4,769	5,952	23,623
General and administrative	5,556	6,342	25,677
Other income – net	(24)	-	(376)
Goodwill impairment (*)	-	-	(*)
T o t a l operating expenses	<u>17,132</u>	<u>23,069</u>	<u>87,281</u>
INCOME (LOSS) FROM OPERATIONS	3,435	(879)	1,067
FINANCIAL INCOME (EXPENSE), net	<u>(3,619)</u>	<u>143</u>	<u>(1,978)</u>
LOSS BEFORE TAXES ON INCOME	(184)	(736)	(911)
TAX BENEFIT	<u>66</u>	<u>447</u>	<u>5,446</u>
INCOME (LOSS) AFTER TAXES ON INCOME	(118)	(289)	4,535
SHARE IN INCOME OF AN ASSOCIATED COMPANY	<u>2</u>	<u>12</u>	<u>54</u>
NET INCOME (LOSS)	(116)	(277)	4,589
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>(143)</u>	<u>(257)</u>	<u>(537)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO RETALIX LTD.	<u>(259)</u>	<u>(534)</u>	<u>4,052</u>
EARNINGS (LOSSES) PER SHARE – in U.S. \$:			
Basic	<u>(0.01)</u>	<u>(0.03)</u>	<u>0.20</u>
Diluted	<u>(0.01)</u>	<u>(0.03)</u>	<u>0.20</u>
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS PER SHARE – in thousands:			
Basic	<u>20,393</u>	<u>20,106</u>	<u>20,265</u>
Diluted	<u>20,393</u>	<u>20,106</u>	<u>20,305</u>

(*) FY08 GAAP results are subject to change according to the final results of the impairment test on our long-lived assets, including the goodwill and other intangible assets carried on the balance sheet. The extent of the impairment under SFAS 142 and SFAS 144 will be determined after step two test is completed. Retalix management expects to recognize a GAAP non-cash impairment charge in the range of \$50M to \$65M net of tax, against the goodwill and other intangible assets on the balance sheet. Accordingly, all amounts indicated above with an “*”, as well as related totals and calculations that include such amounts, are subject to change upon completion of the impairment test.

RETALIX LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. \$ in thousands)

	<u>March 31</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	55,780	24,340	33,546
Marketable securities	232	3,823	3,239
Accounts receivable:			
Trade	52,664	81,757	71,017
Other	16,808	5,777	14,644
Inventories	1,701	1,089	1,037
Deferred income taxes	4,524	8,858	3,838
T o t a l current assets	<u>131,709</u>	<u>125,644</u>	<u>127,321</u>
NON-CURRENT ASSETS :			
Marketable debt securities	862	1,265	862
Deferred income taxes	12,432	5,827	13,423
Long-term receivables	3,635	5,116	3,382
Amounts funded in respect of employee rights upon retirement	7,803	9,949	8,663
Other	896	912	963
	<u>25,628</u>	<u>23,069</u>	<u>27,293</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>14,603</u>	<u>12,233</u>	<u>14,734</u>
GOODWILL	<u>108,686 (*)</u>	<u>113,205</u>	<u>108,842 (*)</u>
OTHER INTANGIBLE ASSETS, net of accumulated Amortization:			
Customer base	14,703 (*)	15,960	15,399 (*)
Other	2,068 (*)	4,095	2,400 (*)
	<u>16,771</u>	<u>20,055</u>	<u>17,799</u>
T o t a l assets	<u><u>297,397</u></u>	<u><u>294,206</u></u>	<u><u>295,989</u></u>

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RETALIX LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31		December 31,
	2009	2008	2008
	(Unaudited)		(Unaudited)
Liabilities and equity			
CURRENT LIABILITIES:			
Current maturities of long-term bank loans	238	277	249
Accounts payable and accruals:			
Trade	6,810	12,732	8,672
Employees and employee institutions	7,972	9,752	8,783
Accrued expenses	5,909	5,875	6,527
Other	4,436	3,554	2,125
Deferred revenues	20,516	16,865	19,135
T o t a l current liabilities	<u>45,881</u>	<u>49,055</u>	<u>45,491</u>
LONG-TERM LIABILITIES :			
Long-term bank loans, net of current maturities	504	852	523
Employee rights upon retirement	12,426	15,740	13,860
Deferred income tax	286	1,020	286
Institutions	3,226	1,423	1,112
T o t a l long-term liabilities	<u>16,442</u>	<u>19,035</u>	<u>15,781</u>
T o t a l liabilities	<u>62,323</u>	<u>68,090</u>	<u>61,272</u>
EQUITY:			
Share capital -Ordinary shares of NIS 1.00 par value (authorized): March 31, 2009 (unaudited), December 31, 2008 (unaudited) and March 31, 2008 (unaudited) 30,000,000 shares; issued and outstanding: - March 31, 2009 (unaudited) 20,393,937 Shares; December 31,2008 (unaudited) - 20,389,771 shares; March 31, 2008 (unaudited) -20,206,699 shares	5,381	5,329	5,380
Additional paid in capital	176,021	171,621	175,435
Retained earnings	49,988 (*)	45,661	50,247 (*)
Accumulated other comprehensive income	404	457	328
Total Retalix shareholders' equity	<u>231,794</u>	<u>223,068</u>	<u>231,390</u>
Non-controlling interest	3,280	3,048	3,327
T o t a l equity	<u>235,074</u>	<u>226,116</u>	<u>234,717</u>
T o t a l liabilities and equity	<u>297,397</u>	<u>294,206</u>	<u>295,989</u>

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RETALIX LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31		December 31
	2009	2008	2008 (*)
	(Unaudited)	(Unaudited)	(Unaudited)
	U.S. \$ in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	(116)	(277)	4,589 (*)
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,612	1,572	6,219
Share in gains of an associated company	(2)	(12)	(54)
Stock based compensation expenses	586	1,318	4,777
Changes in accrued liability for employee rights upon retirement	(1,291)	1,217	(396)
Gains on amounts funded in respect of employee rights upon retirement	914	(664)	303
Deferred income taxes - net	175	(1,818)	(1,856)
Net decrease (increase) in marketable securities	176	(75)	984
Other	249	(186)	(18)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable:			
Trade (including the non-current portion)	17,630	553	12,395
Other	(2,223)	(360)	(9,152)
Increase (decrease) in accounts payable and accruals:			
Trade	(1,762)	(2,849)	6,655
Employees, employee institutions and other	1,657	1,718	(584)
Decrease (Increase) in inventories	(669)	214	247
Increase (decrease) in long-term institutions	2,114	(93)	-
Increase in deferred revenues (including the non-current portion)	1,409	101	2,381
Net cash provided by operating activities - forward	<u>20,459</u>	<u>359</u>	<u>13,180</u>

RETALIX LTD.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	March 31		December 31
	2009	2008	2008 (*)
	(Unaudited)	(Unaudited)	(Unaudited)
	U.S. \$ in thousands		
Net cash provided by operating activities - brought forward	20,459	359	13,180
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity of marketable debt securities held to maturity	2,535	-	433
Maturity of marketable trading debt securities	290	-	-
Investment in marketable debt securities held to maturity	-	-	(207)
Acquisition of subsidiaries or activities consolidated for the first time (a)	-	-	(824)
Additional investment in subsidiary	-	(625)	-
Purchase of property, plant, equipment and other assets	(650)	(363)	(5,055)
Proceeds from sale of property, plant and equipment	36	-	55
Amounts funded in respect of employee rights upon retirement, net	(109)	(339)	(168)
Long-term loans collected from employees	2	17	36
Net cash provided by (used in) investing activities	2,104	(1,310)	(5,730)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term bank loans	-	17	(241)
Issuance of share capital to employees resulting from exercise of options	1	2,662	4,012
Short-term bank credit – net	-	(11)	(11)
Net cash provided by financing activities	1	2,668	3,760
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(330)	139	(148)
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,234	1,856	11,062
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,546	22,484	22,484
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	55,780	24,340	33,546

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RETALIX LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	<u>Year ended December 31 2008</u>
	<u>Unaudited</u>
Net fair value of the assets acquired and liabilities assumed at the date of acquisition :	
Assets and liabilities of the subsidiaries at the date of acquisition:	
Goodwill and other intangible assets arising on acquisition	<u>(824)</u>
	<u>(824)</u>

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RETALIX LTD.

UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS

The following tables reflect selected Retalix' non-GAAP results reconciled to GAAP results:

	Three months ended		Year ended
	March 31		December 31
	2009	2008	2008 (*)
	Unaudited	Unaudited	Unaudited
	U.S. \$ in thousands		
	(except share and per share data)		
OPERATING INCOME (LOSS)			
GAAP Operating income (loss)	3,435	(879)	1,067 (*)
Plus:			
Amortization of acquisition-related intangible assets	942	831	3,308
Stock based compensation expenses	586	1,318	4,775
Non-GAAP Operating income	<u>4,963</u>	<u>1,270</u>	<u>9,150</u>
NET INCOME (LOSS)			
GAAP Net income (loss) attributable to Retalix Ltd.	(259)	(534)	4,052 (*)
Plus:			
Amortization of acquisition-related intangible assets	942	831	3,308
Stock based compensation expenses	586	1,318	4,775
Less:			
Income tax effect of amortization of acquisition-related intangible assets	(368)	(325)	(1,262)
Income tax effect of stock based compensation expenses	(153)	(115)	(456)
Non-GAAP Net income	<u>748</u>	<u>1,175</u>	<u>10,417</u>
NET INCOME (LOSS) PER DILUTED SHARE			
GAAP Net income (loss) per diluted share	(0.01)	(0.03)	0.20
Plus:			
Amortization of acquisition-related intangible assets	0.05	0.04	0.16
Stock based compensation expenses	0.03	0.07	0.23
Less:			
Income tax effect of amortization of acquisition-related intangible assets	(0.02)	(0.02)	(0.06)
Income tax effect of stock based compensation expenses	(0.01)	(0.01)	(0.02)
Non-GAAP Net income per diluted share	<u>0.04</u>	<u>0.05</u>	<u>0.51</u>
Shares used in computing diluted net income per share	<u>20,393</u>	<u>20,106</u>	<u>20,305</u>

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RETALIX LTD.
UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS

The following table shows the classification of stock-based compensation expense:

	Three months ended		Year ended
	March 31		December 31
	2009	2008	2008
	Unaudited	Unaudited	Unaudited
	U.S. \$ in thousands		
Cost of product sales	28	42	174
Cost of services and projects	275	493	1,847
Research and development - net	135	315	1,029
Selling and marketing	52	115	360
General and administrative	96	353	1,365
Total	586	1,318	4,775

The following table shows the classification of amortization of acquisition-related intangible assets:

	Three months ended		Year ended
	March 31		December 31
	2009	2008	2008
	Unaudited	Unaudited	Unaudited
	U.S. \$ in thousands		
Cost of product sales	623	553	2,211
Cost of services and projects	219	197	786
Selling and marketing	-	1	3
General and administrative	100	80	308
Total	942	831	3,308