

RETALIX LTD.

CONSOLIDATED STATEMENTS OF INCOME

| | Six months ended | | Three months ended | | Year ended |
|--|------------------|----------------|--------------------|---------------|-----------------|
| | June 30 | | June 30 | | December |
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| U.S. \$ in thousands (except per share data) | | | | | |
| REVENUES: | | | | | |
| Product sales | 26,399 | 37,080 | 13,587 | 21,521 | 72,907 |
| Services | 69,460 | 76,138 | 35,340 | 37,764 | 148,720 |
| Total revenues | <u>95,859</u> | <u>113,218</u> | <u>48,927</u> | <u>59,285</u> | <u>221,627</u> |
| COST OF REVENUES: | | | | | |
| Cost of product sales | 16,469 | 23,646 | 9,209 | 13,856 | 45,201 |
| Cost of services | 38,190 | 44,905 | 19,085 | 22,952 | 88,078 |
| Total cost of revenues | <u>54,659</u> | <u>68,551</u> | <u>28,294</u> | <u>36,808</u> | <u>133,279</u> |
| GROSS PROFIT | <u>41,200</u> | <u>44,667</u> | <u>20,633</u> | <u>22,477</u> | <u>88,348</u> |
| OPERATING EXPENSES: | | | | | |
| Research and development – net | 13,988 | 20,850 | 7,157 | 10,075 | 38,357 |
| Selling and marketing | 9,878 | 11,643 | 5,109 | 5,692 | 23,623 |
| General and administrative | 9,925 | 11,980 | 5,369 | 5,639 | 26,677 |
| Other (income) expenses – net | 12 | - | 36 | - | (376) |
| Impairment of goodwill | - | - | - | - | 58,182 |
| Total operating expenses | <u>33,803</u> | <u>44,473</u> | <u>17,671</u> | <u>21,406</u> | <u>146,463</u> |
| INCOME (LOSS) FROM OPERATIONS | <u>7,397</u> | <u>194</u> | <u>2,962</u> | <u>1,071</u> | <u>(58,115)</u> |
| FINANCIAL INCOME (EXPENSES), net | <u>80</u> | <u>766</u> | <u>3,699</u> | <u>623</u> | <u>(1,978)</u> |
| INCOME (LOSS) BEFORE TAXES ON INCOME | <u>7,477</u> | <u>960</u> | <u>6,661</u> | <u>1,694</u> | <u>(60,093)</u> |
| TAX BENEFIT (EXPENSES) | <u>(1,610)</u> | <u>473</u> | <u>(1,676)</u> | <u>26</u> | <u>8,960</u> |
| INCOME (LOSS) AFTER TAXES ON INCOME | <u>5,867</u> | <u>1,433</u> | <u>4,985</u> | <u>1,720</u> | <u>(51,133)</u> |
| SHARE IN INCOME OF AN ASSOCIATED COMPANY | <u>2</u> | <u>32</u> | <u>-</u> | <u>20</u> | <u>54</u> |
| NET INCOME (LOSS) | <u>5,869</u> | <u>1,465</u> | <u>4,985</u> | <u>1,740</u> | <u>(51,079)</u> |
| NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | <u>(224)</u> | <u>(511)</u> | <u>(81)</u> | <u>(254)</u> | <u>(537)</u> |
| NET INCOME (LOSS) ATTRIBUTABLE TO RETALIX LTD. | <u>5,645</u> | <u>954</u> | <u>4,904</u> | <u>1,486</u> | <u>(51,616)</u> |
| EARNINGS (LOSSES) PER SHARE – in U.S. \$: | | | | | |
| Basic | <u>0.28</u> | <u>0.05</u> | <u>0.24</u> | <u>0.07</u> | <u>(2.55)</u> |
| Diluted | <u>0.28</u> | <u>0.04</u> | <u>0.24</u> | <u>0.07</u> | <u>(2.55)</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS PER SHARE – in thousands: | | | | | |
| Basic | <u>20,394</u> | <u>20,191</u> | <u>20,399</u> | <u>20,273</u> | <u>20,265</u> |
| Diluted | <u>20,417</u> | <u>20,242</u> | <u>20,418</u> | <u>20,307</u> | <u>20,265</u> |

RETALIX LTD.

CONDENSED CONSOLIDATED BALANCE SHEET

| | June 30 | December 31 |
|---|-----------------------------|--------------------|
| | 2009 | 2008 |
| | (Unaudited) | (Audited) |
| | U.S. \$ in thousands | |
| A s s e t s | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 65,211 | 23,398 |
| Marketable securities | 263 | 3,647 |
| Accounts receivable: | | |
| Trade | 55,694 | 85,588 |
| Other | 11,284 | 4,933 |
| Prepaid expenses | 3,729 | 4,280 |
| Inventories | 1,050 | 1,089 |
| Deferred income taxes | 6,705 | 8,361 |
| Total current assets | 143,936 | 131,296 |
| NON-CURRENT ASSETS : | | |
| Long-term receivables | 2,257 | 2,571 |
| Long-term prepaid expenses | 393 | 642 |
| Long term investments | 861 | 1,364 |
| Amounts funded in respect of employee rights upon retirement | 8,772 | 10,486 |
| Deferred income taxes | 11,152 | 9,878 |
| Other | 429 | 197 |
| Total non - current assets | 23,864 | 25,138 |
| PROPERTY, PLANT AND EQUIPMENT, net | 15,341 | 12,539 |
| GOODWILL | 50,730 | 109,173 |
| OTHER INTENGIBLE ASSETS, net of accumulated amortization | | |
| Customer relationship | 14,000 | 15,620 |
| Other | 1,814 | 3,609 |
| | 15,814 | 19,229 |
| Total assets | 249,685 | 297,375 |
| | | 128,267 |
| | | 33,546 |
| | | 3,239 |
| | | 70,017 |
| | | 11,554 |
| | | 4,003 |
| | | 1,037 |
| | | 4,871 |
| | | 128,267 |
| | | 33,546 |
| | | 3,239 |
| | | 70,017 |
| | | 11,554 |
| | | 4,003 |
| | | 1,037 |
| | | 4,871 |
| | | 128,267 |
| | | 33,546 |
| | | 3,239 |
| | | 70,017 |
| | | 11,554 |
| | | 4,003 |
| | | 1,037 |
| | | 4,871 |
| | | 128,267 |

RETALIX LTD.

CONDENSED CONSOLIDATED BALANCE SHEET

| | June 30 | | December 31 |
|--|-----------------------------|--------------------|--------------------|
| | 2009 | 2008 | 2008 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | U.S. \$ in thousands | | |
| Liabilities and shareholders' equity | | | |
| CURRENT LIABILITIES: | | | |
| Short-term bank credit | - | 11 | - |
| Current maturities of long-term bank loans | 255 | 279 | 249 |
| Accounts payable and accruals: | | | |
| Trade | 4,608 | 13,892 | 8,672 |
| Employees and employee institutions | 9,506 | 9,450 | 8,783 |
| Accrued expenses | 9,642 | 5,722 | 6,527 |
| Other | 2,208 | 3,542 | 2,596 |
| Deferred revenues | 19,844 | 16,945 | 19,135 |
| Total current liabilities | 46,063 | 49,841 | 45,962 |
| LONG-TERM LIABILITIES : | | | |
| Long-term loans, net of current maturities | 401 | 710 | 523 |
| Employee rights upon retirement | 13,659 | 15,812 | 13,860 |
| Deferred tax liability | 258 | 251 | 286 |
| Other tax payables | 3,265 | 1,263 | 1,112 |
| Total long-term liabilities | 17,583 | 18,036 | 15,781 |
| Total liabilities | 63,646 | 67,877 | 61,743 |
| EQUITY: | | | |
| Share capital -Ordinary shares of NIS 1.00 par value (authorized: June 30, 2009 (unaudited), December 31, 2008 (audited) and June 30, 2008 (unaudited) 30,000,000 shares; issued and outstanding: - June 30, 2009 (unaudited) 20,406,363 Shares; December 31, 2008 (audited) - 20,389,771 shares; June 30, 2008 (unaudited) - 20,315,515 shares | 5,384 | 5,361 | 5,380 |
| Additional paid in capital | 176,603 | 173,330 | 175,435 |
| Retained earnings | 224 | 47,149 | (5,421) |
| Accumulated other comprehensive income | 343 | 357 | 328 |
| Total Retalix shareholders' equity | 182,554 | 226,197 | 175,722 |
| Non-controlling interest | 3,485 | 3,301 | 3,327 |
| Total equity | 186,039 | 229,498 | 179,049 |
| Total liabilities and equity | 249,685 | 297,375 | 240,792 |

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

| | Six months ended June 30 | | Three months ended June 30 | | Year ended December 31 |
|--|-----------------------------|--------------|-------------------------------|----------------|---------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | U.S. \$ in thousands | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income (loss) | 5,869 | 1,465 | 4,985 | 1,740 | (51,079) |
| Adjustments required to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 3,091 | 3,093 | 1,460 | 1,521 | 6,265 |
| Losses (gains) from sale of property, plant and equipment | 21 | - | 40 | - | (46) |
| Share in gains of an associated company | (2) | (32) | - | (20) | (54) |
| Stock based compensation expenses | 1,162 | 2,670 | 576 | 1,352 | 4,777 |
| Changes in accrued liability for employee rights upon retirement | (208) | 1,303 | 1,083 | 86 | (396) |
| Losses (gains) on amounts funded in respect of employee rights upon retirement | 283 | (1,288) | (631) | (484) | 312 |
| Deferred income taxes - net | 2,401 | (2,873) | 2,215 | (1,097) | (4,928) |
| Net decrease (increase) in trading securities | 146 | (266) | 1 | (191) | 342 |
| Impairment of available for sale securities | - | - | - | - | 700 |
| Amortization of discount on marketable debt securities | - | - | - | - | 5 |
| Impairment of goodwill | - | - | - | - | 58,182 |
| Other | 28 | (73) | (154) | 114 | (26) |
| Changes in operating assets and liabilities: | | | | | |
| Decrease (increase) in accounts receivable: | | | | | |
| Trade (including the non-current portion) | 15,409 | (711) | (1,126) | (1,222) | 13,395 |
| Other (including the non-current portion) | 678 | (3,708) | 1,932 | (3,470) | (10,080) |
| Increase (decrease) in accounts payable and accruals: | | | | | |
| Trade | (4,083) | (1,670) | (2,321) | 1,179 | (6,655) |
| Employees, employee institutions and other | 2,496 | 695 | 1,662 | (623) | (113) |
| Decrease (increase) in inventories | (13) | 212 | 655 | (2) | 247 |
| Increase (decrease) in long-term institutions | 2,153 | 166 | 39 | (160) | 15 |
| Increase (decrease) in deferred revenues | 709 | 182 | (732) | 81 | 2,381 |
| Net cash provided by (used in) operating activities - forward | <u>30,140</u> | <u>(835)</u> | <u>9,684</u> | <u>(1,196)</u> | <u>13,244</u> |

RETALIX LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30 | | Three months ended June 30 | | Year ended December 31 |
|---|-----------------------------|-----------|-------------------------------|-----------|---------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | U.S. \$ in thousands | | | | |
| Net cash provided by (used in) operating activities - brought forward | 30,140 | (835) | 9,684 | (1,196) | 13,244 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Maturity of marketable debt securities held to maturity | 290 | 370 | - | 370 | 370 |
| Sales of marketable trading debt securities | 2,535 | - | - | - | - |
| Investment in marketable debt securities held to maturity | - | (199) | - | (199) | (208) |
| Acquisition of subsidiaries and business consolidated for the first time (a) | - | - | - | - | (110) |
| Additional investments in subsidiaries | - | (625) | - | - | (714) |
| Purchase of property, plant, equipment and other assets | (960) | (1,368) | (310) | (1,005) | (5,055) |
| Proceeds from sale of property, plant and equipment | 70 | - | 34 | - | 55 |
| Amounts funded in respect of employee rights upon retirement, net | (396) | (392) | (287) | (53) | (168) |
| Long-term loans collected from employees | 14 | 16 | 12 | 1 | 36 |
| Net cash provided by (used in) investing activities | 1,553 | (2,198) | (551) | (886) | (5,794) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Repayment of long-term bank loans | (119) | (116) | (119) | (133) | (241) |
| Issuance of share capital to employees and non- employees resulting from exercise of options | 4 | 3,995 | - | 1,333 | 4,012 |
| short-term bank credit - net | - | - | - | 11 | (11) |
| Net cash provided by (used in) financing activities | (115) | 3,879 | (119) | 1,211 | 3,760 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 87 | 68 | 417 | (71) | (148) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 31,665 | 914 | 9,431 | (942) | 11,062 |
| BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 33,546 | 22,484 | 55,780 | 24,340 | 22,484 |
| BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD | 65,211 | 23,398 | 65,211 | 23,398 | 33,546 |

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

| Six months ended June 30 | | Three months ended June 30 | | Year ended December 31 |
|-----------------------------|-----------|-------------------------------|-----------|---------------------------|
| 2009 | 2008 | 2009 | 2008 | 2008 |
| Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| U.S. \$ in thousands | | | | |

(a) Supplementary disclosure of cash flow information -

Fair value of assets acquired and liabilities assumed of subsidiaries and activities acquired at the date of acquisition -

Goodwill and other intangible assets arising on acquisition

| | | | | |
|---|---|---|---|-------|
| - | - | - | - | (110) |
| - | - | - | - | (110) |

(b) Supplemental information on investing activities not involving cash flows:

1. During 2008 the Company, through its subsidiary StoreAlliance.com Ltd. acquired the Supplier's Portal activity. An amount of approximately \$176,000 acquired in credit and will be presented as investing activity when actually paid.
2. The Company purchased equipment in the amount of \$956,000 in credit. This amount will be presented as investing activity when actual payment will be performed.

RETALIX LTD.
UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS

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

| | Six months ended | | Three months ended | | Year ended |
|--|------------------|---------------|--------------------|---------------|---------------|
| | June 30, | | June 30, | | December 31 |
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
| U.S. \$ in thousands (except share and per share data) | | | | | |
| OPERATING INCOME (LOSS) | | | | | |
| GAAP Operating income (loss) | 7,397 | 194 | 2,962 | 1,071 | (58,115) |
| GAAP Operating Margin* | 7.7% | 0.2% | 6.1% | 1.8% | (26.2%) |
| Plus: | | | | | |
| Amortization of acquisition-related intangible assets | 1,883 | 1,655 | 941 | 824 | 3,308 |
| Stock based compensation expenses | 1,162 | 2,670 | 576 | 1,352 | 4,775 |
| Impairment of goodwill | - | - | - | - | 58,182 |
| Non-GAAP Operating income | <u>10,442</u> | <u>4,519</u> | <u>4,479</u> | <u>3,247</u> | <u>8,150</u> |
| Non-GAAP Operating Margin* | <u>10.9%</u> | <u>4.0%</u> | <u>9.2%</u> | <u>5.5%</u> | <u>3.7%</u> |
| NET INCOME (LOSS) | | | | | |
| GAAP Net income (loss) | 5,645 | 954 | 4,904 | 1,486 | (51,616) |
| Plus: | | | | | |
| Amortization of acquisition-related intangible assets | 1,883 | 1,655 | 941 | 824 | 3,308 |
| Stock based compensation expenses | 1,162 | 2,670 | 576 | 1,352 | 4,775 |
| Impairment of goodwill | - | - | - | - | 58,182 |
| Less: | | | | | |
| Income tax effect of amortization of acquisition-related intangible assets | (735) | (638) | (367) | (313) | (1,262) |
| Tax expenses (income) effect of stock based compensation expenses | (91) | (277) | 62 | (162) | (456) |
| Income tax effect of impairment of goodwill | - | - | - | - | (3,041) |
| Non-GAAP Net income | <u>7,864</u> | <u>4,364</u> | <u>6,116</u> | <u>3,187</u> | <u>9,890</u> |
| NET INCOME (LOSS) PER DILUTED SHARE | | | | | |
| GAAP Net income (loss) per diluted share | 0.28 | 0.05 | 0.24 | 0.07 | (2.55) |
| Plus: | | | | | |
| Amortization of acquisition-related intangible assets | 0.09 | 0.08 | 0.05 | 0.04 | 0.16 |
| Stock based compensation expenses | 0.06 | 0.13 | 0.03 | 0.07 | 0.24 |
| Impairment of goodwill | - | - | - | - | 2.87 |
| Less: | | | | | |
| Income tax effect of amortization of acquisition-related intangible assets | (0.04) | (0.03) | (0.02) | (0.02) | (0.06) |
| Income tax effect of stock based compensation expenses | (0.00) | (0.01) | (0.00) | (0.01) | (0.02) |
| Income tax effect of impairment of goodwill | - | - | - | - | (0.15) |
| Non-GAAP Net income per diluted share | <u>0.39</u> | <u>0.22</u> | <u>0.30</u> | <u>0.15</u> | <u>0.49</u> |
| Shares used in computing diluted net income per share | <u>20,417</u> | <u>20,242</u> | <u>20,418</u> | <u>20,307</u> | <u>20,265</u> |

* Operating Margin calculation: Operating Income as a percentage of Total Revenues

RETALIX LTD.
UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS

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

| | Six months ended June 30 | | Three months ended June 30 | | Year ended December 31 |
|----------------------------|-----------------------------|--------------|-------------------------------|--------------|---------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | U.S. \$ in thousands | | | | |
| Cost of product sales | 53 | 87 | 25 | 45 | 174 |
| Cost of services | 535 | 1,037 | 260 | 544 | 1,847 |
| Research and development | 266 | 617 | 131 | 302 | 1,029 |
| Selling and marketing | 104 | 219 | 52 | 104 | 360 |
| General and administrative | 204 | 710 | 108 | 357 | 1,365 |
| Total | <u>1,162</u> | <u>2,670</u> | <u>576</u> | <u>1,352</u> | <u>4,775</u> |

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

| | Six months ended June 30 | | Three months ended June 30 | | Year ended December 31 |
|----------------------------|-----------------------------|--------------|-------------------------------|------------|---------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| | U.S. \$ in thousands | | | | |
| Cost of product sales | 1,246 | 1,102 | 623 | 549 | 2,211 |
| Cost of services | 438 | 393 | 219 | 196 | 786 |
| Selling and marketing | - | 2 | - | 1 | 3 |
| General and administrative | 199 | 158 | 99 | 78 | 308 |
| Total | <u>1,883</u> | <u>1,655</u> | <u>941</u> | <u>824</u> | <u>3,308</u> |

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