

RETALIX LTD.

CONSOLIDATED STATEMENTS OF INCOME

	<u>Nine months ended</u>		<u>Three months ended</u>		<u>Year ended</u>
	<u>September 30</u>		<u>September 30</u>		<u>December</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
U.S. \$ in thousands (except per share data)					
REVENUES:					
Product sales	42,425	54,795	16,026	17,715	72,907
Services	103,580	114,657	34,120	38,519	148,720
Total revenues	<u>146,005</u>	<u>169,452</u>	<u>50,146</u>	<u>56,234</u>	<u>221,627</u>
COST OF REVENUES:					
Cost of product sales	27,605	35,830	11,136	12,184	45,201
Cost of services	56,562	66,818	18,372	21,913	88,078
Total cost of revenues	<u>84,167</u>	<u>102,648</u>	<u>29,508</u>	<u>34,097</u>	<u>133,279</u>
GROSS PROFIT	<u>61,838</u>	<u>66,804</u>	<u>20,638</u>	<u>22,137</u>	<u>88,348</u>
OPERATING EXPENSES:					
Research and development – net	20,965	29,928	6,977	9,079	38,357
Selling and marketing	14,282	16,697	4,404	5,054	23,623
General and administrative	15,627	18,153	5,702	6,173	26,677
Other (income) expenses – net	36	(64)	24	(38)	(376)
Impairment of goodwill	-	-	-	-	58,182
Total operating expenses	<u>50,910</u>	<u>64,714</u>	<u>17,107</u>	<u>20,268</u>	<u>146,463</u>
INCOME (LOSS) FROM OPERATIONS	<u>10,928</u>	<u>2,090</u>	<u>3,531</u>	<u>1,869</u>	<u>(58,115)</u>
FINANCIAL INCOME (EXPENSES), net	<u>1,572</u>	<u>621</u>	<u>1,492</u>	<u>(119)</u>	<u>(1,978)</u>
INCOME (LOSS) BEFORE TAXES ON INCOME	<u>12,500</u>	<u>2,711</u>	<u>5,023</u>	<u>1,750</u>	<u>(60,093)</u>
TAX BENEFIT (EXPENSES)	<u>(2,448)</u>	<u>50</u>	<u>(838)</u>	<u>(423)</u>	<u>8,960</u>
INCOME (LOSS) AFTER TAXES ON INCOME	<u>10,052</u>	<u>2,761</u>	<u>4,185</u>	<u>1,327</u>	<u>(51,133)</u>
SHARE IN INCOME OF AN ASSOCIATED COMPANY	<u>17</u>	<u>35</u>	<u>15</u>	<u>4</u>	<u>54</u>
NET INCOME (LOSS)	<u>10,069</u>	<u>2,796</u>	<u>4,200</u>	<u>1,331</u>	<u>(51,079)</u>
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>(272)</u>	<u>(745)</u>	<u>(48)</u>	<u>(234)</u>	<u>(537)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO RETALIX LTD.	<u>9,797</u>	<u>2,051</u>	<u>4,152</u>	<u>1,097</u>	<u>(51,616)</u>
EARNINGS (LOSSES) PER SHARE – in U.S. \$:					
Basic	<u>0.48</u>	<u>0.10</u>	<u>0.20</u>	<u>0.05</u>	<u>(2.55)</u>
Diluted	<u>0.48</u>	<u>0.10</u>	<u>0.20</u>	<u>0.05</u>	<u>(2.55)</u>
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS PER SHARE – in thousands:					
Basic	<u>20,400</u>	<u>20,235</u>	<u>20,406</u>	<u>20,315</u>	<u>20,265</u>
Diluted	<u>20,425</u>	<u>20,275</u>	<u>20,434</u>	<u>20,333</u>	<u>20,265</u>

RETALIX LTD.

CONDENSED CONSOLIDATED BALANCE SHEET

	September 30		December 31
	2009	2008	2008
	(Unaudited)		(Audited)
	U.S. \$ in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	70,317	22,924	33,546
Marketable securities	50	3,660	3,239
Accounts receivable:			
Trade	58,562	85,160	70,017
Other	9,228	5,056	11,554
Prepaid expenses	4,995	4,681	4,003
Inventories	1,579	1,597	1,037
Deferred income taxes	5,977	8,088	4,871
Total current assets	150,708	131,166	128,267
NON-CURRENT ASSETS :			
Long-term receivables	1,288	3,782	3,382
Long-term prepaid expenses	311	596	539
Long term investments	862	1,043	862
Amounts funded in respect of employee rights upon retirement	10,170	10,450	8,663
Deferred income taxes	11,668	9,918	15,462
Other	441	207	424
Total non - current assets	24,740	25,996	29,332
PROPERTY, PLANT AND EQUIPMENT, net	15,424	13,888	14,734
GOODWILL	50,864	109,013	50,660
OTHER INTENGIBLE ASSETS, net of accumulated amortization			
Customer relationship	13,270	15,578	15,386
Other	2,036	3,107	2,413
	15,306	18,685	17,799
Total assets	257,042	298,748	240,792

RETALIX LTD.

CONDENSED CONSOLIDATED BALANCE SHEET

	September 30	December 31
	2009	2008
	(Unaudited)	(Audited)
	U.S. \$ in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Current maturities of long-term bank loans	265	259
Accounts payable and accruals:		249
Trade	4,396	13,315
Employees and employee institutions	9,478	8,818
Accrued expenses	11,112	7,011
Other	2,333	1,963
Deferred revenues	22,740	18,393
Total current liabilities	50,324	49,759
LONG-TERM LIABILITIES :		
Long-term loans, net of current maturities	412	673
Employee rights upon retirement	14,374	15,321
Deferred tax liability	271	266
Other tax payables	483	1,058
Total long-term liabilities	15,540	17,318
Total liabilities	65,864	67,077
EQUITY:		
Share capital -Ordinary shares of NIS 1.00 par value (authorized: September 30, 2009 (unaudited), December 31, 2008 (audited) and September 30, 2008 (unaudited) 30,000,000 shares; issued and outstanding: - September 30, 2009 (unaudited) 20,406,363 Shares; December 31, 2008 (audited) -20,389,771 shares; September 30, 2008 (unaudited) -20,315,515 shares	5,384	5,361
Additional paid in capital	177,060	174,587
Retained earnings	4,376	48,246
Accumulated other comprehensive income	697	(61)
Total Retalix shareholders' equity	187,517	228,133
Non-controlling interest	3,661	3,538
Total equity	191,178	231,671
Total liabilities and equity	257,042	298,748

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RETALIX LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30		Three months ended September 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)	10,069	2,796	4,200	1,331	(51,079)
Adjustments required to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	4,652	4,606	1,561	1,513	6,265
Losses (gains) from sale of property, plant and equipment	44	-	23	-	(46)
Share in gains of an associated company	(4)	(35)	(2)	(4)	(54)
Stock based compensation expenses	1,623	3,927	461	1,257	4,777
Changes in accrued liability for employee rights upon retirement	408	965	616	(573)	(396)
Losses (gains) on amounts funded in respect of employee rights upon retirement	(797)	(1,293)	(1,080)	230	312
Deferred income taxes - net	2,683	(2,623)	282	250	(4,928)
Net decrease (increase) in trading securities	159	(79)	13	187	342
Impairment of available for sale securities	-	-	-	-	700
Amortization of discount on marketable debt securities	-	-	-	-	5
Impairment of goodwill	-	-	-	-	58,182
Other	(5)	43	(33)	117	(26)
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable:					
Trade (including the non-current portion)	13,692	(1,916)	(1,717)	(1,205)	13,395
Other (including the non-current portion)	1,588	(4,246)	910	(538)	(10,080)
Increase (decrease) in accounts payable and accruals:					
Trade	(4,302)	(2,071)	(219)	(401)	(6,655)
Employees, employee institutions and other	4,079	(441)	1,583	(1,136)	(113)
Decrease (increase) in inventories	(542)	(307)	(529)	(519)	247
Increase (decrease) in long-term institutions	(629)	(39)	(2,782)	(205)	15
Increase in deferred revenues	3,545	1,635	2,836	1,453	2,381
Net cash provided by operating activities - forward	<u>36,263</u>	<u>922</u>	<u>6,123</u>	<u>1,757</u>	<u>13,244</u>

RETALIX LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	U.S. \$ in thousands				
Net cash provided by operating activities - brought forward	36,263	922	6,123	1,757	13,244
CASH FLOWS FROM INVESTING ACTIVITIES:					
Maturity of marketable debt securities held to maturity	490	370	200	-	370
Sales of marketable trading debt securities	2,535	-	-	-	-
Investment in marketable debt securities held to maturity	-	(199)	-	-	(208)
Acquisition of subsidiaries and business consolidated for the first time (a)	-	(735)	-	(110)	(110)
Additional investments in subsidiaries	-	-	-	-	(714)
Purchase of property, plant, equipment and other assets	(2,267)	(3,446)	(1,307)	(2,078)	(5,055)
Proceeds from sale of property, plant and equipment	120	38	50	38	55
Amounts funded in respect of employee rights upon retirement, net	(678)	(360)	(282)	32	(168)
Long-term loans collected from employees	14	17	-	1	36
Net cash provided by (used in) investing activities	214	(4,315)	(1,339)	(2,117)	(5,794)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of long-term bank loans	(119)	(116)	-	-	(241)
Issuance of share capital to employees and non-employees resulting from exercise of options	4	3,995	-	-	4,012
short-term bank credit – net	-	(11)	-	(11)	(11)
Net cash provided by (used in) financing activities	(115)	3,868	-	(11)	3,760
EFFECT OF EXCHANGE RATE CHANGES ON CASH	409	(35)	322	(103)	(148)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,771	440	5,106	(474)	11,062
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,546	22,484	65,211	23,398	22,484
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	70,317	22,924	70,317	22,924	33,546

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

Nine months ended September 30		Three months ended September 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

-	(735)	-	(110)	(110)
-	(735)	-	(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 \$81,000 acquired in credit and will be presented as investing activity when actually paid.
2. The Company purchased equipment in the amount of \$863,000 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:

	Nine months ended September 30,		Three months ended September 30,		Year ended 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)	10,928	2,090	3,531	1,869	(58,115)
GAAP Operating Margin*	7.5%	1.2%	7%	3.3%	(26.2%)
Plus:					
Amortization of acquisition-related intangible assets	2,812	2,478	929	823	3,308
Stock based compensation expenses	1,623	3,927	461	1,257	4,775
Impairment of goodwill					58,182
Non-GAAP Operating income	<u>15,363</u>	<u>8,495</u>	<u>4,921</u>	<u>3,949</u>	<u>8,150</u>
Non-GAAP Operating Margin*	<u>10.5%</u>	<u>5.0%</u>	<u>9.8%</u>	<u>7.0%</u>	<u>3.7%</u>
NET INCOME (LOSS)					
GAAP Net income (loss)	9,797	2,051	4,152	1,097	(51,616)
Plus:					
Amortization of acquisition-related intangible assets	2,812	2,478	929	823	3,308
Stock based compensation expenses	1,623	3,927	461	1,257	4,775
Impairment of goodwill					58,182
Less:					
Income tax effect of amortization of acquisition-related intangible assets	(1,100)	(927)	(365)	(288)	(1,262)
Tax expenses (income) effect of stock based compensation expenses	(232)	(412)	(141)	(135)	(456)
Income tax effect of impairment of goodwill		-		-	(3,041)
Non-GAAP Net income	<u>12,900</u>	<u>7,117</u>	<u>5,036</u>	<u>2,754</u>	<u>9,890</u>
NET INCOME (LOSS) PER DILUTED SHARE					
GAAP Net income (loss) per diluted share	0.48	0.10	0.20	0.05	(2.55)
Plus:					
Amortization of acquisition-related intangible assets	0.14	0.12	0.05	0.04	0.16
Stock based compensation expenses	0.08	0.19	0.02	0.06	0.24
Impairment of goodwill					2.87
Less:					
Income tax effect of amortization of acquisition-related intangible assets	(0.05)	(0.05)	(0.02)	(0.01)	(0.06)
Income tax effect of stock based compensation expenses	(0.01)	(0.02)	(0.01)	(0.01)	(0.02)
Income tax effect of impairment of goodwill		-		-	(0.15)
Non-GAAP Net income per diluted share	<u>0.64</u>	<u>0.34</u>	<u>0.24</u>	<u>0.13</u>	<u>0.49</u>
Shares used in computing diluted net income per share	<u>20,425</u>	<u>20,275</u>	<u>20,434</u>	<u>20,333</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:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	U.S. \$ in thousands				
Cost of product sales	76	125	23	38	174
Cost of services	768	1,488	233	451	1,847
Research and development	373	857	107	240	1,029
Selling and marketing	144	310	40	91	360
General and administrative	262	1,147	58	437	1,365
Total	<u>1,623</u>	<u>3,927</u>	<u>461</u>	<u>1,257</u>	<u>4,775</u>

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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	U.S. \$ in thousands				
Cost of product sales	1,870	1,650	624	548	2,211
Cost of services	657	590	219	197	786
Selling and marketing	-	3	-	1	3
General and administrative	285	235	86	77	308
Total	<u>2,812</u>	<u>2,478</u>	<u>929</u>	<u>823</u>	<u>3,308</u>

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