

RETALIX LTD.
CONSOLIDATED STATEMENTS OF INCOME

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2007 (Audited)
REVENUES:					
Product sales	54,795	60,333	17,715	22,704	80,511
Services	114,657	105,902	38,519	35,361	140,900
T o t a l revenues	<u>169,452</u>	<u>166,235</u>	<u>56,234</u>	<u>58,065</u>	<u>221,411</u>
COST OF REVENUES:					
Cost of product sales	35,830	27,918	12,184	9,077	39,132
Cost of services	66,818	46,602	21,913	16,797	65,281
T o t a l cost of revenues	<u>102,648</u>	<u>74,520</u>	<u>34,097</u>	<u>25,874</u>	<u>104,413</u>
GROSS PROFIT	<u>66,804</u>	<u>91,715</u>	<u>22,137</u>	<u>32,191</u>	<u>116,998</u>
OPERATING EXPENSES:					
Research and development – net	29,928	46,401	9,079	14,587	58,653
Selling and marketing	16,697	24,148	5,054	8,262	31,617
General and administrative	18,153	18,844	6,173	6,402	27,539
Other expenses (income)– net	(64)	651	(38)	74	643
T o t a l operating expenses	<u>64,714</u>	<u>90,044</u>	<u>20,268</u>	<u>29,325</u>	<u>118,452</u>
INCOME (LOSS) FROM OPERATIONS	<u>2,090</u>	<u>1,671</u>	<u>1,869</u>	<u>2,866</u>	<u>(1,454)</u>
FINANCIAL INCOME (EXPENSES), net	<u>621</u>	<u>376</u>	<u>(119)</u>	<u>168</u>	<u>1,032</u>
INCOME (LOSS) BEFORE TAXES ON INCOME	<u>2,711</u>	<u>2,047</u>	<u>1,750</u>	<u>3,034</u>	<u>(422)</u>
TAX BENEFIT (EXPENSES)	<u>50</u>	<u>(412)</u>	<u>(423)</u>	<u>176</u>	<u>435</u>
INCOME AFTER TAXES ON INCOME	<u>2,761</u>	<u>1,635</u>	<u>1,327</u>	<u>3,210</u>	<u>13</u>
SHARE IN GAINS (LOSSES) OF AN ASSOCIATED COMPANY	35	(3)	4	(1)	(3)
MINORITY INTERESTS IN LOSS (GAINS) OF SUBSIDIARIES	<u>(745)</u>	<u>(401)</u>	<u>(234)</u>	<u>(154)</u>	<u>(508)</u>
NET INCOME (LOSS)	<u>2,051</u>	<u>1,231</u>	<u>1,097</u>	<u>3,055</u>	<u>(498)</u>
EARNINGS (LOSSES) PER SHARE – in U.S. \$:					
Basic	<u>0.10</u>	<u>0.06</u>	<u>0.05</u>	<u>0.15</u>	<u>(0.02)</u>
Diluted	<u>0.10</u>	<u>0.06</u>	<u>0.05</u>	<u>0.15</u>	<u>(0.02)</u>
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS PER SHARE – in thousands:					
Basic	<u>20,235</u>	<u>19,809</u>	<u>20,315</u>	<u>19,892</u>	<u>19,851</u>
Diluted	<u>20,275</u>	<u>20,139</u>	<u>20,333</u>	<u>20,073</u>	<u>19,851</u>

RETALIX LTD.
CONDENSED CONSOLIDATED BALANCE SHEET

(U.S. \$ in thousands)

	September 30,		December 31
	2008	2007	2007
	(Unaudited)		(Audited)
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	22,924	40,193	22,484
Marketable securities	3,660	4,461	3,455
Accounts receivable:			
Trade	85,160	61,536	81,429
Other	9,737	5,766	5,485
Inventories	1,597	1,259	1,289
Deferred income taxes	8,088	6,665	8,286
T o t a l current assets	<u>131,166</u>	<u>119,880</u>	<u>122,428</u>
NON-CURRENT ASSETS :			
Marketable securities	1,043	859	1,657
Deferred income taxes	9,918	5,301	7,050
Long-term receivables	3,782	8,156	5,681
Amounts funded in respect of employee rights upon retirement	10,450	8,211	8,806
Other	803	1,051	795
	<u>25,996</u>	<u>23,578</u>	<u>23,989</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>13,888</u>	<u>12,893</u>	<u>12,568</u>
GOODWILL	<u>109,013</u>	<u>113,162</u>	<u>108,926</u>
OTHER INTANGIBLE ASSETS, net of accumulated amortization			
Customer relationship	15,578	16,533	16,450
Other	3,107	5,173	4,229
	<u>18,685</u>	<u>21,706</u>	<u>20,679</u>
T o t a l assets	<u>298,748</u>	<u>291,219</u>	<u>288,590</u>

	<u>September 30,</u>		<u>December 31</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit	-	1,377	11
Current maturities of long-term bank loans	259	245	258
Accounts payable and accruals:			
Trade	13,315	11,500	15,410
Employees and employee institutions	8,818	9,697	8,977
Accrued expenses	7,011	6,149	6,393
Other	1,963	6,375	3,005
Deferred revenues	18,393	14,855	16,763
T o t a l current liabilities	<u>49,759</u>	<u>50,198</u>	<u>50,817</u>
LONG-TERM LIABILITIES :			
Long-term loans, net of current maturities	673	886	786
Employee rights upon retirement	15,321	13,999	14,362
Deferred tax liability	266	990	219
Other tax payables	1,058	1,110	1,097
Deferred revenues	-	471	-
T o t a l long-term liabilities	<u>17,318</u>	<u>17,456</u>	<u>16,464</u>
T o t a l liabilities	<u>67,077</u>	<u>67,654</u>	<u>67,281</u>
MINORITY INTERESTS	<u>3,538</u>	<u>2,683</u>	<u>2,791</u>
SHAREHOLDERS' EQUITY:			
Share capital -Ordinary shares of NIS 1.00 par value (authorized: September 30, 2008 (unaudited), December 31, 2007 (audited) and September 30, 2007 (unaudited) 30,000,000 shares; issued and outstanding: - September 30, 2008 (unaudited) 20,315,515 Shares; December 31,2007 (audited) -20,001,382 shares; September 30, 2007 (unaudited) -19,896,772 shares	5,361	5,246	5,273
Additional paid in capital	174,587	166,206	166,752
Retained earnings	48,246	49,069	46,195
Accumulated other comprehensive income	(61)	361	298
T o t a l shareholders' equity	<u>228,133</u>	<u>220,882</u>	<u>218,518</u>
T o t a l liabilities and shareholders equity	<u>298,748</u>	<u>291,219</u>	<u>288,590</u>

RETALIX LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. \$ in thousands)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31
	2008	2007	2008	2007	2007
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	2,051	1,231	1,097	3,055	(498)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Minority interests in gains (losses) of subsidiaries	745	390	234	143	508
Depreciation and amortization	4,606	5,163	1,513	1,689	6,947
Share in losses (gains) of an associated company	(35)	3	(4)	1	3
Stock based compensation expenses	3,927	3,714	1,257	981	3,889
Changes in accrued liability for employee rights upon retirement	965	2,449	(573)	1,148	2,739
Losses (gains) on amounts funded in respect of employee rights upon retirement	(1,293)	(480)	230	(415)	(950)
Deferred income taxes - net	(2,623)	(1,897)	250	(980)	(6,570)
Net decrease (increase) in trading securities	(79)	(227)	187	(255)	(216)
Amortization of discount on marketable debt securities	-	10	-	1	11
Other	43	(193)	117	(255)	(109)
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable:					
Trade (including the non-current portion)	(1,916)	(17,397)	(1,205)	(8,906)	(34,700)
Other (including long term other tax payables)	(4,285)	894	(743)	566	1,278
Increase (decrease) in accounts payable and accruals:					
Trade	(2,071)	(332)	(401)	232	3,537
Employees, employee institutions and other	(441)	(1,384)	(1,136)	882	(2,290)
Increase in inventories	(307)	(97)	(519)	(380)	(118)
Increase (decrease) in deferred revenues (including the non-current portion)	1,635	1,365	1,453	(1,390)	2,810
Net cash provided by (used in) operating activities - forward	<u>922</u>	<u>(6,788)</u>	<u>1,757</u>	<u>(3,883)</u>	<u>(23,729)</u>

RETALIX LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. \$ in thousands)

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31
	2008	2007	2008	2007	2007
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Net cash provided by (used in) operating activities - brought forward	922	(6,788)	1,757	(3,883)	(23,729)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Maturity of marketable debt securities held to maturity	370	9,743	-	-	9,743
Investment in marketable debt securities held to maturity	(199)	(9,047)	-	-	(9,047)
Acquisition of subsidiaries or activities consolidated for the first time (a)	(735)	(1,350)	(110)	-	(1,370)
Purchase of property, plant, equipment and other assets	(3,446)	(4,184)	(2,078)	(2,865)	(4,676)
Proceeds from sale of property, plant and equipment	38	4	38	-	69
Amounts funded in respect of employee rights upon retirement, net	(360)	(973)	32	(425)	(1,097)
Long-term loans collected from employees	17	19	1	(2)	17
Net cash used in investing activities	(4,315)	(5,788)	(2,117)	(3,292)	(6,361)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of long-term bank loans	(116)	(228)	-	(2)	(352)
Issuance of share capital to employees resulting from exercise of options	3,995	1,054	-	132	2,402
Net decrease in short-term bank credit	(11)	(3,365)	(11)	(6,189)	(4,731)
Net cash provided by (used in) financing activities	3,868	(2,539)	(11)	(6,059)	(2,681)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(35)	122	(103)	103	69
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	440	(14,993)	(474)	(13,131)	(32,702)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,484	55,186	23,398	53,324	55,186
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	22,924	40,193	22,924	40,193	22,484

RETALIX LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. \$ in thousands)

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31
	2008	2007	2008	2007	2007
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
(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:					
Working capital (excluding cash and cash equivalents)	-	157	-	-	174
Property plant and equipment, net	-	(8)	-	-	(6)
Goodwill and other intangible assets arising on acquisition	(735)	(1,499)	(110)	-	(1,679)
Increase in account payable – other	-	-	-	-	141
	<u>(735)</u>	<u>(1,350)</u>	<u>(110)</u>	<u>-</u>	<u>(1,370)</u>

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

On April 1, 2005, the Company acquired substantially all of the assets of Integrated Distribution Solutions Inc. (“IDS”), in consideration for cash, as well as the issuance of share capital. In addition, in respect of this acquisition, in 2007 an additional 207,236 shares valued at \$3,973,129 were released from escrow as certain customer retention milestones agreed upon were met.

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
	2008 Unaudited	2007 Unaudited	2008 Unaudited	2007 Unaudited	2007 Unaudited
U.S. \$ in thousands (except per share data)					
OPERATING INCOME (LOSS)					
GAAP Operating income (loss)	2,090	1,671	1,869	2,866	(1,454)
GAAP Operating Margin**	1.2%	1.0%	3.3%	4.9%	-0.7%
Plus:					
Amortization of acquisition-related intangible assets	2,478	2,717	823	888	3,576
Stock based compensation expenses	3,927	3,715	1,257	982	3,889
Other acquisition-related operating expenses (*)	-	700	-	-	700
Non-GAAP Operating income	<u>8,495</u>	<u>8,803</u>	<u>3,949</u>	<u>4,736</u>	<u>6,711</u>
Non-GAAP Operating Margin**	<u>5.0%</u>	<u>5.3%</u>	<u>7.0%</u>	<u>8.2%</u>	<u>3.0%</u>
NET INCOME (LOSS)					
GAAP Net income (loss)	2,051	1,231	1,097	3,055	(498)
Plus:					
Amortization of acquisition-related intangible assets	2,478	2,717	823	888	3,576
Stock based compensation expenses	3,927	3,715	1,257	982	3,889
Other acquisition-related operating expenses (*)	-	700	-	-	700
Less:					
Income tax effect of amortization of acquisition-related intangible assets	(927)	(939)	(288)	(315)	(1,287)
Income tax effect of stock based compensation expenses	(412)	(195)	(135)	(51)	(70)
Income tax effect of other acquisition-related operating expenses	-	(161)	-	-	(161)
Non-GAAP Net income	<u>7,117</u>	<u>7,068</u>	<u>2,754</u>	<u>4,559</u>	<u>6,149</u>
NET INCOME (LOSS) PER DILUTED SHARE					
GAAP Net income (loss) per diluted share	0.10	0.06	0.05	0.15	(0.02)
Plus:					
Amortization of acquisition-related intangible assets	0.12	0.13	0.04	0.04	0.18
Stock based compensation expenses	0.19	0.19	0.06	0.05	0.03
Other acquisition-related operating expenses (*)	-	0.04	-	-	0.19
Less:					
Income tax effect of amortization of acquisition-related intangible assets	(0.05)	(0.05)	(0.01)	(0.01)	(0.06)
Income tax effect of stock based compensation expenses	(0.02)	(0.01)	(0.01)	-	(0.00)
Income tax effect of other acquisition-related operating expenses	-	(0.01)	-	-	(0.01)
Non-GAAP Net income per diluted share	<u>0.34</u>	<u>0.35</u>	<u>0.13</u>	<u>0.23</u>	<u>0.31</u>
Shares used in computing diluted net income per share	<u>20,275</u>	<u>20,139</u>	<u>20,333</u>	<u>20,073</u>	<u>20,150</u>

* Pre-acquisition costs from potential transactions that have not materialized.

** 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
	2008	2007	2008	2007	2007
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	U.S. \$ in thousands				
Cost of product sales	125	59	38	15	60
Cost of services	1,488	721	451	196	707
Research and development - net	857	1,444	240	326	1,407
Selling and marketing	310	437	91	131	450
General and administrative	1,147	1,054	437	314	1,265
Total	3,927	3,715	1,257	982	3,889

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
	2008	2007	2008	2007	2007
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	U.S. \$ in thousands				
Cost of product sales	1,650	1,709	548	591	2,260
Cost of services	590	748	197	238	962
Selling and marketing	3	92	1	2	92
General and administrative	235	168	77	57	262
Total	2,478	2,717	823	888	3,576

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