

RETALIX LTD.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

	Year ended December 31		Three months ended December 31	
	2008 (*)	2007	2008 (*)	2007
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
REVENUES:				
Product sales	72,907	80,511	18,112	20,178
Service	148,720	140,900	34,063	34,998
T o t a l revenues	<u>221,627</u>	<u>221,411</u>	<u>52,175</u>	<u>55,176</u>
COST OF REVENUES:				
Cost of product sales	45,201	39,132	9,371	11,214
Cost of service	88,078	65,281	21,260	18,679
T o t a l cost of revenues	<u>133,279</u>	<u>104,413</u>	<u>30,631</u>	<u>29,893</u>
GROSS PROFIT	<u>88,348</u>	<u>116,998</u>	<u>21,544</u>	<u>25,283</u>
OPERATING EXPENSES:				
Research and development – net	38,357	58,653	8,429	12,252
Selling and marketing	23,623	31,617	6,926	7,469
General and administrative	25,677	27,539	7,524	8,695
Other (income) expenses – net	(376)	643	(312)	(8)
Goodwill impairment (*)	(*)	-	(*)	-
T o t a l operating expenses	<u>87,281</u>	<u>118,452</u>	<u>22,567</u>	<u>28,408</u>
INCOME (LOSS) FROM OPERATIONS	1,067	(1,454)	(1,023)	(3,125)
FINANCIAL INCOME (EXPENSES), net	<u>(1,978)</u>	<u>1,032</u>	<u>(2,599)</u>	<u>656</u>
LOSS BEFORE TAXES ON INCOME	(911)	(422)	(3,622)	(2,469)
TAX BENEFIT	5,446	435	5,396	846
INCOME (LOSS) AFTER TAXES ON INCOME	4,535	13	1,774	(1,623)
SHARE IN INCOME (LOSS) OF AN ASSOCIATED COMPANY	54	(3)	19	-
MINORITY INTERESTS IN GAINS (LOSSES) OF SUBSIDIARIES	<u>(537)</u>	<u>(508)</u>	<u>208</u>	<u>(107)</u>
NET INCOME (LOSS)	<u>4,052</u>	<u>(498)</u>	<u>2,001</u>	<u>(1,730)</u>
EARNINGS (LOSSES) PER SHARE – in U.S. \$:				
Basic	<u>0.20</u>	<u>(0.02)</u>	<u>0.10</u>	<u>(0.09)</u>
Diluted	<u>0.20</u>	<u>(0.02)</u>	<u>0.10</u>	<u>(0.09)</u>
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS PER SHARE – in thousands:				
Basic	<u>20,265</u>	<u>19,851</u>	<u>20,348</u>	<u>19,967</u>
Diluted	<u>20,305</u>	<u>19,851</u>	<u>20,389</u>	<u>19,967</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. Retailix management expects to recognize a GAAP non-cash impairment charge in the range of \$50M to \$70M 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)

	December 31	
	2008	2007
	(Unaudited)	(Audited)
A s s e t s		
CURRENT ASSETS:		
Cash and cash equivalents	33,546	22,484
Marketable securities	3,239	3,455
Accounts receivable:		
Trade	71,017	81,429
Other	14,644	5,485
Inventories	1,037	1,289
Deferred income taxes	3,838	8,286
	127,321	122,428
T o t a l current assets		
NON-CURRENT ASSETS :		
Marketable securities	862	1,657
Deferred income taxes	13,423	7,050
Long-term receivables	3,382	5,681
Amounts funded in respect of employee rights upon retirement	8,663	8,806
Other	963	795
	27,293	23,989
T o t a l non current assets		
PROPERTY, PLANT AND EQUIPMENT, net	14,734	12,568
GOODWILL (*)	108,842	108,926
OTHER INTANGIBLE ASSETS, net of accumulated		
Amortization (*):		
Customer base	15,399	16,450
Other	2,400	4,229
	17,799	20,679
	295,989	288,590
T o t a l assets		

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	December 31	
	2008	2007
	(Unaudited)	(Audited)
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Short-term bank credit	-	11
Current maturities of long-term bank loans	249	258
Accounts payable and accruals:		
Trade	8,672	15,410
Employees and employee institutions	8,783	8,977
Accrued expenses	6,527	6,393
Other	2,125	3,005
Deferred revenues	19,135	16,763
T o t a l current liabilities	45,491	50,817
LONG-TERM LIABILITIES :		
Long-term bank loans, net of current maturities	523	786
Employee rights upon retirement	13,860	14,362
Deferred income taxes	286	219
Institutions	1,112	1,097
T o t a l long-term liabilities	15,781	16,464
T o t a l liabilities	61,272	67,281
MINORITY INTERESTS	3,327	2,791
SHAREHOLDERS' EQUITY:		
Share capital -Ordinary shares of NIS 1.00 par value (authorized): December 31, 2008 (unaudited) and December 31, 2007 (audited) - 30,000,000 shares; issued and outstanding: December 31, 2008 (unaudited) - 20,389,771 Shares; December 31, 2007 (audited) - 20,001,382 shares;	5,380	5,273
Additional paid in capital	175,435	166,752
Retained earnings (*)	50,247	46,195
Accumulated other comprehensive income	328	298
T o t a l shareholders' equity	231,390	218,518
T o t a l liabilities and shareholders' equity	295,989	288,590

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RETALIX LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended		Three months ended	
	December 31		December 31	
	2008 (*)	2007	2008 (*)	2007
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
	U.S. \$ in thousands			
CASH FLOWS FROM OPERATING				
ACTIVITIES:				
Net income (loss) (*)	4,052	(498)	2,001	(1,729)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Minority interests in gains (losses) of subsidiaries	537	508	(208)	118
Depreciation and amortization	6,219	6,947	1,613	1,627
Share in loss (income) of an associated company	(54)	3	(19)	-
Stock based compensation expenses	4,777	3,889	850	175
Changes in accrued liability for employee rights upon retirement	(396)	2,739	(1,361)	290
Losses (gains) on amounts funded in respect of employee rights upon retirement	303	(950)	1,596	(470)
Deferred income taxes – net	(1,856)	(6,570)	767	(1,405)
Net decrease (increase) in trading securities	984	(216)	1,063	11
Amortization of discount on marketable debt securities	-	11	-	1
Other	(18)	(109)	(61)	243
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable:				
Trade (including the non-current portion)	12,395	(34,700)	14,311	(17,139)
Other (including long term other tax payables)	(9,152)	1,278	(4,867)	216
Increase (decrease) in accounts payable and accruals:				
Trade	(6,655)	3,537	(4,584)	3,823
Employees, employee institutions and other	(584)	(2,290)	(143)	(4,532)
Decrease (Increase) in inventories	247	(118)	554	(21)
Increase in long-term institutions	-	-	-	406
Increase in deferred revenues (including the non- current portion)	2,381	2,810	746	1,445
Net cash provided by (used in) operating activities – forward	<u>13,180</u>	<u>(23,729)</u>	<u>12,258</u>	<u>(16,941)</u>

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

	Year ended		Three months ended	
	December 31		December 31	
	2008 (*)	2007	2008 (*)	2007
	(Unaudited)	(Audited)	(Unaudited)	
	U.S. \$ in thousands			
Net cash provided by (used in) operating activities - brought forward	13,180	(23,729)	12,258	(16,941)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity of marketable debt securities held to maturity	433	9,743	63	-
Investment in marketable debt securities held to maturity	(207)	(9,047)	(8)	-
Acquisition of subsidiaries or activities consolidated for the first time (a)	(824)	(1,370)	(89)	(20)
Purchase of property, plant, equipment and other assets	(5,055)	(4,676)	(1,609)	(492)
Proceeds from sale of property, plant and equipment	55	69	17	65
Amounts funded in respect of employee rights upon retirement, net	(168)	(1,097)	192	(124)
Long-term loans collected from (granted to) employees	36	17	19	(2)
Net cash used in investing activities	(5,730)	(6,361)	(1,415)	(573)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term bank loans	(241)	(352)	(125)	(123)
Issuance of share capital to employees resulting from exercise of options	4,012	2,402	17	1,347
Short-term bank credit – net	(11)	(4,731)	-	(1,366)
Net cash provided by (used in) financing activities	3,760	(2,681)	(108)	(142)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(148)	69	(113)	(53)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,062	(32,702)	10,622	(17,709)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,484	55,186	22,924	40,193
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	33,546	22,484	33,546	22,484

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RETALIX LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	Year ended	
	December 31,	
	2008	2007
	(Unaudited)	(Audited)
	U.S. \$ in thousands	
(a) 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:		
Working capital (excluding cash and cash equivalents)	-	174
Property, plant, equipment and other assets, net	-	(6)
Goodwill and other intangible assets arising on acquisition	(824)	(1,679)
Increase in account payable - other	-	141
	(824)	(1,370)

(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 290,128 ordinary share. In addition, shareholders of IDS were issued additional 207,236 shares valued at \$3,973,129 that were released from escrow as certain customer retention milestones agreed upon were met as of April 1, 2007. 69,481 shares and approximately \$1.1 million in cash are still being held in escrow pending third party claim that has not yet been resolved.

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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:

	Year ended December 31		Three months ended December 31	
	2008	2007	2008	2007
	Unaudited	(***)	Unaudited	Unaudited
U.S. \$ in thousands (except per share data)				
OPERATING INCOME (LOSS)				
GAAP Operating income (loss) (*)	1,067	(1,454)	(1,023)	(3,125)
Plus:				
Amortization of acquisition-related intangible assets	3,308	3,576	830	861
Stock based compensation expenses	4,775	3,889	848	175
Other acquisition-related operating expenses (**)	-	700	-	-
Non-GAAP Operating income (loss)	<u>9,150</u>	<u>6,711</u>	<u>655</u>	<u>(2,089)</u>
NET INCOME (LOSS)	4,052	(498)	2,001	(1,730)
GAAP Net income (loss) (*)				
Plus:				
Amortization of acquisition-related intangible assets	3,308	3,576	830	861
Stock based compensation expenses	4,775	3,889	848	175
Other acquisition-related operating expenses (**)	-	700	-	-
Less:				
Income tax effect of amortization of acquisition-related intangible assets	(1,262)	(1,287)	(336)	(348)
Expenses (income) tax effect of stock based compensation expenses	(456)	(70)	(44)	125
Income tax effect of other acquisition-related operating expenses	-	(161)	-	-
Non-GAAP Net income (loss)	<u>10,417</u>	<u>6,149</u>	<u>3,299</u>	<u>(917)</u>
NET INCOME (LOSS) PER DILUTED SHARE				
GAAP Net income (loss) per diluted share	0.20	(0.03)	0.10	(0.09)
Plus:				
Amortization of acquisition-related intangible assets	0.16	0.18	0.04	0.04
Stock based compensation expenses	0.23	0.20	0.04	0.01
Other acquisition-related operating expenses (**)		0.03		
Less:				
Income tax effect of amortization of acquisition-related intangible assets	(0.06)	(0.06)	(0.02)	(0.02)
Income tax effect of stock based compensation expenses	(0.02)	(0.00)	(0.00)	0.01
Income tax effect of other acquisition-related operating expenses	-	(0.01)	-	-
Non-GAAP Net income (loss) per diluted share	<u>0.51</u>	<u>0.31</u>	<u>0.16</u>	<u>(0.05)</u>
Shares used in computing diluted net income per share	<u>20,305</u>	<u>19,851</u>	<u>20,389</u>	<u>19,967</u>

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

(***) The 2007 figures were extracted from the audited consolidated financial statements for year 2007.

RETALIX LTD.
UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS

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

	Year ended December 31		Three months ended December 31	
	2008	2007	2008	2007
	Unaudited	(***)	Unaudited	Unaudited
	U.S. \$ in thousands			
Cost of product sales	174	60	49	1
Cost of services	1,847	707	359	(14)
Research and development - net	1,029	1,407	172	(37)
Selling and marketing	360	450	50	13
General and administrative	1,365	1,265	218	212
Total	<u>4,775</u>	<u>3,889</u>	<u>848</u>	<u>175</u>

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

	Year ended December 31		Three months ended December 31	
	2008	2007	2008	2007
	Unaudited	(***)	Unaudited	Unaudited
	U.S. \$ in thousands			
Cost of product sales	2,211	2,260	561	551
Cost of services	786	962	196	215
Selling and marketing	3	92	-	1
General and administrative	308	262	73	94
Total	<u>3,308</u>	<u>3,576</u>	<u>830</u>	<u>861</u>

(***) The 2007 figures were extracted from the audited consolidated financial statements for year 2007.

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