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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR;

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR;

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR;

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file No. 0-29742

**RETALIX LTD.**

(Exact name of registrant as specified in its charter)

**ISRAEL**

(Jurisdiction of incorporation or organization)

**10 ZARHIN STREET, RA'ANANA 43000, ISRAEL**

(Address of principal executive offices)

**HUGO GOLDMAN, CFO, +972-9-776-6696, HUGO.GOLDMAN@RETALIX.COM**  
**10 ZARHIN STREET, RA'ANANA 43000, ISRAEL**

(Name, Telephone, E-mail and /or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

**Ordinary Shares, nominal value NIS 1.00 per share**

Name of Exchange on which registered

**Nasdaq Global Select Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **20,389,771 Ordinary Shares, nominal value NIS 1.00 per share**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

YES  NO

If this report is an annual or transition report, indicate by checkmark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

YES  NO

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days:

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by  
the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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## **PART I**

*Unless the context otherwise requires, all references in this annual report to "Retalix," "us," "we," and "our" refer to Retalix Ltd. and its consolidated subsidiaries.*

*Our consolidated financial statements are prepared in United States dollars and in accordance with generally accepted accounting principles in the United States. All references to "dollars" or "\$" in this annual report are to United States dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels. On June 8, 2009, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 4.005 to \$1.00.*

*Statements in this annual report concerning our business outlook or future economic performance; anticipated revenues, expenses or other financial items; introductions and advancements in development of products, and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995 and other U.S. Federal securities laws. We urge you to consider that statements which use the terms "anticipate," "believe," "expect," "plan," "intend," "estimate," and similar expressions are intended to identify forward-looking-statements. Forward-looking statements address matters that are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those in these statements. Factors that could cause or contribute to these differences include, but are not limited to, those set forth under Item 3.D. – "Key Information – Risk Factors", Item 4 – "Information on the Company" and Item 5 – "Operating and Financial Review and Prospects", as well as elsewhere in this annual report and in our other filings with the Securities and Exchange Commission, or SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof.*

### **ITEM 1 – IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

### **ITEM 2 – OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

### ITEM 3 – KEY INFORMATION

#### A. Selected Financial Data

The selected consolidated statement of income (loss) data set forth below with respect to the years ended December 31, 2004, 2006, 2007 and 2008 and the selected consolidated balance sheet data set forth below as of December 31, 2004, 2006, 2007 and 2008 have been derived from our consolidated financial statements that were audited by Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited. The selected consolidated statement of income data set forth below with respect to the year ended December 31, 2005 and the selected consolidated balance sheet data set forth below as of December 31, 2005 have been derived from our consolidated financial statements that were audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated financial data set forth below should be read in conjunction with “Item 5 – Operating and Financial Review and Prospects” and our consolidated financial statements and notes to those statements for the years 2006, 2007 and 2008 included elsewhere in this annual report. Historical results are not necessarily indicative of the results to be expected in the future.

	Year ended December 31,				
	2004	2005	2006	2007	2008
	(in thousands, except share and per share data)				
<b>Consolidated statement of income data</b>					
Revenues:					
Product sales	\$ 77,494	\$ 91,692	\$ 73,195	\$ 80,511	\$ 72,907
Services	45,460	95,679	130,549	140,900	148,720
<b>Total revenues</b>	<b>122,954</b>	<b>187,371</b>	<b>203,744</b>	<b>221,411</b>	<b>221,627</b>
Cost of revenues:					
Cost of product sales	23,246	31,521	36,690	39,132	45,201
Cost of services	18,890	34,465	44,562	65,281	88,078
<b>Total cost of revenues</b>	<b>42,136</b>	<b>65,986</b>	<b>81,252</b>	<b>104,413</b>	<b>133,279</b>
<b>Gross profit</b>	<b>80,818</b>	<b>121,385</b>	<b>122,492</b>	<b>116,998</b>	<b>88,348</b>
Operating expenses:					
Research and development expenses-net	34,096	44,683	60,375	58,653	38,357
Selling and marketing expenses	24,798	33,382	33,495	31,617	23,623
General and administrative expenses	15,944	23,131	27,426	27,539	26,677
Other (income) expenses-net	15	-	22	643	(376)
Impairment of goodwill	-	-	-	-	58,182
<b>Total operating expenses</b>	<b>74,823</b>	<b>101,196</b>	<b>121,318</b>	<b>118,452</b>	<b>146,463</b>
Income (loss) from operations	5,995	20,189	1,174	(1,454)	(58,115)
Financial income (expenses) - net	85	202	79	1,032	(1,978)
Gain arising from issuance of shares by associated Companies	200	83	-	-	-
<b>Income (loss) before taxes on income</b>	<b>6,280</b>	<b>20,474</b>	<b>1,253</b>	<b>(422)</b>	<b>(60,093)</b>
Tax benefit (taxes on income)	(1,553)	(5,912)	507	435	8,960
Share in income (losses) of an associated company	(137)	(130)	(57)	(3)	54
Minority interests in losses (gains) of subsidiaries	247	189	(425)	(508)	(537)
<b>Net income (loss)</b>	<b>\$ 4,837</b>	<b>\$ 14,621</b>	<b>\$ 1,278</b>	<b>\$ (498)</b>	<b>\$ (51,616)</b>
Earnings (losses) per share:					
Basic	\$ 0.31	\$ 0.78	\$ 0.07	\$ (0.02)	\$ (2.55)
Diluted	\$ 0.29	\$ 0.74	\$ 0.06	\$ (0.02)	\$ (2.55)
Weighted average number of shares used in computation:					
Basic	15,746	18,710	19,491	19,851	20,265
Diluted	16,552	19,659	20,127	19,851	20,265

Year ended December 31,

	2004	2005	2006	2007	2008
(U.S. \$ in thousands)					
<b>Consolidated balance sheet data</b>					
Cash and cash equivalents	\$ 91,413	\$ 55,692	\$ 55,186	\$ 22,484	\$ 33,546
Working capital	97,963	68,216	68,659	71,611	83,305
Total assets	209,952	271,656	279,174	288,590	240,792
Total debt	13,859	5,288	6,024	1,055	772
Shareholders' equity	156,171	204,417	211,051	218,518	175,722
Capital stock	120,994	155,174	161,761	172,025	180,815

#### **B. Capitalization and Indebtedness**

Not applicable.

#### **C. Reasons for Offer and Use of Proceeds**

Not applicable.

#### **D. Risk Factors**

*The following risk factors, among others, could in the future affect our actual results of operations and could cause our actual results to differ materially from those expressed in forward-looking statements made by us. These forward-looking statements are based on current expectations and we assume no obligation to update this information. You should carefully consider the risks described below and elsewhere in this annual report before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our ordinary shares could decline due to any of these risks, and you may lose all or part of your investment. The following risk factors are not the only risk factors facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business.*

#### **Risks Related To Our Business**

**The recent downturn in the global economy worldwide has materially adversely affected the retail food industry, our primary target market, which has had a material adverse effect on our results of operations. If adverse economic conditions continue or worsen, our results of operations could worsen, as well.**

Our future growth is critically dependent on increased sales to customers in the retail food industry. We derive the substantial majority of our revenues from the sale of software products and the provision of related services to the retail food industry worldwide, including retailers such as supermarkets, convenience stores, fuel chains and restaurants as well as wholesalers and suppliers in this industry. The success of our customers is directly linked to economic conditions in the retail food industry, which in turn are subject to intense competitive pressures and are affected by overall economic conditions. Recent turmoil in the global financial and credit markets has caused liquidity problems for many financial institutions and adversely affected investor and consumer confidence generally. This has resulted in a curtailment of capital investment by many of our existing and potential customers, which has adversely affected our results of operations. Conditions may continue to be depressed or may be subject to further deterioration, which could lead to a further reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A significant adverse change in a customer's financial and/or credit position could also require us to assume greater credit risk relating to that customer's receivables or could limit our ability to collect receivables related to previous purchases by that customer. As a result, our reserves for doubtful accounts and write-offs of accounts receivable may increase. For example, in the first quarter of 2009, we had to write off a \$1.1 million receivable due to the bankruptcy of one of our customers. In addition, if we require additional funds to finance the growth of our business and are unable to raise them due to the prevailing weakness in the global financial and credit markets, our results of operations and financial condition may be adversely affected.

**We had a loss in 2008 and may not return to profitability.**

For the year ended December 31, 2008, we recorded a net loss of \$52 million. Our 2008 results were adversely impacted by an impairment of goodwill amounting to \$58.2 million. Before this impairment charge, we still would have had a net loss in 2008, were it not for a tax benefit. Our ability to return to or sustain profitability in the future depends in part on the global economy, which has adversely affected our industry. We have undertaken cost cutting initiatives in response to the worldwide economic conditions, including a reduction in our worldwide workforce, which could lead to a deterioration of our competitive position. In the future, we may have to undertake additional cost reduction initiatives to achieve and sustain profitability, and to the extent we do not do so sufficiently, our cost structure could negatively impact our results of operations and cash flow in the future. We cannot assure you that we will not continue to report losses in future periods or that if we return to profitability, we will remain profitable.

**Our business is subject to fluctuations in operating results, which could cause the price of our ordinary shares to decline.**

Our quarterly operating results have varied in the past and may fluctuate in the future because of a variety of factors, many of which are outside of our control. These factors include, among others:

- the size, timing, terms and fluctuations of customer orders and rollout schedules;
- the long sales cycle associated with certain of our software products;
- the deferral of customer orders in anticipation of new software products or services from us or our competitors;
- general economic conditions;
- changes in pricing by us or our competitors;
- fluctuations in currency exchange rates, and especially the revaluation of the Israeli Shekel and the devaluation of the US Dollar;
- the uncertainty regarding the adoption of our current and future products, including such products as our relatively new Store.Net and InSync applications;
- technical difficulties with respect to the use of software solutions and services developed by us;
- seasonality in customer purchasing and deployment patterns; and
- the profitability of our professional services business, and the percent of our total business that this constitutes.



Based upon these and other factors, our quarterly operating results could fluctuate significantly in the future. This fluctuation might cause our quarterly operating results in future periods to be below the expectations of securities analysts and investors. If that occurs, the market price of our ordinary shares could decline.

**The markets in which we sell our products and services are competitive, and increased competition and industry consolidation could cause us to lose market share, reduce our revenues, and adversely affect our operating results.**

The market for retail and distribution food and fuel information systems is highly competitive. A number of companies offer competitive products that address our target markets. In addition, we believe that new market entrants may attempt to develop and acquire retail and distribution food and fuel information systems, and we are likely to compete with new companies in the future. With respect to our Software-as-a-Service, or SaaS, initiatives, in particular, the barriers are relatively low and competition from other established and emerging companies may develop in the future. Some of our existing or potential competitors have greater financial, technical and marketing resources than we have. As a result, these competitors are able to devote greater resources than we can to the development, promotion, sale and support of their products. We also expect to encounter potential customers that, because of existing relationships with our competitors, are committed to the products offered by these competitors. As a result, competitive pressures could cause us to lose market share and require us to reduce our prices and profit margins. This could cause a decline in our revenues and adversely affect our operating results.

**If we fail to manage changes in personnel effectively, our business could be disrupted, which could harm our operating results.**

Our expansion has placed a strain on our senior management team and other resources, such as our management information systems and operating, administrative, financial and accounting systems. From 2004 through most of 2008, we underwent rapid growth in the number of our employees, the size and locations of our physical facilities and the scope of our operations, due, in part, to several acquisitions we have made. For example, we had 920 employees on December 31, 2004, and 1,350 employees on December 31, 2008. Any failure to manage growth effectively could disrupt our business and harm operating results. Recently we have undertaken a headcount reduction in response to the prevailing adverse economic conditions. Reductions in personnel also entail risks of business disruption and potential adverse effects on our sales and marketing efforts, customer service, and research and development activities. These adverse effects could harm our operating results.

**If we fail to successfully introduce new or enhanced products to the market, our business and operating results may suffer.**

If we are unable to successfully identify and develop new products and new features for our existing products that are acceptable to our existing and target customers, our business and operating results will suffer. The application software market is characterized by:

- rapid technological advances in hardware and software development;
- evolving standards in computer hardware, software technology and communications infrastructure;
- changing customer needs; and
- frequent new product introductions and enhancements.

In addition, new product introductions and enhancements require a high level of expenditures for research and development, which adversely affects our operating results. Any products or enhancements we develop may not be introduced in a timely manner and may not achieve the broad market acceptance necessary to generate significant revenues. Our recent headcount reduction may also harm or delay our research and development efforts. If we are unable to successfully develop new products or enhance and improve our existing products or if we fail to position and/or price our products to meet market demand, our business and operating results will be adversely affected.

**We are making significant investments in internal enterprise resource planning, which will result in increased expenses and may not provide anticipated benefits.**

We are in the process of upgrading our enterprise resource management, or ERP, tools to improve our internal management of our resources, licenses, training and operations. This is intended to result in a more centralized, streamlined planning system featuring more transparent and efficient use of real-time data. We will incur significant expenses in implementing such system. Investments in new technology are speculative. Such a new system may not achieve the anticipated improvements to our enterprise resource management and could create problems with our planning, integration of data or compatibility with other internal systems that we do not currently have.

**Sales to large customers represent a significant portion of our revenues, and a significant reduction in sales or services to these customers could significantly reduce our revenues.**

During 2008, none of our customers accounted for 5% or more of our revenues. During 2007, one customer accounted for 5% or more of our revenues. During 2006, two customers each accounted for 5% or more of our revenues. Sales to large supermarket, convenience store and fuel chains as well as large distributors are typically large in size and represent a significant portion of our revenues. A significant reduction in sales and services to any of our large customers could significantly reduce our revenues. This has already occurred in 2008 and the first half of 2009, and it could continue or worsen. We anticipate that sales and services to large customers in any given reporting period will continue to contribute materially to our revenues in the foreseeable future.

**The long sales cycle for certain of our products could cause revenues and operating results to vary from quarter to quarter, which could cause volatility in our stock price.**

We could incur substantial sales and marketing and research and development expenses while customers are evaluating our products and before they place an order with us, if they ever make a purchase at all. Purchases of our solutions are often part of larger information technology infrastructure initiatives on the part of our customers. As a result, these customers typically expend significant effort in evaluating, testing and qualifying our software products. This evaluation process is frequently lengthy and can range from two months to one year or more. We have found that this process is even longer during periods of economic uncertainty. Even after the evaluation process, a potential customer may not purchase our products. In addition, the time required to implement our products can vary significantly with the needs of our customers and generally lasts for several months. We cannot control these delays. As a result, we cannot predict the length of these sales cycles and we cannot control the timing of our sales revenue. Long sales cycles also subject us to risks not usually encountered by companies whose products have short sales cycles. These risks include:

- the potential cancellation of orders based on customers' changing budgetary constraints and changing economic conditions;
- the shift in orders expected in one quarter to another quarter because of the timing of customers' procurement decisions; and
- the unpredictability of internal acceptance reviews.

These factors could cause our revenues and operating results to vary significantly and unexpectedly from quarter to quarter, which could cause volatility in our stock price.

**Our gross margins may vary significantly or decline, adversely affecting our operating results.**

Because the gross margins on product revenues from license sales are significantly greater than the gross margins on product revenues from hardware sales and on services revenues, our combined gross margin has fluctuated from quarter to quarter, and it may continue to fluctuate significantly based on our revenue mix between product revenues and services revenues. In addition, since our product revenues are typically comprised of both software license and hardware elements and since the gross margins on license revenues are significantly higher than the gross margins on hardware revenues, our combined gross margin on products revenues in any particular quarter will also depend on our revenue mix between license and hardware revenues. Our operating results in any given quarter may be adversely affected to the extent our gross margins decline due to our generating in that quarter a greater percentage than average of services revenues or a greater percentage than average of hardware revenues. In addition, fixed price contracts for services we provide may expose us to additional risk if the actual costs in connection with such contracts are higher than expected, and therefore reduce our gross margins.

**Our acquisition of businesses and our failure to successfully integrate these businesses could disrupt our business, dilute your holdings in us and harm our financial condition and operating results.**

From 2004 through 2008, we acquired and increased our investment in several businesses. We intend to make future strategic acquisitions of complementary companies, products or technologies. Such acquisitions could disrupt our business. In addition, your holdings in our company would be diluted if we issue equity securities in connection with any acquisition, as we did in the transactions involving the acquisition of TCI Solutions Inc., or TCI, and the acquisition of the assets of Integrated Distribution Solutions, L.L.C., or IDS. Acquisitions involve numerous risks, including:

- problems combining the acquired operations, technologies or products;
- unanticipated costs or liabilities;
- diversion of management's attention;
- adverse effects on existing business relationships with suppliers and customers, which could lead to bad debts;
- risks associated with entering markets in which we have no or limited prior experience;
- potential loss of key employees, particularly those of the acquired organizations; and
- potential future write-offs of goodwill recorded as a result of the acquisitions.

Further, products that we acquire from third parties often require significant expenditures of time and resources to upgrade and integrate with our existing product suite. We may not be able to successfully integrate any business, technologies or personnel that we have acquired or that we might acquire in the future, and this could harm our financial condition and operating results.

**Our business will suffer to the extent that our products based on relatively new platforms such as the .NET platform or the J2EE platform do not achieve market acceptance.**

In recent years, we have been developing new versions of our products based on new platforms such as the Microsoft .NET platform and the J2EE platform. The risks of our commitment to these relatively new platforms include the following:

- the possibility that prospective customers will refrain from purchasing the current versions of our products because they are waiting for the new platform versions;
- the possibility that our beta customers with products based on new platforms will not become favorable reference sites;
- the possibility that the new platforms will not be able to support the multiple sites and heavy data traffic of our largest customers;
- the possibility that our development staff will not be able to learn how to efficiently and effectively develop products using the new platforms; and
- the possibility that we will not be able to transition our customer base to the products based on the new platforms when these are available.

There can be no assurances that our efforts to develop new products using the new platforms will be successful. If the products we develop for new platforms do not achieve market acceptance, it likely will have a material adverse effect on our business, operating results and financial condition.

**Our software products might not be compatible with all major hardware and software platforms, which could inhibit sales and harm our business.**

Any changes to third-party hardware and software platforms and applications that our products work with could require us to modify our products and could cause us to delay releasing a product until the updated version of that hardware and software platform or application has been released. As a result, customers could delay purchases until they determine how our products will operate with these updated platforms or applications, which could inhibit sales of our products and harm our business. In addition, developing and maintaining consistent software product performance across various technology platforms could place a significant strain on our resources and software product release schedules, which could adversely affect our results of operations. We must continually evaluate new technologies and implement into our products advanced technology. For example, in recent years we have been developing new versions of our products based on the Microsoft .NET platform and the J2EE platform. We cannot assure you that these new versions will be successful. Moreover, if we fail in our product development efforts to accurately address in a timely manner evolving industry standards, new technology advancements or important third-party interfaces or product architectures, sales of our products and services will suffer.

**We may have difficulty implementing our products, which could damage our reputation and our ability to generate new business.**

Implementation of our software products can be a lengthy process, and commitment of resources by our clients is subject to a number of significant risks over which we have little or no control. In particular, we believe that the implementation of our enterprise management application suite can be longer and more complicated than our other applications as this suite typically:

- appeals to larger retailers who have multiple divisions requiring multiple implementation projects;
- requires the execution of implementation procedures in multiple layers of software;
- offers a retailer more deployment options and other configuration choices; and
- may involve third party integrators to change business processes concurrent with the implementation of the software.

Delays in the implementations of any of our software products, whether by our business partners or us, may result in client dissatisfaction, disputes with our customers, or damage to our reputation. Significant problems implementing our software therefore can cause delays or prevent us from collecting fees for our software and can damage our ability to generate new business.

**Our Software-as-a-Service, or SaaS, business model is in an early stage of implementation and, if unsuccessful, our revenue growth could be adversely affected.**

We are still in the early stages of rolling-out our SaaS application services to regional chains and independent store retailers through our two StoreNext initiatives, StoreNext Retail Technology LLC, which we refer to as StoreNext USA, and Store Alliance.com Ltd., which we refer to as StoreNext Israel. These applications have not been traditionally used by smaller retailers and if they do not accept them, our SaaS initiatives may not succeed. Our services include head-office and back-office applications delivered via the Internet based on a SaaS subscription fee pricing model. We offer our SaaS services under a subscription fee model for reporting, analysis and merchandising services. We also offer payment processing services as part of a Connected Payments program through a joint venture with our payment processing software partner, MTXEPS Inc. In the future, we plan to offer additional services for a fee. We cannot assure you that these users will accept our pricing model. If we are unsuccessful in selling and marketing our SaaS services to retailers and distributors, our revenue growth could be adversely affected.

**Our Retailix InSync products are in varying stages of development and, if unsuccessful, our revenue growth could be adversely affected.**

In September 2005, we announced the introduction of Retailix InSync, our new enterprise and supply chain management portfolio. We are in the process of developing new supply chain management systems on the new Retailix InSync platform. Development has taken longer than expected and, while we have begun initial pilots of certain software modules, we cannot assure you that this development will be successful or that many customers will purchase these new products. If we continue to experience delays in developing our Retailix InSync products or if we are unsuccessful in marketing and selling our Retailix InSync products to retailers and distributors, our revenue growth could be adversely affected.

**Some of our products contain “open source” software, and any failure to comply with the terms of one or more associated open source licenses could negatively affect our business.**

Some of our products are distributed with software licensed by its authors or other third parties under so-called “open source” licenses, including, for example, the GNU General Public License, or GPL, GNU Lesser General Public License, or LGPL, the Mozilla Public License, the BSD License and the Apache License. Some of those licenses may require as a condition of the license that we make available source code for modifications or derivative works we create based upon, incorporating, or using such open source software, that we provide various notices with our products, and/or that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. The terms of many open source licenses have not been interpreted by any U.S. court or, to our knowledge, any other court, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to market our products. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of those open source licenses, we could be required to incur legal expenses in defending against such allegations, and if our defenses were not successful, we could be enjoined from distribution of the products that contained the open source software and/or required to either make the source code for the open source software available, to grant third parties certain rights of further use of our software, or to remove the open source software from our products, which could disrupt our distribution and sale of some of our products. In addition, if we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software, which could limit or eliminate our ability to commercialize such software. If an author or other third party that distributes open source software were to obtain a judgment against us based on allegations that we had not complied with the terms of any such open source licenses, we could also be subject to liability for copyright infringement damages and breach of contract for our past distribution of such open source software. Although we take steps to ensure that our programmers do not include open source software in products and technologies we intend to keep proprietary, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into products and technologies we intend to keep proprietary.

**Insufficient or slower than anticipated demand for our SaaS services could adversely affect our revenue growth.**

We have continued to incur research and development expenses in connection with the development of our SaaS initiatives. If significant demand fails to develop or develops more slowly than we anticipate, we may be unable to recover the expenses we have incurred and expect to incur in the further development of these initiatives. Any delay in or failure of the development of significant demand for our SaaS services could cause our new business initiatives to fail. Even if significant demand does develop for our SaaS services, the growth of our SaaS services may erode parts of existing software sales revenue. Any of these factors could adversely affect our revenue growth.

**If we are unsuccessful in establishing online Business-to-Business (B2B) e-commerce exchanges, our revenue growth could be adversely affected.**

In order for us to establish business-to-business (B2B) e-commerce exchanges for our SaaS initiatives, we will need to generate a community of participating retailers sufficiently large to support such a model. Even if we successfully establish such a community, we may not be able to establish B2B exchanges without partnering with strategic participants in the supply chain arena. We cannot assure you that we will be able to establish such partnerships on terms that are commercially favorable to us, if at all. Even if we establish successful strategic partnerships, we will need to attract wholesalers and suppliers to our B2B initiatives. We cannot assure you that wholesalers and suppliers will choose to participate in our B2B initiatives. In addition, this is a new and unproven business model, and we cannot assure you that potential users of the B2B applications will use them. If we are unsuccessful in establishing a B2B business model, our revenue growth could be adversely affected.

**Disruption of our SaaS servers due to security breaches and system failures could harm our business and result in the loss of customers.**

Our SaaS infrastructure is vulnerable to security breaches, computer viruses or similar disruptive problems. Our SaaS servers provide access to and distribution of many of our enterprise software solutions, products and services to our SaaS customers. Providing unimpeded access to our SaaS servers is critical to servicing our SaaS customers and providing superior customer service to them. These systems are also subject to telecommunications failures, power loss and various other system failures. Any of these occurrences, whether intentional or accidental, could lead to interruptions, delays or cessation of operation of our SaaS servers. Our inability to provide continuous access to our SaaS servers could cause some of our customers to discontinue subscribing to our SaaS and e-market applications and harm our business reputation.

**We could be exposed to possible liability for supplying inaccurate information to our B2B and SaaS customers, which could result in significant costs, damage our reputation and decreased demand for our products.**

The information provided in our B2B and SaaS applications could contain inaccuracies. Dissatisfaction of the providers of this information or our customers with inaccuracies could materially adversely affect our ability to attract suppliers and new customers and retain existing customers. In addition, we may face potential liability for inaccurate information under a variety of legal theories, including defamation, negligence, copyright or trademark infringement and other legal theories based upon the nature, publication or distribution of this information. Claims of this kind could divert management time and attention and could result in significant cost to investigate and defend, regardless of the merits of any of these claims. The filing of any claims of this kind may also damage our reputation and decrease demand for our products.

**If our SaaS products are unable to support multiple enterprises, our business could be harmed.**

We might not succeed in adapting our software to support multiple enterprises as the number of users of our SaaS services increase. As part of our strategy to sell our software products and services to small chains and single store food retailers, we are rolling out our SaaS-based offering, and we are in the process of adapting some of our software products to a browser-based multi-tenant environment in order to reduce the costs associated with our enterprise software solutions offered through a shared SaaS environment. As we add customers to our SaaS initiatives, our software will need to be robust enough to support, from a single data center, our growing customer base. The failure of our SaaS service to support multiple enterprises could harm our business and operating results.

**Errors or defects in our software products could diminish demand for our products, harm our reputation and reduce our operating results.**

Our software products are complex and may contain errors that could be detected at any point in the life of the product. We cannot assure you that errors will not be found in new products or releases after shipment. This could result in diminished demand for our products, delays in market acceptance and sales, diversion of development resources, harm to our reputation or increased service and warranty costs. In addition, if software errors or design defects in our products cause damage to our customers' data, we could be subject to liability based on product liability claims. Our agreements with customers that attempt to limit our exposure to product liability claims may not be enforceable in jurisdictions where we operate. Our insurance policies may not provide sufficient protection should a claim be asserted against us. If any of these risks were to occur, our operating results could be adversely affected.

**Errors or defects in other vendors' products with which our products are integrated could adversely affect the market acceptance of our products and expose us to product liability claims from our customers.**

Because our products are generally used in systems with other vendors' products, our products must integrate successfully with these existing systems. As a result, when problems occur in a system, it may be difficult to identify the product that caused the problem. System errors, whether caused by our products or those of another vendor, could adversely affect the market acceptance of our products, and any necessary revisions could cause us to incur significant expenses. Regardless of the source of these errors or defects, we will need to divert the attention of engineering personnel from our product development efforts to address errors or defects detected. These errors or defects could cause us to incur warranty or repair costs, liability claims or lags or delays. Moreover, the occurrence of errors or defects, whether caused by our products or the products of another vendor, may significantly harm our relations with customers, or result in the loss of customers, harm our reputation and impair market acceptance of our products.

**We are dependent on key personnel to manage our business, the loss of whom could negatively affect our business.**

Our future success depends upon the continued services of our executive officers, and other key sales, marketing, research and development and support personnel. In particular, we are dependent on the services of Barry Shaked, currently our President and Chief Executive Officer. We do not have “key person” life insurance policies covering any of our employees. Any loss of the services of Mr. Shaked, our executive officers or other key personnel could adversely affect our business.

**If we are unable to attract, assimilate or retain qualified personnel, our ability to develop, sell and market our products could be adversely impacted.**

The success of our business depends on our ability to attract and retain highly qualified engineers and sales and marketing personnel. Competition for highly-skilled engineers and sales and marketing personnel is intense in our industry, and we may not be successful in attracting, assimilating or retaining qualified engineers and sales and marketing personnel to fulfill our current or future needs. This could adversely impact our ability to develop, sell and market our products.

**Antitrust scrutiny of B2B initiatives may adversely affect our business.**

The establishment and operation of B2B initiatives may raise issues under various countries’ antitrust laws. To the extent that antitrust regulators take adverse action with respect to business-to-business e-commerce exchanges or establish rules or regulations governing these exchanges, or that there is a perception that regulators may do any of the foregoing, the establishment and growth of our B2B initiatives may be delayed, which may adversely affect our business.

**Because we operate in international markets, we are subject to additional risks.**

We currently sell our software products and SaaS services in a number of countries and we intend to enter additional geographic markets. Our business is subject to risks that often characterize international markets, including:

- potentially weak protection of intellectual property rights;
- economic and political instability;
- import or export licensing requirements;
- trade restrictions;
- difficulties in collecting accounts receivable;
- longer payment cycles;
- unexpected changes in regulatory requirements and tariffs;
- seasonal reductions in business activities in some parts of the world, such as during the summer months in Europe;
- fluctuations in exchange rates; and
- potentially adverse tax consequences.

**Our business and operating results could be harmed if we fail to protect and enforce our intellectual property rights.**

The laws of some countries in which our products are or may be developed, marketed or sold may not protect our products or intellectual property rights, increasing the possibility of piracy of our technology and products. We currently have no patents or patent applications pending. We rely on a combination of trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. Our competitors could also independently develop technologies that are substantially equivalent or superior to our technology.

It may be necessary to litigate to enforce our copyrights and other intellectual property rights, to protect our trade secrets or to determine the validity of and scope of the proprietary rights of others. Such litigation can be time consuming, distracting to management, expensive and difficult to predict. Our failure to protect or enforce our intellectual property could have an adverse effect on our business and results of operation.

**Our technology may infringe on the intellectual property rights of third parties and we may lose our rights to it, which would harm our business.**

We may be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlap. It is possible that we will inadvertently violate the intellectual property rights of other parties and that other parties will assert infringement claims against us. If we violate the intellectual property rights of other parties, we may be required to modify our products or intellectual property or obtain a license to permit their continued use. Any future litigation to defend ourselves against allegations that we have infringed the rights of others could result in substantial cost to us, even if we ultimately prevail, and a determination against us in any such litigation could subject us to significant liabilities to other parties and could prevent us from developing, selling or using our products. If we lose any of our rights to our proprietary technology, we may not be able to continue our business.

**We may fail to maintain effective internal control in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.**

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executive officers and directors. Our efforts to comply with the requirements of the Sarbanes-Oxley Act of 2002, and in particular with Section 404 under it, have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. If we fail to maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal control over financial reporting. For example, our management determined that we had ineffective internal control over financial reporting as of December 31, 2007. While our management has determined that we had effective internal control over financial reporting as of December 31, 2008, we cannot assure you that we will be able to conclude in future years that we have effective internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigations or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

**Under SFAS 123(R), we are required to record a compensation expense in connection with share-based compensation which significantly reduces our profitability.**

Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS 123(R), requires all share-based payments to employees to be recognized as a compensation expense based on their fair values. During 2006, 2007 and 2008, SFAS 123(R) had a material impact on our results, lowering our reported net income by approximately \$3.4 million, \$3.8 million and \$4.3 million, respectively. This standard may continue to have a significant adverse impact on our results of operations, although we do not expect it will have any impact on our overall financial position. In addition, if as a result of the continuing adverse impact of SFAS 123(R) on our results, we would stop or limit the use of stock options as an incentive and retention tool, it could have an adverse effect on our ability to recruit and retain employees.

**Risks Related To Our Location In Israel**

**Potential political, economic and military instability in Israel may adversely affect our results of operations.**

Our principal offices and headquarters are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Since September 2000, there has been a marked increase in hostilities between Israel and the Palestinians, characterized by terrorist attacks on civilian targets, suicide bombings and military incursions by the Israeli army into areas under the control of the Palestinian Authority. Hamas, an Islamist movement responsible for many attacks against Israeli targets, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip by force in June 2007. Since then, thousands of missiles have been fired from Gaza at population centers in southern Israel, leading to an armed conflict between Israel and the Hamas in January 2009. Further, in the summer of 2006, Israel engaged in a war with Hezbollah, a Lebanon-based Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel.

Ongoing violence between Israel and the Palestinians, as well as tension between Israel and the neighboring Syria and Lebanon, may have a material adverse effect on our business, financial conditions and results of operations. In addition, in recent years Iran has been stepping up its efforts to achieve nuclear capability. This move is seen by many as a worldwide threat to peace. This situation may potentially escalate in the future to violent events which may affect Israel and us.

We cannot predict the effect on us of any increase in the degree of violence by the Palestinians or others against Israel or the effect of military action elsewhere in the Middle East. The future of peace efforts between Israel and its Arab neighbors remains uncertain. Any armed conflicts or political instability in the region would likely negatively affect business conditions and adversely affect our results of operations. Furthermore, several countries continue to restrict or ban business with Israel and Israeli companies. These restrictive laws and policies may seriously limit our ability to make sales in those countries.

**Our results of operations could be negatively affected by the obligations of our personnel to perform military service.**

Our operations could be disrupted by the absence for significant periods of one or more of our executive officers, key employees or a significant number of other employees because of military service. Some of our executive officers and the majority of our male employees in Israel are obligated to perform military reserve duty, which could accumulate annually from several days to up to two months in special cases and circumstances. The length of such reserve duty depends, among other factors, on an individual's age and prior position in the army. In addition, if a military conflict or war occurs, these persons could be required to serve in the military for extended periods of time. Any disruption in our operations as the result of military service by key personnel could harm our business.



**Because some of our financial assets and liabilities are denominated in non-dollar currencies such as the New Israeli Shekel, the British Pound Sterling or the Euro, and because our financial results are measured in dollars, our results of operations could be harmed, as a result of a strengthening or weakening of the dollar compared to these other currencies.**

We generate a majority of our revenues in dollars or in dollar-linked currencies, but some of our revenues are generated in other currencies such as the New Israeli Shekel, or NIS, the British Pound Sterling and the Euro. As a result, some of our financial assets are denominated in these currencies, and fluctuations in these currencies could adversely affect our financial results. A considerable amount of our expenses are generated in dollars or in dollar-linked currencies, but some of our expenses such as salaries or hardware costs are generated in other currencies such as the NIS, the British Pound Sterling or the Euro. In addition to our operations in Israel, we are expanding our international operations. Accordingly, we incur and expect to continue to incur additional expenses in non-dollar currencies. As a result, some of our financial liabilities are denominated in these non-dollar currencies. In addition, some of our bank credit is linked to these non-dollar currencies. Most of the time, our non-dollar assets are not totally offset by non-dollar liabilities. Due to the foregoing and to the fact that our financial results are measured in dollars, our results could be adversely affected as a result of a strengthening or weakening of the dollar compared to these other currencies. During 2006, 2007 and 2008, the dollar depreciated in relation to the NIS, which raised the dollar cost of our Israeli based operations and adversely affected our financial results. Our results could also be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we have entered and may continue to enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar against the NIS or other currencies. These measures, however, may not adequately protect us from future currency fluctuations and, even if they do protect us, involve financing costs we would not otherwise incur.

**The dollar cost of our operations in Israel will increase to the extent increases in the rate of inflation in Israel are not offset by a devaluation of the NIS in relation to the dollar, which would harm our results of operations.**

Since a considerable portion of our expenses, such as employees' salaries, are linked to an extent to the rate of inflation in Israel, the dollar cost of our operations is influenced by the extent to which any increase in the rate of inflation in Israel is or is not offset by the devaluation of the NIS in relation to the dollar. As a result, we are exposed to the risk that the NIS, after adjustment for inflation in Israel, will appreciate in relation to the dollar. In that event, the dollar cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 2008, the value of the dollar decreased in relation to the NIS by 1.1%, while inflation increased by 3.8%. We cannot predict whether in the future the NIS will appreciate against the dollar or vice versa. Any increase in the rate of inflation in Israel, unless the increase is offset on a timely basis by a devaluation of the NIS in relation to the dollar, will increase labor and other costs, which will increase the dollar cost of our operations in Israel and harm our results of operations.

**We currently participate in or receive tax benefits from government programs. These programs require us to meet certain conditions and these programs and benefits could be terminated or reduced in the future, which could harm our results of operations.**

We receive tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959, or the Investments Law, with respect to our production facilities that are designated as "Approved Enterprises". We believe that we are currently in compliance with these requirements. However, if we fail to meet these requirements, we would be subject to corporate tax in Israel at the regular statutory rate. We could also be required to refund tax benefits, with interest and adjustments for inflation based on the Israeli consumer price index. Our tax benefits resulting from our Approved Enterprises for the years 2006, 2007 and 2008, net of other tax effects, were approximately \$346,000, \$0 and \$0 respectively. In addition, an increase in our development activities outside of Israel may be construed as a failure to comply with the Investments Law conditions. There can be no assurance that new benefits will be available, or that existing benefits will be continued in the future, at their current level or at any level.

Our board of directors has determined that we will not distribute any amounts of our undistributed tax exempt income as a dividend. We intend to reinvest our tax-exempt income and not to distribute such income as a dividend. Accordingly, no deferred income taxes have been provided on income attributable to our Approved Enterprise programs as the undistributed tax exempt income is essentially permanent in duration.

**Because we have received grants from the Office of the Chief Scientist, we are subject to ongoing restrictions that limit the transferability of our technology and of our right to manufacture outside of Israel, and certain of our large shareholders are required to undertake to observe such restrictions.**

We have received royalty-bearing grants from the Office of the Chief Scientist, or OCS, of the Ministry of Industry, Trade and Labor of the Government of Israel. We must pay royalties to the OCS on the revenue derived from the sale of products and technologies, and related services, which incorporate or are based on know-how developed with the grants from the OCS. As of December 31, 2008, our total contingent liability to the OCS in this respect amounted to \$5,787,000. The OCS budget has been subject to reductions, which may affect the availability of funds for grants in the future. As a result, we cannot be certain that we will continue to receive grants at the same rate, or at all. In addition, the terms of any future grant may be less favorable than our past grant. According to Israeli law, any products which incorporate or are based on know-how developed with grants from the OCS are usually required to be manufactured in Israel, unless we obtain prior approval of a governmental committee. As a condition to obtaining this approval, we may be required to pay the OCS up to 300% of the grants we received and to repay such grants at a quicker rate. In addition, we are prohibited from transferring to third parties the technology developed with these grants without the prior approval of a governmental committee. Any non-Israeli who becomes a direct holder of 5% or more of our outstanding ordinary shares will be required to notify the OCS and to undertake to observe the law governing the grant programs of the OCS, the principal restrictions of which are the transferability limits described above in this paragraph.

In order to meet specified conditions in connection with the grants and programs of the OCS, we have made representations to the Government of Israel about our Israeli operations. If we fail to meet the conditions related to the grants, including the maintenance of a material presence in Israel, or if there is any material deviation from the representations made by us to the Israeli government, we might be required to refund the grants previously received (together with an adjustment based on the Israeli consumer price index and an interest factor) and would likely be ineligible to receive OCS grants in the future. The inability to receive these grants would result in an increase in our research and development expenses.

**Under current Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.**

Israeli courts have required employers seeking to enforce non-compete undertakings against former employees to demonstrate that the former employee breached an obligation to the employer and thereby caused harm to one of a limited number of legitimate interests of the employer recognized by the courts, such as the confidentiality of certain commercial information or a company's intellectual property. We currently have non-competition clauses in the employment agreements of most of our employees. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. In the event that any of our employees chooses to work for one of our competitors, we may be unable to prevent that competitor from benefiting from the expertise such former employee obtained from us, if we cannot demonstrate to the court that such former employee breached a legitimate interest of ours recognized by a court and that we suffered damage thereby.

**It could be difficult to enforce a U.S. judgment against our officers, our directors and us.**

Service of process upon us, upon our directors and officers, a substantial number of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because our principal assets and a substantial number of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of our directors and officers may not be collectible within the United States.

Additionally, it may be difficult for you to enforce civil liabilities under the Securities Act of 1933 and the Securities Exchange Act of 1934, or the Exchange Act, in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

However, subject to specified time limitations and other conditions, Israeli courts may enforce a U.S. final executory judgment in a civil matter, including a monetary or compensatory judgment in a non-civil matter, obtained after due process before a court of competent jurisdiction according to the laws of the state in which the judgment is given and the rules of private international law currently prevailing in Israel.

**Provisions of Israeli law could delay, prevent or make difficult a change of control, and therefore depress the price of our shares.**

Provisions of Israeli corporate law may have the effect of delaying, preventing or making more difficult a merger with, or acquisition of, us. The Israeli Companies Law – 1999, or the Companies Law, generally provides that, other than in specified exceptions, a merger be approved by the board of directors and a majority of the shares present and voting on the proposed merger at a meeting of shareholders. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of the surviving company. Furthermore, a merger may generally not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each of the parties. The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company. Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. In any event, if as a result of an acquisition of shares the acquirer will hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap. These laws may have the effect of delaying or deterring a change in control of us, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our securities.

**The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.**

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. See “Duties of Shareholders” under Item 10.B of this annual report for additional information concerning this duty.

#### **Risks Related to Our Ordinary Shares**

##### **Our stock price has fluctuated and could continue to fluctuate significantly.**

The market price for our ordinary shares, as well as the price of shares of other technology companies, has been volatile. Numerous factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly, such as:

- fluctuations in our quarterly revenues and earnings and those of our publicly held competitors;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors;
- changes in pricing policies by us or our competitors;
- general market conditions, and changes in market conditions in our industry;
- the general state of the securities market; and
- market speculation about a possible acquisition of or investment in our company; see Item 4.A.

In addition, trading in shares of companies listed on the Nasdaq Stock Market (including the Nasdaq Global Select Market) in general and trading in shares of technology companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to operating performance. These broad market and industry factors may depress our share price, regardless of our actual operating results. In addition, if we issue additional shares in financings or acquisitions, our shareholders will experience additional dilution and the existence of more shares could decrease the amount that purchasers are willing to pay for our ordinary shares.

##### **Substantial future sales of our ordinary shares may depress our share price.**

If our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the exercise of outstanding employee options, or if the perception exists that we or our shareholders may sell a substantial number of our ordinary shares, the market price of our ordinary shares may fall. If we issue additional shares in financings or acquisitions, our shareholders will experience additional dilution and the existence of more outstanding shares could reduce the amount purchasers are willing to pay for our ordinary shares. Any substantial sales of our ordinary shares in the public market also might make it more difficult for us to sell equity securities.

##### **Our ordinary shares are traded on more than one market and this may result in price variations.**

Our ordinary shares are traded on the Nasdaq Global Select Market and on the Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets is effected in different currencies (dollars on the Nasdaq Global Select Market, and New Israeli Shekels on the Tel Aviv Stock Exchange) and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ, resulting from the factors described above as well as differences in exchange rates and from political events and economic conditions in the United States and Israel. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

## **ITEM 4 – INFORMATION ON THE COMPANY**

### **A. History and Development of the Company**

We were incorporated on March 5, 1982, under the laws of the State of Israel. Both our legal and commercial name is Retalix Ltd. In 2000, we changed our name from Point of Sale Ltd. to our current name. Our principal offices are located at 10 Zarhin Street, Ra'anana 43000, Israel, and our telephone number is (011) 972-9-776-6677. Our U.S. agent is our subsidiary, Retalix USA Inc., located at 6200 Tennyson Parkway, Suite 150, Plano, Texas 75024, and its telephone number is (469) 241-8400. Our website address is [www.retalix.com](http://www.retalix.com). The information contained on, or linked from, our website is not a part of this annual report.

Our ordinary shares began trading on the Tel Aviv Stock Exchange in October 1994 and on the Nasdaq National Market (now the Nasdaq Global Select Market) in July 1998.

During our initial years of operation in the 1980s and the early 1990s we focused on the development and sales of store level software solutions to food retailers. During the second half of the 1990s we widened our offerings to cover, in addition to solutions designed for the grocery retail industry, also solutions for the fuel and convenience retail industries as well as solutions covering the management of sales operations at the chain level. During this period we also significantly increased our sales internationally and in particular in the United States. During the period from 1999 through 2003, we strengthened our presence internationally, formed our StoreNext initiatives in Israel and the United States, which are designed to create collaborative communities of small retailers, suppliers and manufacturers, and we enriched our offerings with the introduction of web based and mobile solutions. During 2004 and 2005, with the acquisitions of OMI International Inc., or OMI International, and IDS, we significantly widened our offerings to include supply-chain management solutions for retailers as well as for suppliers and manufacturers. For information relating to our recent significant acquisitions, please see Item 4.B below under "Recent Significant Acquisitions". In 2005, we introduced new sophisticated solutions complementing recent industry focuses, such as customer loyalty and optimization of ordering. From 2006 through 2008, we made a significant effort in developing a Java-based, thin-client, next-generation supply chain management application suite, which we refer to as Retalix InSync.

On February 16, 2009 and March 31, 2009, we announced that we received several unsolicited non-binding proposals to purchase all of the outstanding shares of the Company or to make an investment in the Company, at prices ranging from \$8.00 to \$10.00 per share in cash, none of which were from competitors or other companies operating in our field of business. In accordance with our policy, we do not plan to make any further statements responding to market rumors or speculation about these or any other proposals.

#### ***Principal Capital Expenditures***

We had capital expenditures of \$2.6 million in 2006, \$4.7 million in 2007 and \$5.1 million in 2008. Our capital expenditures in 2006 consisted primarily of the purchase of computers and peripheral equipment. Our capital expenditures in 2007 and 2008 consisted primarily of the purchase (in unfinished condition) and refurbishing of the 3rd floor of the building in which our corporate headquarters are located in Ra'anana, Israel, for \$2.5 million and \$3.4 million, respectively, and the purchase of computers and peripheral equipment. In 2008, we also started the implementation of a new ERP system for an aggregate amount of approximately \$2.0 million, of which \$0.1 million was invested in 2008. In 2009, we expect the purchase of software and related professional services, computers and peripheral equipment related to the ERP system to amount to approximately \$1.8 million, and that our capital expenditures related to the 3rd floor refurbishment, levies, improvements and furniture to amount to up to \$0.6 million. We have financed, and expect to continue to finance, these capital expenditures with cash generated from operations.

### **B. Business Overview**

#### ***Overview***

We are an independent provider of integrated enterprise-wide software solutions to food and fuel retailers and to grocery, convenience store and foodservice distributors. Spanning the retail and distribution supply chain from the warehouse to the point of sale, our suite of software solutions integrates the information flow across a retailer's or distributor's entire operations, encompassing stores, headquarters and distribution centers. Our comprehensive solution suite enables retailers and distributors to manage their operations more efficiently, enhance customer service, reduce operating costs and collaborate more closely with suppliers. Our software solutions also enable retailers to capture and analyze consumer behavior data that can be used to devise and implement more effective targeted promotions and loyalty programs in order to stimulate demand and increase sales. At the same time, our software solutions enable retailers and distributors to reduce shrinkage, inventory and cost of sale. We believe that our extensive knowledge and accumulated experience in developing software solutions for the retail and distribution food and fuel industries enables us to provide solutions that are better integrated and more tailored for our target markets than competing solutions. Through acquisitions over the past four years, we further extended the scope of our software suite to incorporate supply chain, warehouse, distribution and transportation management solutions and enhanced pricing and merchandising solutions for distributors and retailers. With this enhanced suite of software solutions, we now provide retailers and distributors with the ability to manage, track and report the movement of goods throughout the entire scope of their operations, from the order through the initial receiving of goods at the warehouse, and to the final sale at the checkout counter.

We market our software solutions to large and mid-sized supermarket and convenience store chains, major fuel retailers, and independent grocers, as well as to large and mid-size foodservice, convenience stores and grocery distributors. In each sector, the customers are typically categorized into "tiers" based on various factors, such as revenue levels, number of stores, industry and region, with Tier 1 referring to the largest entities.

We market our solutions to Tier 1 and Tier 2 food retailers, large convenience store chains and major fuel retailers, and large and mid-size foodservice, convenience stores and grocery distributors through a worldwide direct sales force. Our direct selling efforts are augmented by a combination of channel partners and resellers. Sales to Tier 1 and Tier 2 food retailers, large convenience store chains, major fuel retailers and large and mid-size foodservice, convenience stores and grocery distributors have historically represented a substantial majority of our revenues. We target Tier 3 and Tier 4 food retailers through our StoreNext initiatives in the United States and Israel. For larger supermarket and convenience store chains, major fuel retailers, and large and mid-size foodservice, convenience stores and grocery distributors, our professional services personnel provide our customers with project management, implementation, application training and technical services. We also provide development services to customize our applications to meet specific requirements of our customers and ongoing support and product maintenance services.

We believe that we are unique within the food and fuel retail and distribution software industries. We offer software solutions that can serve the needs of the entire range of food and fuel retailers and grocery and convenience store distributors, from multi-national supermarket chains, major food distributors and major fuel retailers to local independent grocers. We are able to serve such a diverse customer base because we have designed our applications to include multiple levels of functionality that can be adapted to the various sizes and forms of retail operations of our customers. To date, our software solutions have been installed at more than 40,000 sites in 51 countries. Our customers include leading supermarket/grocery chains and food service distributors such as Big Y, Food Lion, Food Services of America, Hannaford Bros., Hy-Vee, Odom Beverage, Save-A-Lot and Save Mart in the United States, Argos, AS Watsons, Carrefour, Delhaize, Intermarche, Morrisons, Sainsbury's and Tesco in Europe, large food distributors such as Metcash in Australia, and large convenience stores and major fuel retailers such as BP in Australia, the United Kingdom and North America, Casey's, Husky, Irving Oil, Love's, Pilot Travel Centers and The Pantry in the United States and Canada. Our annual worldwide sales have grown from \$36.1 million in 2000 to \$221.6 million in 2008.

In March 2008, we acquired an additional 5% of StoreNext USA and increased our holdings in this entity to 100%.

In May 2007, we acquired several intellectual property assets of BGI International, which provides a suite of software products for the food and consumer goods distributors. This acquisition enabled us to extend the advantages that we achieve for retailers and distributors with the OMI International and IDS acquisitions, by providing additional critical functionality, such as transportation management and distribution center dock scheduling.

In March 2006, we acquired additional 45% of StoreNext USA and increased our holdings in this entity to 95%. In February 2006, we acquired substantially all of the assets of Base Products, Inc., d/b/a C&L Retail Solutions, which provides a suite of hardware and software products and services for the food and consumer goods retailers. We believe that these acquisitions strengthen our position, customer base, flexibility and exposure in the sector of smaller and independent retailers in the United States.

In April 2005, we acquired IDS, a provider of enterprise and distribution solutions for foodservice, convenience stores and grocery distributors. This acquisition enabled us to extend the advantages that we achieve for retailers with the OMI International acquisition to the food distribution sector, by providing additional critical functionality to distributors, such as customer and supplier relationship management as well as financial accounting and business analytics. Furthermore, the combination of retailer and distribution solutions offers our customers a much more complete and diversified set of applications, as many of our retail customers are supplied by our distribution customers and our software solutions will give them all better visibility into the supply chain and a unique opportunity for collaboration.

Also in April 2005, we acquired TCI Solutions, a software provider for grocery retailers in the area of store and headquarters management and operations. TCI Solutions' software facilitates management of price policies, competitive price policies, direct store delivery, or DSD, and receiving, ordering and inventory for hundreds of grocery retailers located mainly in North America. TCI Solutions' software also controls the connection between the store operation software and the point of sale, or POS, software, downloading price changes, managing shelf stock auditing and more. The acquisition of TCI Solutions strengthened Retailix's advantages in the grocery store and at headquarters, established our presence in hundreds of new grocery retailers of various sizes, and enhanced our ability to support third party POS solutions as part of our total solution set.

## *Our Market Opportunity*

### *The customer retention battle*

The retail food and fuel industries today are characterized by intense competition, resulting in increased pricing pressure and narrowing operating margins. Retailers are losing customers to their larger competitors that offer aggressive pricing as well as greater shopping convenience and superior customer service. The largest retailers, such as Wal-Mart, are increasingly using their size and scale to realize cost savings and operating efficiencies from their supply chain, which they then pass on to the consumer in the form of lower prices. This trend creates an industry dynamic whereby more and more consumers are attracted to these price-cutting retailers, thus accelerating these retailers' revenue growth and allowing them to further increase their economies of scale. The distributors that supply many of these retailers are facing the same market trends, as they are asked to become more efficient, to offer better products at lower costs, to consolidate services, to provide visibility into the supply chain and to facilitate the competitive capabilities of their customers – the retailers.

At the same time, large food retailers and distributors are expanding their operations beyond their traditional focus on food supermarkets to encompass additional retail formats, such as convenience stores, food service, fuel stations and quick service restaurants, or QSRs. This has increased the competition in the convenience store market sector, which historically has been served by smaller chains and independent retailers. These small and independent operators are finding it increasingly difficult to compete effectively with the aggressive pricing and associated lower margins resulting from increasing competition. Similarly, competition has reduced margins at the fuel pump, causing large fuel retailers to add convenience store and QSR formats in an effort to increase their overall margins. This has further increased competition in the convenience store and fuel station market sectors, which in turn favors the large retailers and distributors that can leverage their size and scale to realize operating efficiencies, thereby lowering their cost base and allowing them to deliver lower prices.

One of the primary factors that allows such large retailers and distributors to realize operating efficiencies is their use of sophisticated retail information systems, often developed in-house, that provide them with comprehensive visibility into their extended supply chain. Armed with such visibility, these retailers and distributors can more efficiently execute and track all of their operational tasks, such as order optimization, inventory management, merchandising and pricebook management. In addition, this visibility also allows retailers to optimize their pricing and promotion decisions in order to increase demand and sales.

### *The information system needs of food and fuel retailers and distributors*

In order to compete more effectively, food and fuel retailers and distributors need information systems comparable to those used by the largest food retailers, distributors and major fuel chains in order to be able to realize additional operating efficiencies. In particular, retailers and distributors require robust information systems that can:

- increase operating efficiencies through tighter integration of in-store, enterprise level and warehouse management systems, enabling visibility across the entire scope of their retail and distribution operations;
- capture and analyze data and leverage consumers' demand information to enable advanced forecasting capability and thereby to optimize the ordering and inventory stocking process in the store and in distribution centers; and
- extend supply chain visibility to include suppliers and customers, enabling retailers and distributors to share data and collaborate between themselves and with suppliers in supply chain decisions.

However, in order to deter customers from shifting their patronage to the largest chains, smaller retailers and distributors require more than increased operating efficiencies and competitive pricing. In order to compete effectively with these larger chains, smaller retailers need to provide consumers with an enhanced shopping experience through diverse retail formats and better customer service and to incentivize their customer base to increase their patronage of their stores through customer loyalty and other promotion strategies. As a result, in an effort to increase customer retention and influence customer spending habits, retailers and distributors are increasingly seeking information systems that can, in addition to achieving operating efficiencies, also:

- effectively manage customer management initiatives which are designed to foster customer loyalty and promotion strategies;
- integrate enterprise and in-store systems to enable rapid implementation of customer management initiatives;
- efficiently manage their supply chain to facilitate optimal inventory stocking at each location;
- quickly and efficiently implement pricing, product and marketing decisions; and
- support a wide variety of retail formats and services to increase customer convenience and satisfaction.

## *The food and fuel software opportunity*

Many food and fuel retailers and distributors have historically relied upon a complex set of fragmented and poorly integrated legacy information systems. Such systems are the byproduct of years of delaying implementation of a coherent enterprise-wide IT strategy, favoring patchwork upgrades over comprehensive system revitalization. As a result, most food and fuel retailers and distributors operate information systems that are difficult to adapt to today's intensely competitive retail and distribution industries. Typically, these retailers' and distributors' existing information systems consist of stand-alone Point-of-Sale, or POS, systems with little integration with their back-office and with no enterprise-wide information system. These systems generally cannot be easily modified to provide cross-enterprise visibility, collaboration and integration, nor can they support the information capture and analysis necessary for reliable forecasting and coordinated purchasing decisions. In addition, in continuing to rely on these legacy systems, retailers and distributors face an increasing frequency of breakdowns and system failures, exposing them to the ongoing cost of expensive maintenance.

In order to remain competitive and avoid the ongoing costs associated with maintaining their legacy systems, many retailers and distributors are seeking to replace their legacy systems with modern, integrated retail information systems that can provide them with visibility across the entire scope of their operations, support collaboration among retailers, distributors and their suppliers, allow enterprise-wide information flow and enable implementation of sophisticated customer loyalty and promotion strategies. We believe that these replacement systems typically will be based upon a modular, open-systems architecture, or non-proprietary software that can be easily integrated into a retailer's existing IT infrastructure. Systems meeting such criteria provide retailers and distributors with the flexibility to modify their information systems to respond to and manage their changing business environment.

### *Our Solutions*

Our software solutions provide a robust and comprehensive suite of applications for retailers and distributors, addressing all three principal divisions of the retail and distribution channel – retail stores, headquarters (also called the enterprise level), and warehouses and distribution centers, and enhancing the close relationship and collaboration between retailers and distributors. Our solutions are designed to deliver “synchronized retail” where data and applications are communicating seamlessly between the point-of-sale and supply chain to deliver the greatest cost advantages and revenue generation capabilities to our customers. We believe that our solutions differentiate us from other providers of software solutions to the retail and distribution food and fuel industries because they combine the following attributes:

#### *Our integrated solutions span the retailers' and distributors' organization*

We believe that our integrated suite of software solutions is unique among retail and distribution food software solutions, in that it combines the essential elements of an enterprise-wide information system – stores, headquarters and warehouses. Such an integrated solution permits retailers and distributors to generate substantial operating efficiencies and cost savings through efficient management of sales, inventory, purchasing and merchandising.

#### *Our solutions provide for both retail operations management and customer management*

While retail enterprise solutions have traditionally focused exclusively on operations management – principally supply chain and merchandising processes – our enterprise solutions also include sophisticated customer management tools. Our customer management tool, Retailix Loyalty and Promotions, focuses on influencing consumer spending habits through the use of personalized promotions and other loyalty card-based marketing techniques. Our in-store systems provide full support for promotions and loyalty programs at the checkout lane, and are integrated with our enterprise applications. This feature enables retailers to devise a wide variety of loyalty programs and promotions on a chain-wide level that can be easily implemented at the store level. Moreover, our integrated data analysis capabilities enable retailers to explore and analyze customer transactions in detail, allowing them to closely monitor customer spending patterns and to target promotions to their loyalty program members.

#### *Our demand science solutions provide consistent demand data throughout the enterprise and the supply chain*

Providing consistent demand data for each item throughout the enterprise, from store replenishment to distribution center forecasting and purchasing, is a key requirement for supply chain efficiency, reduced goods shrinkage, reduced out-of-stock situations and increased sales. We believe that our high investment in demand science and the implementation of this science throughout the supply chain give us significant advantages compared to our competitors, and give our customers significant advantages compared to their competitors.

#### *Our in-store solutions support multiple retail formats and customer service points*

Our in-store solutions offer retailers the ability to support multiple retail formats and customer service points at a single retail site. This enables retailers to use a single software solution to operate different retailing formats such as grocery, fuel, convenience store, car wash and QSRs, and to support a variety of consumer service points, such as kiosk, self-scanning, self-weigh and self-checkout. This assists retailers in attracting new customers and in improving existing customer retention by enhancing the overall in-store consumer experience.



*We provide independent and small chain food retailers with access to sophisticated software solutions at an affordable price*

Independent and small chain food retailers have many of the same needs and face many of the same challenges as do larger retailers, but lack the managerial, financial and technological capacity to implement the necessary systems to meet them. Our StoreNext initiatives in the United States and Israel operate enterprise-level applications, such as pricebook, promotions, loyalty, reporting and analysis services, on a software-as-a-service basis, meaning that the application is remotely hosted on our centralized servers and accessed by the independent retailer over the web or private data lines. Our Connected Services allow independent retailers and small chains, in return for a subscription fee, to gain access to applications that would otherwise be too expensive for them to procure and manage in-house. With access to these applications, smaller retailers can derive operating efficiencies that are similar to those enjoyed by their larger competitors and thereby compete with them more effectively.

*Our software solutions can support the multi-national operations of leading Tier 1 food and fuel retailers*

Our software solutions provide extensive support for the international market, such as support of multiple languages, currencies, taxes and local certifications etc., enabling multi-national Tier 1 food and fuel retailers to standardize their operations by using one Retailix product across their global operations. We believe that these capabilities provide us with a competitive advantage with retailers that are located in multi-lingual countries or that have stores near national borders, as well as multi-national retailers that prefer licensing software from a single vendor for all their locations.

*Our robust solutions provide system resiliency and data redundancy*

The retail food industry is characterized by a very high volume of customer transactions that retailers are required to process quickly and efficiently. We believe that retailers view their POS systems as mission-critical to their operations, as these systems must be continuously functioning to process customer transactions. The malfunction or failure of a retailer's POS system for even a few minutes could result in substantial loss of sales, as well as significant customer dissatisfaction. Moreover, the data generated in these transactions are equally mission-critical, and the loss of such data could significantly impair a retailer's internal reporting and accounting systems. As a result, retailers require highly robust and resilient POS solutions that will allow them to continue to operate despite system failures, as well as to avoid the risk of being unable to process customer transactions and the risk of data loss. We have developed a software architecture designed to support the high volume, multiple format environments of the largest food retailers and distributors and major fuel retailers, capable of supporting very high volumes of stores and checkout lanes without risk of significant malfunction or failure. Equally important, our software architecture protects critical data through its duplication at the server level. In case of system failures, each POS terminal can continue to operate despite the interruption of communications with the back-office or headquarters, storing all transactions locally, to be transferred to the server level when communications are restored. We believe the adoption of our in-store solutions in such large supermarket chains as Carrefour, Tesco, Sainsbury's and Woolworths is a strong testament to the robustness and resilience of our in-store solutions.

*Our next generation 'thin client' architecture reduces the cost and physical footprint of IT systems*

In response to retailers' increasing demand for software solutions that are easier to use and cheaper to maintain, we develop our next generation solutions based on a "thin client" architecture, using service oriented architecture and software technologies (J2EE and Microsoft .Net). Our "thin client" solutions allow our applications to run on remote servers with the users accessing the applications through a standard browser. These solutions reduce the need for expensive, bulky hardware and software installations at each store location, lower an enterprise's IT maintenance costs and facilitate enterprise-wide integration. In addition, "thin client" architecture makes it easier and more cost-effective to upgrade software as and when required. This capability to provide for a "thin POS" and a "thin office" solution allows a choice of additional flexibility and cost savings, as part of our product suite.

*Our enterprise solutions can be easily integrated with existing IT infrastructures*

The modular nature of our architecture and our tools for building open interfaces to external systems, including software protocol standards such as XML and web services, streamlines the introduction of our enterprise and in-store solutions into existing IT environments. Retailers and distributors can purchase systems that fit their current needs and budgets, and then add additional modules as their business needs evolve over time. Our open architecture means that our solutions are hardware neutral, capable of working with systems from most major hardware vendors, including IBM, NCR, Fujitsu, Epson, Dell and Wincor-Nixdorf. This modular and open architecture decreases the software integration risks associated with migrating from a retailer's existing systems to our enterprise and in-store solutions, thereby ensuring quicker time to market. This feature also allows the retailer and distributor to make separate purchasing decisions for the hardware, thus realizing great savings in hardware costs by buying the hardware as a standard market commodity.

*Our enterprise solutions can be easily customized, localized and personalized*

Large and mid-size retailers and distributors require that software products be tailored to fit their operational needs. In many cases, such a requirement demands huge implementation efforts. Our products were designed and built to facilitate customer customization with reduced efforts. In addition, multinational retailers may operate in several locales or countries, and require specific customization per locale, and in some cases personalization capabilities. We offer to meet these needs as part of our customization capabilities.



## *Our Growth Strategy*

The principal elements of our strategy to achieve our growth objectives are as follows:

### *Leverage our integrated suite of products to become the leading provider of retail software solutions to the retail and distribution food and fuel industries*

We offer our customers enterprise-wide software solutions that allow them to collect, manage and analyze information across their entire retail enterprise, from the warehouse to the checkout counter. We extended our product offering from in-store solutions to include integrated enterprise level and head office applications. We have added powerful pricing, inventory and DSD capabilities to our offering and have expanded our product offering to include distribution, supply chain execution and warehouse management systems. We believe that with our integrated solutions, we are well positioned to leverage our large customer base to become the leading provider of retail solutions to the retail and distribution food and fuel industries.

### *Continue to target Tier 1 and Tier 2 retail food chains, food distributors and major fuel chains operating legacy IT systems*

The majority of Tier 1 and Tier 2 retail food chains, food distributors and major fuel chains continue to operate outdated legacy systems that do not provide the functionality required to implement and support the new applications and workflow processes that are necessary to compete effectively in today's retail food and fuel industries. We believe that our solutions are well positioned to capitalize on this market opportunity because they are:

- based on open standards software architecture and are hardware neutral;
- scalable, meaning they can easily support a large number of users before a system upgrade or replacement is needed;
- able to support multiple retail formats such as grocery, fuel and QSRs with a single solution;
- able to support multi-national retailers that require a standardized solution that can be easily deployed across their multiple regions and countries; and
- able to customize and localize our systems to fit the specific requirements of our customers with reduced effort and cost.

### *Enable food and fuel retailers to differentiate themselves from their competitors through sophisticated customer management tools*

We believe that our ability to offer sophisticated customer management tools, often referred to as customer loyalty programs, provides us with a significant advantage over our competitors in an area that is becoming of increasing strategic importance to retailers. Our customer management tools are tightly integrated with our in-store solutions. This allows the establishment at the enterprise level and the implementation at the store level of a wide variety of broad-based, personalized promotions and loyalty card-based marketing programs. We believe that our integrated customer management tools differentiate our solutions from competing retail solutions, which generally focus on customer management to a lesser degree.

### *Continue to develop new products and enhance existing products to address a broader set of food and fuel retailers' and distributors' needs*

We strive to develop innovative products and solutions that meet the needs of our customers based on our extensive knowledge and accumulated experience in the development of software solutions for the food and fuel industries. In order to address a broader set of retailers' and distributors' needs, we continue to expand the breadth and depth of our product lines by developing and introducing new products and enhancing the functionality of our existing products. Our continuous technological development represents an important part of our value proposition to our customers, as it provides them with access to advanced solutions that meet their changing needs, as well as with a road map for the development of products designed to meet their anticipated future needs. As part of this strategy, we introduced in 2003 a new "thin client" POS software application, and announced the first installation of this new solution built on the Microsoft .NET platform. In September 2005, we announced the introduction of Retailix InSync, our new J2EE-based platform and solution portfolio for retail, supply chain execution and warehouse management systems. In late 2006, we started implementing our beta versions of the Retailix loyalty system, which is comprised a central Microsoft .NET web-based application and a store promotion and loyalty engine. In 2006, we also introduced a self-checkout application based on our core application, StoreLine. In 2007, we announced the POS Presentation Layer, which includes a user interface editor to achieve, with no code changes, a customer tailor-made graphical user interface, or GUI, layer for all POS formats. In 2008, we announced the Dynamic Receipt Engine product, which provides innovative, flexible customer receipt editor and runtime executor to run next to the POS engine. The initial implementations of these new solutions are already taking place.

### *Continue to penetrate the Tier 3 and Tier 4 retail food markets through the provision of Connected Services*

In the past, our sales to smaller chains and independent grocers were primarily limited to POS applications. Leveraging our ability to support multiple enterprises from a single data center, we are now able to offer enterprise level applications, such as electronic payments, sales analysis, product and price management, promotions, loyalty, demand replenishment, loss prevention and information services, to Tier 3 and Tier 4 retailers on a SaaS basis. We provide these Connected Services through StoreNext in return for a subscription fee. These Connected Services enable Tier 3 and Tier 4 retailers to enjoy many of the benefits of enterprise and back-office applications that were originally designed for Tier 1 and Tier 2 retailers, without the need to make a significant upfront investment in the systems and personnel required to run these applications in-house. To date, StoreNext USA has connected more than 1,000 stores and StoreNext Israel has connected over 1,500 stores. We intend to continue to market Connected Services to this retail sector in an effort to increase the revenues we generate from our Tier 3 and Tier 4 customer base.

*Leverage our Connected Services customer base to build collaborative retailer-supplier communities*

Through the collection of sales data obtained in providing Connected Services to Tier 3 and Tier 4 retailers, we are able to provide suppliers with aggregated Tier 3 and Tier 4 sales data, including visibility into inventory movement and aggregated market share information. This data enables suppliers to better understand market trends and changing consumer demands, and to optimize their supply replenishment strategy. As we add more retailers to our Connected Services, we are able to offer suppliers an increasingly valuable service as we are able to provide them with access to data from a wider group of retailers and, as a result, a more detailed, timely and accurate view of the marketplace. We first established a community for suppliers in the retail food industry in Israel, where the number of retailer subscribers to our Connected Services through our StoreNext Israel initiative has reached a critical mass. We intend to provide similar collaboration services through our StoreNext USA initiative as the number of subscribers to our Connected Services in the United States grows. We intend to continue to leverage our Connected Services to increase the value of the community to suppliers and to provide us with an additional source of revenue.

*Continue broadening market penetration through strategic acquisitions*

Historically, we have grown through a combination of internal expansion and strategic acquisitions of companies with related businesses and technologies. Over the past few years, we have made a number of strategic acquisitions to expand our product offerings and market position, including the acquisitions of BGI, IDS, TCI Solutions, UNIT and OMI International. We continue to evaluate opportunities to acquire complementary businesses and technologies in the retail and distribution information systems market in order to improve service to our customers, complement our product offerings, increase our market share, advance our technology, expand our distribution capabilities and penetrate new targeted markets.

*Continue to expand into new geographic markets and additional retail and distribution market sectors*

In the past our primary geographic markets were North America, Israel and Europe. In 2004, we announced significant sales in new markets, such as France and Italy in Europe, and China, Japan and India in Asia. In 2005, we announced significant new business in Australia, and in 2006 we strengthened our activities in Eastern Europe, focusing on Russia. In 2007, we continued to build a market presence in China, Japan and Russia. In 2008, we started to build a presence in the Spanish market. In addition, we are beginning to expand into other types of retail sectors, such as health and beauty and general merchandise, which have retail characteristics that are similar to the food and fuel retail and distribution market sectors, in an effort to broaden our addressable market.

*Our Products*

We have a broad portfolio of software solutions that are designed to meet the retail operations, supply chain management and execution, and customer management needs of the entire range of food and fuel retailers and distributors, from multi-national supermarket and major convenience store chains and major fuel retailers to local independent grocers. We offer our customers a suite of software products to address the principal elements of their retail operations:

*In-Store Solutions:* Suite of software solutions that provides supermarkets, convenience stores, fuel retailers and QSRs with applications supporting multiple types of customer service points, such as regular checkout, self-service kiosk, self-scanning and self-checkout, providing comprehensive in-store operational and management tools for POS, front-office and back-office operations and allowing mobile applications that enable in-store personnel to carry out back-office tasks using mobile computing devices. Our in-store solutions consist of our POS systems – StoreLine for the grocery and health and beauty market and StorePoint for the convenience store, fuel retail and QSR market – as well as additional back-office modules, Retailix Pocket Office and Retailix Store. In terms of contribution of our various software solutions to our historical revenues, we have derived the substantial majority of our product sales from the sale of our in-store solutions, specifically Retailix StoreLine and Retailix StorePoint solutions.

*Enterprise Headquarters Solutions:* Suite of software tools that provides retailers and distributors with a comprehensive, modular solution which centralizes operation and management of their enterprise-wide and back-office activities such as product and price planning and management, promotions, merchandising, inventory management, direct store delivery management, receiving and ordering, and reporting and analysis. Our enterprise solutions also provide customer relationship management tools, enabling a wide variety of personalized and targeted promotions and loyalty card-based marketing techniques. For the grocery retail market our main offerings are the integrated in-store and headquarters software, now marketed as Retailix Store and Retailix HQ. For the fuel and convenience store markets our main product is our Microsoft .Net-based headquarters solution for convenience store, Retailix HQ-Convenience (HQC). For the food and convenience distributors, our main offering is Retailix Power Enterprise.

**Supply Chain Management Solutions:** Suite of supply chain management and warehouse management software solutions that provides retailers and distributors with a range of applications designed to help them optimize and manage the flow of goods through a complex supply chain network, which includes the suppliers, multi-facility warehouses and distribution centers and down to the stores. These applications include warehouse management, automated procurement for the stores and warehouses, merchandising, order management, order-optimization, invoice reconciliation, transportation management, yard management, and dock scheduling. Our supply chain execution and warehouse management systems consist of TRICEPS Warehouse Management (WMS), BICEPS Purchasing Management, PROMPT Invoice Matching, Retailix Yard Management (formerly marketed as MDS), ABS Billing and Order Management, and Retailix DemandAnalytX (DAX) for demand forecasting and order optimization. Our new Retailix InSync solution portfolio will consolidate most of these offerings into a single product portfolio.

**Food Distribution Enterprise Solutions:** A suite of supply chain execution and warehouse management software solutions that provides food retail and food service distributors with a complete solution to run their business. This suite of products includes modules that provide purchasing, ordering, billing, rebates, accounting, electronic data interchange, or EDI, tradeshow management, and warehouse management (WMS) package for foodservice or grocery distribution; a web based ordering portal for retailers ordering from a foodservice, convenience store or grocery distributor; a web based supplier portal; a portable sales force automation solution for the food service industry; and a handheld solution for distributors. Our distribution solutions also include a suite of transportation management applications for food retail and food service distributors, including Retailix Dock Scheduling (formerly BGI SmartDock.net) and Retailix Traffic Management (formerly BGI TMS). We added these solutions to our product suite in May 2007 through our acquisition of certain intellectual property assets of BGI International.

**SaaS and Supplier Solutions:** Our StoreNext solutions, named ISS45 (which is StoreLine packaged version for Tier 3/Tier 4), tailored to smaller chains and independent grocers, enable smaller establishments with limited IT resources to enjoy the benefits of our headquarters and back office applications through an SaaS model, which we host and is accessible over the web or private data lines. We also offer collaborative solutions that provide retailers and their suppliers with the ability to exchange data and collaborate electronically in order to achieve greater efficiencies throughout the supply chain. We anticipate that revenues relating to these solutions will account for a growing portion of our overall revenues in future periods. Although the overall impact on us in the near term will be modest, we believe that revenues from these solutions will be an important source of revenues to us in the longer term.

Our product suite is organized by the three principal parts of a food retailer's operations: the retail store, the headquarters or enterprise, and the warehouse and distribution center, as well as the distributors' solutions. The following table briefly describes our main products and their respective features and functions and target markets. A more detailed description is set forth below the table.

Product	Description / Features	Technology Platform	Target Markets
<u><b>In-Store Solutions</b></u> <i>Retailix StoreLine</i>	<ul style="list-style-type: none"> <li>• POS and front office solution</li> <li>• Keyboard or touch</li> <li>• Highly configurable</li> <li>• Multi-language, currency and tax</li> <li>• High availability and resilience</li> <li>• Hardware neutral</li> <li>• Supports multiple types of POS formats - grocery, fuel, QSR</li> </ul>	<ul style="list-style-type: none"> <li>• Client server, Windows operating system for Tier 3/4</li> </ul>	<ul style="list-style-type: none"> <li>• Supermarkets and grocers - All Tiers</li> <li>• ISS45 - packaged version of StoreLine</li> </ul>
<i>Retailix Store.net</i>	<ul style="list-style-type: none"> <li>• POS solution</li> <li>• Allows retailers to run POS applications remotely</li> <li>• Reduces total cost of ownership of In-store IT infrastructure</li> <li>• Highly scalable</li> </ul>	<ul style="list-style-type: none"> <li>• Open architecture</li> <li>• Based on "thin client" architecture</li> <li>• Developed on the Microsoft. Net platform</li> </ul>	<ul style="list-style-type: none"> <li>• Supermarkets and grocers - All Tiers</li> </ul>

<i>Retalix StorePoint</i>	<ul style="list-style-type: none"> <li>• POS, front-office and back-office solution</li> <li>• Touch based, highly configurable</li> <li>• Multi-language, currency and tax</li> <li>• High availability and resilience</li> <li>• Hardware neutral</li> <li>• Supports multiple types of POS formats - convenience store, fuel, QSR, kiosk</li> </ul>	<ul style="list-style-type: none"> <li>• Client server, Windows operating system</li> </ul>	<ul style="list-style-type: none"> <li>• Convenience stores, QSRs, and fuel retailers</li> </ul>
<i>Retalix Pocket Office</i>	<ul style="list-style-type: none"> <li>• Mobile, hand-held suite of front-office and back-office applications</li> <li>• Allows employees to perform front-office and back-office functions from their in-store location</li> </ul>	<ul style="list-style-type: none"> <li>• Microsoft Windows CE platform</li> </ul>	<ul style="list-style-type: none"> <li>• Supermarkets and grocers - All Tiers</li> <li>• Convenience stores</li> </ul>
<i>Retalix Back Office</i>	<ul style="list-style-type: none"> <li>• Functionally rich Back-office applications</li> <li>• Interfaces to several types of POS formats</li> <li>• Integrated with StoreLine</li> </ul>	<ul style="list-style-type: none"> <li>• Client server, Windows operating system</li> </ul>	<ul style="list-style-type: none"> <li>• Supermarkets and grocers - Tier 2 - Tier 4</li> </ul>
<i>Retalix Store</i>	<ul style="list-style-type: none"> <li>• Functionally rich store based Back-office applications</li> <li>• Powerful price generation and competitive pricing capabilities</li> <li>• DSD, Inventory</li> <li>• Interfaces to many types of POS formats and vendors</li> <li>• Integrated with Retalix HQ</li> </ul>	<ul style="list-style-type: none"> <li>• Client server, Windows operating system, database independent</li> <li>• Developed on Delphi</li> </ul>	<ul style="list-style-type: none"> <li>• Supermarkets and grocers - Tier 1 - Tier 3</li> </ul>
<i>Retalix ScanMaster</i>	<ul style="list-style-type: none"> <li>• POS solution</li> <li>• Highly configurable</li> <li>• Multi-language and tax</li> <li>• Broad set of customer loyalty functionality support</li> <li>• Integrated with self-checkout systems</li> </ul>	<ul style="list-style-type: none"> <li>• Client server, Windows operating system</li> </ul>	<ul style="list-style-type: none"> <li>• Supermarkets and grocers - Tier 3 &amp; Tier 4</li> </ul>
<u><i>Enterprise Solutions</i></u>			
<i>Retalix HQ</i>	<ul style="list-style-type: none"> <li>• Functionally rich head-office applications</li> <li>• Powerful price generation and competitive pricing capabilities</li> <li>• DSD, Inventory</li> <li>• Integrated with Retalix DAX and Retalix Loyalty</li> </ul>	<ul style="list-style-type: none"> <li>• Client server, Windows operating system, Database independent</li> <li>• Developed on Delphi</li> </ul>	<ul style="list-style-type: none"> <li>• Tier 1 - Tier 3 supermarkets</li> </ul>

<i>Retalix InSync ThinStore</i>	<ul style="list-style-type: none"> <li>• DSD, Receiving, Shelf Price Audit</li> </ul>	<ul style="list-style-type: none"> <li>• J2EE, Websphere, operating system and database independent</li> </ul>	<ul style="list-style-type: none"> <li>• Tier 1 - Tier 3 supermarkets</li> </ul>
<i>Retalix HQ for C-Stores</i>	<ul style="list-style-type: none"> <li>• Enterprise system for central management of head-office and back-office applications</li> <li>• Broad functionality - product and pricing, ordering, receiving, analysis and reporting</li> <li>• Single data repository</li> <li>• Integrated with Retalix StorePoint</li> <li>• Reduces the technology footprint and maintenance in the retail store</li> <li>• Enterprise system for central management of consumer loyalty programs and promotions</li> </ul>	<ul style="list-style-type: none"> <li>• Web-based, open architecture</li> <li>• Based on web services and 'thin client' architecture</li> <li>• Developed on the Microsoft .NET platform</li> </ul>	<ul style="list-style-type: none"> <li>• Large chain convenience stores and fuel retailers</li> </ul>
<i>Retalix Loyalty and Central Promotions</i>	<ul style="list-style-type: none"> <li>• Integrated with Retalix StoreLine and StorePoint</li> <li>• Powerful customizable promotion Engine</li> <li>• Supports a wide variety of loyalty programs, from simple loyalty cards to long term programs</li> </ul>	<ul style="list-style-type: none"> <li>• Web-based, open architecture</li> <li>• Based on web services and 'thin client' architecture</li> <li>• Developed on the Microsoft .NET platform.</li> </ul>	<ul style="list-style-type: none"> <li>• Tier 1 - Tier 3 supermarkets</li> <li>• Large chain convenience stores and fuel retailers</li> </ul>
<b><u>Supply Chain Management (SCM)</u></b>			
<b><u>Solutions</u></b>			
<i>TRICEPS Warehouse Management</i>	<ul style="list-style-type: none"> <li>• Automated warehouse location and task management system</li> <li>• Optimizes distribution of warehouse resources</li> <li>• Provides real time warehouse data To warehouse managers</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced Radio Frequency (RF) and Voice technology</li> </ul>	<ul style="list-style-type: none"> <li>• Tier 1 &amp; Tier 2 supermarkets</li> </ul>
<i>BICEPS Purchasing Management</i>	<ul style="list-style-type: none"> <li>• Automated procurement system</li> <li>• "Just in time" and forward buying procurement</li> <li>• Invoice and purchase order reconciliation</li> <li>• Vendor profiling</li> <li>• Item inventory management</li> </ul>		<ul style="list-style-type: none"> <li>• Tier 1 &amp; Tier 2 supermarkets</li> </ul>
<i>PROMPT Invoice Matching</i>	<ul style="list-style-type: none"> <li>• Automated invoice reconciliation System</li> <li>• Tracks invoices and interfaces with general ledger systems</li> <li>• Provides real time inventory levels</li> <li>• Reduces time necessary to resolve cost discrepancies</li> </ul>	<ul style="list-style-type: none"> <li>• EDI and EFT technology</li> </ul>	<ul style="list-style-type: none"> <li>• Tier 1 &amp; Tier 2 supermarkets</li> </ul>

<i>Yard</i>	<ul style="list-style-type: none"> <li>Automated yard and dock resource management system</li> </ul>	<ul style="list-style-type: none"> <li>Advanced RF, EDI and Advanced Ship Notice (ASN) technology</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 &amp; Tier 2 supermarkets</li> <li>Tier 1 &amp; Tier 2 grocery and food service distributors</li> </ul>
<i>Management (a.k.a. MDS)</i>	<ul style="list-style-type: none"> <li>Real time management of yard / dock arrivals and departures</li> <li>Automatically directs arrivals to optimal storage location</li> <li>Manages trailer usage and reduces bottlenecks</li> </ul>		
<i>ABS Billing and Order Management</i>	<ul style="list-style-type: none"> <li>Automated billing and pricing system</li> <li>Enables billing that reflects pre-determined margin objectives</li> <li>Provides custom pricing according to item</li> <li>Allows multiple order types and calculation methods</li> </ul>		<ul style="list-style-type: none"> <li>Tier 1 &amp; Tier 2 supermarkets</li> </ul>
<i>DemandAnalytX (DAX)</i>	<ul style="list-style-type: none"> <li>Interprets store-level POS data, forecasts demand</li> <li>Determines and places optimal replenishment orders</li> <li>Manages order approval and stock taking in the store using handhelds</li> <li>Master data management</li> </ul>	<ul style="list-style-type: none"> <li>Demand forecasting and replenishment optimization</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 - Tier 3 supermarkets</li> <li>Large and small chain convenience stores</li> <li>Tier 1 - Tier 3 distributors</li> </ul>
<i>Retalix InSync Master Data Management (MDM)</i>	<ul style="list-style-type: none"> <li>Data synchronization</li> <li>Global data synchronization network &amp; general staging</li> </ul>	<ul style="list-style-type: none"> <li>J2EE, Websphere, operating system and database independent</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 - Tier 3 supermarkets</li> <li>Tier 1 - Tier 3 distributors</li> </ul>
<i>Retalix InSync Purchasing</i>	<ul style="list-style-type: none"> <li>Distribution center purchasing</li> <li>Load building</li> <li>Cost management</li> <li>Deals management</li> <li>Supplier portal</li> </ul>	<ul style="list-style-type: none"> <li>J2EE, Websphere, operating system and database independent</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 - Tier 3 supermarkets</li> <li>Tier 1 - Tier 3 distributors</li> </ul>
<b><u>Distributor Solutions</u></b> <i>Retalix Power Enterprise</i>	<ul style="list-style-type: none"> <li>ERP solution for food and foodservice distributors</li> <li>Master data - item, supplier, store, etc.</li> <li>Ordering, receiving, forecasting, deals and more</li> <li>Tradeshaw management</li> </ul>	<ul style="list-style-type: none"> <li>iSeries based</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 - Tier 3 distributors</li> <li>Tier 2 &amp; Tier 3 supermarkets</li> </ul>

<i>Retalix Power Warehouse</i>	<ul style="list-style-type: none"> <li>Automated warehouse location and task management system</li> <li>Advanced RF &amp; Voice technology</li> </ul>	<ul style="list-style-type: none"> <li>iSeries based</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 - Tier 3 distributors</li> </ul>
<i>Retalix Power BUY</i>	<ul style="list-style-type: none"> <li>Advanced procurement solution for food and foodservice distributors</li> <li>Forecasting</li> </ul>	<ul style="list-style-type: none"> <li>iSeries based</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 - Tier 3 distributors</li> <li>Tier 2 &amp; Tier 3 supermarkets</li> </ul>
<i>Retalix Power NET</i>	<ul style="list-style-type: none"> <li>Ordering, receiving</li> <li>Load balancing</li> <li>Web Customer Portal, manage store orders</li> <li>Web Supplier Portal</li> </ul>	<ul style="list-style-type: none"> <li>Java based</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 &amp; Tier 3 distributors</li> </ul>
<i>Retalix PDA</i>	<ul style="list-style-type: none"> <li>Handheld applications for delivery</li> </ul>	<ul style="list-style-type: none"> <li>Java based</li> </ul>	<ul style="list-style-type: none"> <li>Tier 2 - Tier 3 supermarkets</li> <li>Tier 1 - Tier 3 distributors</li> <li>Tier 1 - Tier 3 distributors</li> </ul>
<b><u>SaaS and Supplier Solutions</u></b>			
<i>Connected Services</i>	<ul style="list-style-type: none"> <li>Provides retailers access to SaaS applications in return for a subscription fee</li> <li>Allows these retailers access to applications that would otherwise be too expensive or difficult to manage in-house</li> </ul>	<ul style="list-style-type: none"> <li>ASP.NET technology for enterprise and back-office applications</li> </ul>	<ul style="list-style-type: none"> <li>Tier 3 &amp; Tier 4 independent grocers</li> </ul>
<i>Supplier Solutions</i>	<ul style="list-style-type: none"> <li>Aggregated retail food industry data</li> <li>Collaborative supply chain functionality</li> <li>Enables supplier to better understand market trends and consumer demands</li> </ul>		<ul style="list-style-type: none"> <li>Suppliers to all Tiers of supermarkets and grocers</li> </ul>

## In-Store Solutions

Our in-store solutions consist of a wide range of applications supporting:

- robust point of sale functionality, providing a highly resilient touch-screen enabled cash register checkout system;
- multiple types of customer service points, such as self-scanning, self-weigh and self-checkout, and multiple retail formats, such as fuel and in-store QSRs;
- front-office store management functions, such as cashier and cash office management and POS maintenance;
- back-office store management functions, such as ordering, receiving, inventory management, labor scheduling, promotions and reporting and analysis; and
- mobile applications that enable in-store personnel to carry out back-office tasks using mobile computing devices at any location throughout the store.

We have two principal in-store solutions: StoreLine for the supermarket and grocery market and StorePoint for the convenience store and retail fuel market.

### *Retalix StoreLine*

*Retalix StoreLine* is a fully integrated, modular, open architecture POS solution for multiple format supermarket and grocery chains. Specifically designed to cater to the larger supermarket chains that frequently add new formats and additional related services, *Retalix StoreLine* provides retailers with a comprehensive set of supermarket operational and management capabilities. *Retalix StoreLine* also offers interfaces to enterprise level systems and to third-party applications as well as to payment service providers. The *Retalix StoreLine* software suite supports multiple in-store retail formats, such as fuel and QSRs, and a variety of customer service points, such as self-scanning, self-weigh and self-checkout. In addition, *Retalix StoreLine* also provides the option of back-office functionality, such as inventory, supplier and employee management. Capable of running on either the Microsoft or Linux operating systems, *Retalix StoreLine*'s client server architecture is hardware neutral, supporting a variety of open and proprietary hardware devices, such as full-screen customer displays, color touch screens, scanners and checkout and scales, as well as hardware supplied by leading vendors, including Fujitsu, IBM, NCR, Epson, Dell and Wincor-Nixdorf.



In addition to its core POS and front-office and back-office functionality, the Retailix StoreLine software suite supports additional integrated modules, such as:

*Retailix StoreLine QSR* – touch-screen based POS application for in-store quick service restaurants;

*Retailix Fuel* – system that supports a variety of fuel payment modes including pre-pay, pay-at-pump, pay-in-store and payment by automatic vehicle identification devices;

*Retailix Self Checkout* – customer self-scanning checkout that requires little or no staff assistance and, through integration with the back-office, ensures up-to-date pricing and promotions;

*Retailix U-Weigh* – easy to use, touch-screen customer-operated device for weighing fruit and vegetables that saves customers time at the checkout and allows retailers to make real-time price adjustments; and

*Retailix Kiosk* – multimedia information and sales kiosk that, through integration with our enterprise solution, provides real-time, in-store information on merchandise, pricing and promotions.

Customized versions of Retailix StoreLine software solutions include ISS45, which is distributed by StoreNext USA, Retailix Next, which is distributed by Retailix Israel to independent retailers in Israel, and POSition, a Wincor-Nixdorf branded offering, which was adapted to meet the needs of customers in German-speaking countries and in Italy.

In addition, our Retailix ScanMaster branded solutions are Windows-based open platform POS software systems tailored to fit the needs of small chain and single store supermarkets. ScanMaster, developed by Retailix Pittsburgh, previously RCS, is tailored for the independent and small chain grocery market sector in the United States. Its configurable functionality allows retailers to preselect only the subset of functionality that fits their needs. Developed on the Microsoft platform, ScanMaster operates on multiple Microsoft Windows operating systems.

#### *Retailix Store.net*

Retailix Store.net is a thin client version of our POS product developed on the Microsoft .NET platform. Retailix Store.net allows retailers to access POS applications on their in-store POS systems located on back-office or centralized servers. This reduces the total cost of ownership of retailers' in-store IT infrastructure by enabling retailers to use their existing POS hardware to access next-generation retail applications. Store.net was first deployed in 2003 at all Partner Communications stores in Israel (the Israeli franchisee of Orange plc, the international cellular communications operator). In 2007 Retailix Store.net was deployed in supermarkets owned and operated by Supersol, Israel's largest grocery retailer. The rollout to Supersol stores is still continuing.

#### *Retailix StorePoint*

Retailix StorePoint is a fully integrated, modular open architecture POS solution for the multi-format convenience store and fuel sectors. StorePoint supports a variety of retail formats, such as convenience stores, fuel forecourts, quick service restaurants and self-service kiosks. By using StorePoint, convenience stores and fuel retailers can use one integrated solution for item scanning, fuel sales and food service sales. In addition, StorePoint also provides extensive front office and back-office functionality, such as ordering and receiving, inventory management, petroleum inventory management, supplier and employee management, as well as specialized functionality for the food service environment, such as menu, recipe and waste management. StorePoint interfaces with various head office systems, allowing central management and decision control for the entire enterprise. Operating on a Windows platform, StorePoint is a pre-integrated, modular solution that allows for easy and cost-effective on-site installation.

In addition to its core POS and front-office and back-office functionality, the StorePoint software suite supports additional integrated modules such as:

*Retalix Fuel* – system that supports a variety of fuel payment modes including pre-pay, pay-at-pump, pay-in-store and payment by audio-video-interleave devices;

*Retalix Forecourt Server* – software forecourt controller that can serve as a cheaper and a functionally richer option than the traditional hardware-based forecourt controllers, enabling control of fuel pumps, fuel tanks, price polls and other forecourt devices;

*Retalix QSR* – touch-screen based, easy-to-use application for selling quick-service food service to match any fast food, espresso bar, and food service type establishments. Includes the necessary inventory functions defining product tree, waste control, etc. as well as order preparation instructions and interactive kitchen order screens; and

*Retalix Self-Serve* – food service with self-order stations and drive-thru operations support.

In addition to StoreLine and StorePoint, we offer additional products for managing a retailer's in-store operations that can be purchased as separate solutions or as add-on modules to our StoreLine and StorePoint solutions:

#### *Retalix PocketOffice (RPO)*

*RPO* is a mobile, hand-held suite of front-office and back-office applications that is designed for use on mobile computing devices such as personal digital assistants, or PDAs. *RPO* is designed to allow in-store employees to perform a broad array of back-office functions, such as ordering, receiving and price management, without leaving the store floor. The *RPO* suite of applications includes product and price management, ordering, stock receiving and counting, item maintenance and shelf audit. Operating on the Windows CE platform, *RPO* is integrated with our HQ, StoreLine and StorePoint solutions and with our Power Enterprise solution. We market *RPO* to both the grocery and the convenience store sectors.

#### *Retalix BackOffice (RBO)*

*RBO* is an integrated in-store solution that provides item maintenance, inventory and pricebook management, reporting and analysis and store receiving. *RBO* uses an open architecture approach and is available as a suite of modular components. In addition to providing item maintenance and reporting, *RBO* interfaces with hand-held terminals for verification and receiving. *RBO* is sold primarily to Tier 3 and Tier 4 food retailers through our StoreNext initiative.

#### *Retalix Store*

*Retalix Store*, a store back-office application, is used in North America by Tier 2 and Tier 3 retailers. It has powerful price generation and competitive pricing features, DSD management and reconciliation, inventory management and POS connectivity to most existing POS systems. *Retalix Store* is a Delphi based client-server solution, and is database independent.

#### *Enterprise Solutions*

##### *Retalix HQ*

*Retalix HQ*, a headquarters application, is a retail headquarters system used in North America by Tier 1 through Tier 3 retailers. It has powerful price generation and competitive pricing features, DSD management and reconciliation and POS connectivity to most existing POS systems. *Retalix HQ* is a Delphi based client-server solution, and is database independent.

##### *Retalix InSync ThinStore*

*Retalix InSync ThinStore* is our next generation, browser-based centralized back office and head office application developed on the *Retalix InSync* Platform. Expanding on the *Retalix HQ* and *Retalix Store* functionalities, will be offered to Tier 1 through Tier 3 retailers.

##### *Retalix HQ for C-Stores (HQC) – HQ Solutions for Convenience Stores and Fuel Retailers (HQC)*

*HQC* is a Microsoft .NET web-based application that provides large and mid-size convenience store chains with a comprehensive, modular solution addressing their retail headquarters needs, including product management, store sales audit and alert capabilities and reporting and analysis. Combining both head-office and back-office applications, *HQC* is integrated with our convenience store in-store solutions, allowing for synchronized information flow between the head-office and back-office.

*HQC* is an integrated set of modules addressing a convenience store retailer's operations, including:

- Product and Price Management – allows retailers to centrally manage their product pricing according to specific criteria;
- Store Sales Audit and Alerts – allows retailers to mine store sales and operation data for exceptions based on business rules and facilitates management by analysis of exceptions;
- Document Management - assists with invoices, POS, returns and other features;
- POS Hosting - assists retailers with POS parameters, keyboards, modifiers, price changes, and other features;
- Sales Analysis –facilitates multiple views of sales, product and store data and provides for customized views of such data according to different users' needs;
- Electronic Journal – acts as a central data repository that tracks and records all checkout transactions throughout the enterprise and provides for easy retrieval of transactions; and
- Promotions – provides retailers with the ability to deliver a wide assortment of promotions that can be configured according to various criteria, such as types of purchase thresholds, duration, reward types and type of POS system. In addition, the Promotions module provides a synchronized, two-way flow of data between the enterprise and the POS that enables promotions to be transmitted and implemented at the store level and their results to be analyzed at the headquarters level.

#### *Retalix Loyalty and Central Promotions*

*Retalix Loyalty and Central Promotions* is a set of consumer-oriented electronic marketing tools that enables retailers, at the enterprise level and the store level, to implement a wide variety of broad-based, promotions and loyalty card-based marketing programs. *Retalix Loyalty* allows retailers, through the use of targeted promotions and advanced marketing techniques, to increase customer retention and spending by influencing customer shopping patterns. The solution also allows retailers to continually measure the effectiveness of promotion campaigns and to draw upon their results when setting up future campaigns. The main advantages of *Retalix Loyalty* include providing retailers the ability to:

- create and sustain customer interest;
- focus on household spending over time;
- optimize value through customer segmentation;
- simplify campaign management;
- manage supplier funding;
- develop built-in cost controls; and
- develop personalized marketing programs.

#### *Supply Chain Management Solutions*

##### *Retalix TRICEPS Warehouse Management*

*Retalix TRICEPS Warehouse Management* is a warehouse management system that utilizes sophisticated wireless radio frequency, or RF, and voice activated technology to automate location and task management. Through the use of distribution control features and labor management tools, *TRICEPS* enables retailers to manage complex warehouse facility operations efficiently, increase warehouse service levels and reduce operating expenses. *TRICEPS* functionality includes optimal storage management, order fulfillment, product replenishment notification, labor forecasting, task management and advanced real-time inventory control.

##### *Retalix BICEPS Purchasing Management*

*Retalix BICEPS Purchasing Management* is an automated procurement system that handles “just-in-time” turn, promotion, forward buy and invoice/purchase order reconciliations. *BICEPS* enables retailers' purchasing departments to identify and purchase products according to item and category criteria, and thereby to identify opportunities to improve inventory quality and profit margins. In addition, *BICEPS* allows retailers to view and manage transactions, costing, movement and forecasting data and to make immediate decisions for margin improvement. *BICEPS* functionality includes online continuous replenishment, inventory tracking and evaluation, recommended ordering, multiple product sourcing, forecasting and online accounts payable reconciliation.

### *Retalix PROMPT Invoice Matching*

*Retalix PROMPT Invoice Matching* is a fully automated invoice reconciliation system that integrates a retailer's accounts payable function with purchasing and receiving, allowing confirmation of invoices in advance of payments to suppliers. Through the use of electronic data interchange, or EDI, technology and electronic funds transfer, or EFT, technology, PROMPT enables the immediate reconciliation of invoices and allows the value of any missing items to be deducted from a vendor's invoice. In this way, PROMPT allows retailers to manage invoice reconciliation electronically, thus saving the time and effort required to reconcile invoices manually and improving gross margins.

### *Retalix Yard Management (formerly MDS)*

Through the use of RF identification tags, *Retalix Yard Management* allows retailers to monitor all yard arrivals and departures and track each trailer or container by location, movement, status and availability. This visibility into the movement of goods through their yards allows retailers to manage yard resources more efficiently, eliminate trailer wait time, improve resource and product scheduling and direct incoming goods to optimal storage locations.

### *Retalix ABS Billing and Order Management*

*Retalix ABS Billing and Order Management* is an automated product ordering solution that enables retailers to process and fulfill customer orders. ABS provides retailers with the flexibility to determine the most efficient way to source products through the support of multiple shipping options.

### *Retalix DemandAnalytX*

Our DemandAnalytX software suite interprets store-level POS data, forecasts consumer demand and determines optimized replenishment orders, enabling retailers and distributors to improve supply chain management. Through the use of sophisticated optimization algorithms, this solution allows retailers and suppliers to increase on-shelf availability and sales while reducing inventory levels and out-of-stock situations.

### *Distribution Solutions*

#### *Retalix Power Enterprise*

*Retalix Power Enterprise* provides a complete solution for foodservice, convenience store or grocery distributors. Includes enterprise master data management, purchasing, ordering, billing, light warehouse management, rebates, accounting, EDI, tradeshow management, and other features; based on the IBM iSeries technology and the DB400 database; has a Java based GUI;

#### *Retalix Power Warehouse*

*Retalix Power Warehouse* is a full featured WMS application for foodservice, convenience store and grocery distribution. Main modules include: receiving, inventory management, shipping, labor management, voice and RF directed movements and others; based on the IBM iSeries technology and the DB400 database; has Java based GUI;

#### *Retalix Power Buy*

*Retalix Power Buy* is an advanced buying application for foodservice, convenience store and grocery distribution that supports seasonality trends, buyers workflow, and other areas; based on the IBM iSeries technology and the DB400 database; has Java based GUI;

#### *Retalix Power Sell*

*Retalix Power Sell* is a PC based sales-force automation software tool to assist sales agents of foodservice, convenience store and grocery distributors in their work while visiting customers (retail chains, food service locations, etc.);

#### *Retalix Power Net*

*Retalix Power Net* is a web based Portal that includes 2 main modules: Customer Portal for retailers ordering from a foodservice, convenience store or grocery distributor; and Supplier Portal for suppliers' relation management and collaboration with a foodservice, convenience store or grocery distributor.

### *Retalix Dock Scheduling (formerly BGI SmartDock.net)*

*Retalix Dock Scheduling* is used by operators of distribution centers to manage all planned shipments, allowing for quick carrier assignment and scheduling. Loading/unloading duration calculations are done by the planning module or defined by the scheduler. Retalix Dock Scheduling automatically displays available appointments by load due date and recommends the appropriate dock and door group. Retalix Dock Scheduling's Carrier Web-Scheduling module allows user approved carriers to schedule their own appointments via the internet. The system's drop yard module provides visibility and detailed tracking of drop trailers and containers throughout the shipping and receiving process and enables products to be easily located at the facility by trailer and location. This helps to eliminate expensive detention and demurrage charges by identifying and prioritizing trailer and container loading and unloading.

### *Retalix Traffic Management (formerly BGI TMS)*

*Retalix Traffic Management* is a complete traffic management system for food and consumer goods distributors. Designed to seamlessly interface with existing procurement and warehouse management applications, the system eliminates manual activities including fleet costing, carrier rate selection, vendor allowance calculations, pallet control, performance monitoring and reporting and management income reports. Retalix Traffic Management supports fleet costing by calculating mileage charges, driver labor costs, straight and overtime, unloading costs and miscellaneous costs such as layover charges. It also calculates cost based on the incremental mileage incurred in making a backhaul pickup. A variety of customizable reports enables users to track new revenue generating opportunities and provide real-time measurement and control.

### *Retalix InSync*

In September 2005, we announced our new next-generation portfolio of synchronized applications – the only complete suite designed and developed specifically to meet the requirements of retailers, distributors and operators in the grocery and foodservice industries. Retalix InSync brings together more than 20 years of accumulated industry and software development expertise and experience from us, OMI International, IDS and TCI Solutions.

Retalix InSync is based on state-of-the-art technology and architecture, including such technical features as:

- service oriented architecture (SOA);
- web services;
- Java/J2EE development standard;
- database independence (DB2, MS-SQL, Oracle);
- interoperability (Unix, Linux, Windows, iSeries, Mainframes); and
- application server independence (IBM WebSphere, Jboss).

The *Retalix InSync* solution portfolio currently includes the following:

- Retalix InSync MDM (Master Data Management) – a module that facilitates maintenance of business entities and catalog data, integration with external data sources, data staging and workflow based data integration processes;
- Retalix InSync Purchasing – a purchasing solution for the retail and distribution markets. Includes demand forecasting, purchase order triggering, generation and review, load building, price brackets and perpetual inventory;
- Order Management & Billing –allows retail and distribution organizations to improve the operations of distribution centers by attempting to optimize the handling process of store and customer orders. The product supports product substitutions, short product allocation, and short date product forced distribution, while integrating demand signals and inventory positions;
- ThinStore – a thin-client, browser-based centralized store back-office application that runs at the headquarters as if it were installed at each store, reduces the amount of hardware and software in the store and requires less maintenance. Includes ordering and receiving, inventory management, download and upload functions between the headquarters and store equipment, such as POS and scales; and
- Retalix InSync Analyzer– a set of analytic applications that use the advanced Qlik-View business intelligence tool. Each Retalix InSync Analyzer application provides a sophisticated set of integrated online and graphical reports.

### *SaaS Solutions*

Independent and small chain food retailers have many of the same needs and face many of the same challenges as do larger retailers, but lack the managerial, financial and technological capacity to implement the systems necessary to meet them. Through our StoreNext initiatives, we have leveraged our ability to support multiple enterprises from a single platform to offer our applications to these independent and small chain food retailers on a Software-as-a-Service (SaaS) basis. These SaaS solutions, or Connected Services, allow independent retailers and small chains, in return for a subscription fee, to gain access to applications that would otherwise be too expensive for them to procure and manage in-house. With access to these applications, smaller retailers can enjoy greater operating efficiencies, and thereby become more competitive with the larger food retailers.

### Supplier Solutions

Through the collection of sales data obtained in providing Connected Services to Tier 3 and Tier 4 food retailers, we provide suppliers with aggregated Tier 3 and Tier 4 retailer data, as well as aggregated market share information. We first established a community for suppliers in the retail food industry in Israel, where the number of retailer subscribers to our Connected Services through our StoreNext Israel initiative has reached a critical mass. We intend to provide similar services through our StoreNext USA initiative as the number of subscribers to our Connected Services in the United States grows. In addition, we also offer EDI messaging services that enable the exchange of data between retailers and suppliers electronically using standard data format and protocols.

### Professional Services

Our professional services personnel provide customers with expertise and assistance in planning, designing and implementing our software solutions. Professional services personnel assist retailers with initial system planning, business process definition, gap analysis, configuration, implementation, historical data conversion, training, education and project management. Our personnel build interfaces for our in-store, enterprise and warehouse management systems.

Our professional services personnel also help to customize our products to our customers' needs, enhancing retailers' current information systems and managing upgrades and conversions. We provide custom application development work for customers billed on a project or per diem basis. We monitor our customization projects on a regular basis to determine whether any customized requirements should become part of our product offerings. For example, we have incorporated many changes requested by our Tier 1 retail food customers into our POS product offerings.

We believe that our professional services personnel facilitate a retailer's early success with our products, strengthen our relationships with the retailer and enhance our industry-specific knowledge for use in future implementation and software development projects.

### Principal Markets and Customers

Our software has been deployed worldwide in supermarket and grocery stores, convenience stores, fuel retailers and quick service restaurants. Our software is also used in North America and Australia by foodservice, convenience and grocery distributors.

The following table provides a breakdown by geographical area of our revenues and relative percentages during the last three fiscal years (dollars in thousands):

	2006		2007		2008	
Israel	\$ 17,083	8.4%	\$ 18,738	8.5%	\$ 22,243	10%
United States	\$ 119,821	58.8%	\$ 123,266	55.7%	\$ 126,114	56.9%
Europe	\$ 41,961	20.6%	\$ 46,838	21.2%	\$ 59,077	26.7%
Rest of the World	\$ 24,879	12.2%	\$ 32,569	14.6%	\$ 14,193	6.4%
Total	\$ 203,744	100%	\$ 221,411	100%	\$ 221,627	100%

The following list is a representative sample of companies that purchased an aggregate of at least \$200,000 of our products and services in 2007 and 2008 combined.

Grocery	Convenience Stores and Fuel Retailers	Distributors
A.S. Watson (Europe, Asia)	7-Eleven Oklahoma (US)	Dunkin Donuts (US)
Big Y (US)	Alon Oil (US)	Food Services of America (US)
Brookshire Brothers (US)	BP (UK)	Metcash (Australia)
Carrefour (Europe)	Casey's (US)	National Meats (Jamaica)
Co-Op (Israel)	Husky Oil (Canada)	Odom Corp. (US)
Costco (US)	IKEA	Rinpak Technology (China)
Dairy Farm (Hong Kong)	Irving Oil (Canada)	Thomas & Howard (US)
Delhaize (Europe)	Love's (US)	Wincor (Scandinavia)
Food Lion (US)	Paz (Israel)	
Hannaford Bros. (US)	Pilot Corporation (US)	
Hy-Vee (US)	PetroChina	
Intermarche (Europe)	Reliance Fuel	
Morrisons (UK)	Rotakirija (Finland)	
Overwaitea (Canada)	Tesoro (US)	
Reliance Retail (India)	The Pantry (US)	
Sainsbury's (UK)		
SaveMart (US)		
Shoprite Checkers (South Africa)		
Shuphersal (Israel)		
Stater Brothers (US)		
SuperValu (US)		
Super de Boer (Netherlands)		
Tesco (Global)		
Woolworth's (Australia)		
Zen Nihon (Japan)		

## *Recent Significant Acquisitions*

In March 2008, we acquired additional 5% of StoreNext USA for an aggregate amount of \$625,000 and increased our holdings in this entity to 100%.

In May 2007, we acquired certain intellectual property assets and related liabilities of BGI International, which provides a suite of software products for food and consumer goods distributors. We paid \$1.37 million upon closing and an additional \$150,000 on the second anniversary of the acquisition. We committed to pay an additional amount of up to approximately \$1.4 million as earn-out payments based on increased license sales in the three-year period following the closing, of which we already paid \$89,000 for the year ended December 31, 2007 and \$23,000 for the year ended December 31, 2008. We believe that this acquisition enabled us to extend the advantages that we achieve for retailers and distributors with the OMI International and IDS acquisitions, by providing additional critical functionality, such as transportation management and distribution center dock scheduling.

In March 2006, we acquired an additional 45% of StoreNext USA and increased our holdings in this entity to 95%. In February 2006, we acquired substantially all of the assets of Base Products, Inc., d/b/a C&L Retail Solutions, which provides a suite of hardware and software products and services for food and consumer goods retailers. We believe that these acquisitions strengthen our position, customer base, flexibility and exposure in the sector of smaller and independent retailers in the United States.

On April 1, 2005, we acquired approximately 73.4% of the issued and outstanding shares (on an as-converted-to-common-stock basis) of TCI Solutions, a provider of retail store and headquarters solutions, including pricing, promotions, inventory, management and DSD solutions for the grocery industry, for approximately \$14.5 million in cash and 715,730 of our ordinary shares. The solutions of TCI Solutions enable grocers to automate complex pricing strategies, streamline inventory management processes, and execute consistently across the retail enterprise, from headquarters to the store. TCI Solutions' flagship offering, TCI Retail, consists of headquarters and in-store applications that provide supermarket operators with the control, automation and execution capabilities necessary to increase revenue, lower costs and improve margins in today's complex retail environment. The solutions of TCI Solutions enable grocers to accelerate and improve decision-making through enterprise-wide merchandising and store operations solutions. We believe that the acquisition of TCI Solutions strengthened our position as a provider of headquarters and in-store systems for retailers, broadened our customer base and expanded our suite of products.

Also in April 2005, we executed an agreement and plan of merger with TCI Solutions, pursuant to which TCI Solutions merged with and into one of our subsidiaries in November 2005, and all outstanding common stock and preferred stock of TCI Solutions (other than shares held by us) were exchanged for an aggregate of approximately \$2.6 million in cash.

On April 1, 2005, we also acquired substantially all of the assets of IDS, a provider of ERP and distribution solutions for the food service, convenience store and grocery industries, for approximately \$37.4 million in cash and 290,128 of our ordinary shares. In addition, 207,236 of our ordinary shares, which were held in escrow, were released to the sellers after certain customer retention milestones were met as of April 1, 2007. 69,481 shares and approximately \$1.1 million in cash are still being held in escrow pending final disposition of possible indemnification claims. IDS's solutions enable distributors in the grocery, convenience store and food service markets to achieve increased productivity, improved customer service and operational cost savings. We believe the acquisition of IDS has enabled us to strengthen our position as a provider of supply chain management systems, improve the quality of our offerings and in particular those which collaborate between retail and supply organizations, broaden our customer base and expand our suite of products.

## *The StoreNext Initiatives*

### *StoreNext USA*

Established in 2002 with Fujitsu Transaction Solutions, StoreNext Retail Technology LLC, which we refer to as StoreNext USA, provides POS hardware and software and Connected Services to the independent and small chain grocery market sectors (Tier 3 and Tier 4 retailers). This initiative manages the regional dealer channels for the Tier 3 and Tier 4 grocery market sectors. Retailix receives revenues from the sale of its software solutions to StoreNext USA. StoreNext USA has recently begun to offer Connected Services to these Tier 3 and Tier 4 food retailers. As of December 31, 2008, we estimate that StoreNext USA has more than 1,000 stores that have signed up to Connected Services. In March 2006, Retailix increased its ownership of StoreNext USA from 50.01% to 95% for consideration of approximately \$4.9 million. In March 2008, Retailix increased its ownership of StoreNext USA from 95% to 100% for consideration of approximately \$625,000.

### *StoreNext Israel*

Established in 1999, StoreAlliance.com Ltd., which we refer to as StoreNext Israel, provides Connected Services to food retailers and suppliers in Israel. The aim of this initiative is to provide its members' supply chain efficiencies by providing up-to-date aggregated data. To date, StoreNext Israel subscribers include over 1,500 stores and approximately 1,000 suppliers.

StoreNext Israel is a business initiative controlled by us. In addition there are three other Israeli shareholders in this initiative: Discount Investment Corporation Ltd.; Isracard, a subsidiary of Bank Hapoalim, Israel's largest bank; and the Central Bottling Company Ltd. (Coca Cola Israel). In addition, approximately 270,000 ordinary shares of StoreNext Israel, or approximately 7.7% of StoreNext Israel's issued and outstanding share capital, were reserved for issuance upon the exercise of options granted to our StoreNext Israel's employees. In November 2008, 65,000 options were exercised and, as of December 31, 2008, all the unexercised options have been forfeited. An additional 90,000 ordinary shares of StoreNext Israel, or approximately 2.3% of StoreNext Israel's issued and outstanding share capital, are reserved for issuance upon the exercise of options granted to employees of Coca Cola Israel. An additional 305,973 ordinary shares of StoreNext Israel, or approximately 7.9% of StoreNext Israel's issued and outstanding share capital, are reserved for issuance upon the exercise of an option granted to Isracard. As of December 31, 2008, we owned directly and through one of our wholly owned subsidiaries, approximately 50.5% of the issued share capital of StoreNext Israel.

Certain distributions by StoreNext Israel to its shareholders require the consent of certain shareholders. Our shares in StoreNext Israel are subject to certain put and call options held by other shareholders of StoreNext Israel.



## *Sales and Marketing*

We distribute our products through direct sales, distributors and local business systems dealers. We market our products to Tier 1 and Tier 2 supermarket and convenience store chains and major fuel retailers through a direct sales force in the United States, Europe, Asia, Australia, South Africa and Israel, augmented by a combination of channel partners and integrators. Sales to Tier 1 and Tier 2 supermarket and convenience store chains and major fuel retailers have historically represented the substantial majority of our revenues. We target Tier 3 and Tier 4 food retailers indirectly through our channel partners, subsidiaries and through our StoreNext initiatives in the United States and Israel. For larger supermarket and convenience store chains, fuel retailers and distributors, we also provide professional services including project management, implementation, application training and technical and documentation services. We also provide development services to customize our applications to meet specific requirements of our customers, as well as ongoing support and maintenance services.

In addition, we participate in marketing programs with several companies, including IBM and Microsoft. Our marketing efforts are focused on increasing our brand recognition, as well as increasing awareness of the competitive advantages of our software solutions. We participate in major trade show events and conferences and advertise in trade publications.

### *Direct Sales*

Our direct sales force, consisting of experienced account managers, technical pre-sales engineers and sales personnel in the field, are located in the United States, United Kingdom, Italy, France, Australia, Japan, China and Israel. Our sales force sells our products directly to supermarkets, convenience stores and fuel retailers and distributors within these countries and also relies on trade shows, promotions and referrals to obtain new customers.

### *Marketing Alliances*

In 2001, we joined IBM Corporation's independent software vendor, or ISV, business partner program designed to promote marketing partnerships between independent software vendors and IBM. We work with IBM on several large accounts, primarily in the convenience store market. We are included on IBM's ISV partner list.

We also work closely with Microsoft, focusing on emerging markets such as China and Asia Pacific in general.

### *Dealer Sales*

We have direct distribution agreements for the sale of some of our products with partners in Australia, Bermuda, Canada, Chile, China, Finland, Greece, Japan, Mexico, New Zealand, Norway, the Philippines, South Africa, Switzerland, Russia, the United Kingdom, the United States and Venezuela. Some of these partners operate regionally in countries in addition to the country in which they are headquartered.

We believe that qualified partners can be an effective sales channel for our products in their respective markets and can help us to overcome language and cultural barriers in countries where English is not the native language. We intend to continue to recruit partners and distributors in countries where we have identified sufficient sales potential and a suitable market profile.

### *Competition*

Our principal competition in the supermarket and grocery market for in-store solutions has traditionally come from integrated IT vendors such as IBM, NCR and Wincor-Nixdorf (which usually provide their software integrated with their hardware), as well as local or regional software providers such as PCMS and Torex. On the enterprise level, our principal competitors in the supermarket and grocery market are SoftTechniques and BRData, as well as in-house developed solutions. We also experience competition from both independent retail industry focused software vendors such as JDA and Aldata, and from larger ERP software companies such as Oracle (which acquired Retek and Profitlogic) and SAP (which acquired Triversity and Khimetrics). In addition, we anticipate future competition from new market entrants that develop retail food software solutions. In the convenience store and fuel market, our competition includes Radiant Systems, Pinnacle Systems, Gilbarco, VeriFone and Wincor-Nixdorf. In the supply chain management markets, our competition includes Manhattan Associates, Oracle, Red Prairie and SAP on the high end and companies such as AFS Technologies Inc., Vermont Information Processors and Vormittag Associates Inc. on the low end. Some competitors, such as Wincor-Nixdorf and IBM, are also our marketing partners in several market sectors or locations.

The market for retail software systems is highly competitive and subject to rapidly changing technology. We believe that the primary competitive factors impacting our business are as follows:

- breadth of product offerings;
- interoperability of solutions and solution components;
- suitability for multi-national, multi-concept retailers;
- quality track record;
- established reputation with key customers;
- products that balance feature/performance requirements with cost effectiveness;
- scope and responsiveness of professional services and technical support;
- retail and business know-how and expertise;
- compatibility with emerging industry standards;
- ease of upgrading and ease of use; and
- timeliness of new product introductions.

### **Suppliers**

We sell to some of our customers hardware manufactured by third parties such as point of sale and other store-level computer hardware, mobile computer terminals, scanning equipment, printers, equipment used in warehouses, etc. We buy these hardware component from various suppliers including DataLogic, Fujitsu, IBM, LXE, Motorola and Vocollect.

## C. Organizational Structure

We have the following subsidiaries and related companies:

Subsidiary	Country of Residence	Proportion of voting power held (%)	Proportion of ownership interest held (%)
Retalix Holdings Inc.	United States	100	100
Retalix USA Inc.(1)	United States	100	100
Retail Control Systems Inc. (1)	United States	100	100
StoreNext Retail Technology LLC (1)	United States	100	100
C-StoreMatrix.com Inc. (2)	United States	25	25
PalmPoint Ltd.	Israel	100	100
Tamar Industries M. R. Electronic (1985) Ltd. (3)	Israel	100	100
StoreAlliance.com Ltd. (4)	Israel	51.5	51.5
StoreNext Ltd. (5)	Israel	51.5	51.5
TradaNet Electronic Commerce Services Ltd. (5)	Israel	51.5	51.5
IREX - Israel Retail Exchange Ltd. (2)(5)	Israel	51.5	51.5
Cell-Time Ltd. (6)	Israel	17.1	33
DemandX Ltd. (5)	Israel	51.5	51.5
Retail College StoreNext Ltd. (7)	Israel	45.1	90
P.O.S. (Restaurant Solutions) Ltd.	Israel	100	100
Net Point Ltd.	Israel	95	95
Kohav Orion Advertising and Information Ltd.	Israel	100	100
Orlan Orion Systems Ltd. (2)	Israel	100	100
Retalix (UK) Limited	United Kingdom	100	100
Retalix Italia S.p.A	Italy	100	100
Retalix France SARL	France	100	100
Retalix Australia PTY Ltd.	Australia	100	100
Retalix Japan Ltd.	Japan	100	100

(1) Held through our wholly-owned subsidiary, Retalix Holdings Inc.

(2) Ceased operations.

(3) Holds 26.8% of the issued share capital of StoreAlliance.Com, Ltd.

(4) Including holdings through our wholly-owned subsidiary, Tamar Industries M. R. Electronic (1985) Ltd.

(5) Wholly owned by our subsidiary, StoreAlliance.com Ltd.

(6) 33% owned by our subsidiary, StoreAlliance.com Ltd.

(7) 90% owned by our subsidiary, StoreAlliance.com Ltd. Ceased operations in December, 2006.

## **D. Property, Plants and Equipment**

Our Israeli corporate headquarters are located in Ra'anana, Israel, where we occupy approximately 10,400 square meters of office space, of which approximately 8,000 square meters represent ownership rights under a long-term lease from the Israel Lands Administration and approximately 2,400 square meters are leased from other third parties for shorter terms. In 2007, we purchased the 3rd floor (in unfinished condition) of the building in which our corporate headquarters are located in Ra'anana, Israel.

In addition to our corporate headquarters in Ra'anana, Israel, we currently lease approximately 50,400 square feet of office space in Plano, Texas that serves as our U.S. headquarters. We also lease offices in Arizona, Kansas, Michigan, Nebraska, Ohio, Oklahoma, Pennsylvania and Texas, as well as in Gatwick, England, Bolengo, Italy, Paris, France, Sydney, Australia, Tokyo, Japan, and Petah-Tikva, Israel. We believe our facilities are adequate for our current and planned operations.

## **ITEM 4A – UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 5 – OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and the related notes to those financial statements included elsewhere in this annual report.

### **A. Operating Results**

#### *Overview*

#### *General*

We are an independent provider of integrated enterprise-wide software solutions to global food and fuel retailers and distributors. Spanning the retail and distribution supply chain from the warehouse to the point of sale, our suite of software solutions integrates the retail information flow across a retailer's or distributor's entire operations, encompassing stores, headquarters and warehouses. Our comprehensive integrated solution suite enables retailers and distributors to manage their operations more efficiently, reduce costs and collaborate more closely with suppliers. Our software solutions also enable retailers to capture and analyze consumer behavior data that can be used to devise and implement more effective targeted promotions and loyalty programs in order to stimulate demand and increase sales. At the same time our software solutions enable retailers and distributors to reduce shrinkage, inventory and cost of sale.

Since inception, we have significantly increased our revenues through a combination of factors, including obtaining new customers, expanding existing customer relationships, introducing new products, expanding the features and functionality of our existing products and acquiring complementary businesses, including most recently, certain intellectual property assets from BGI International in 2007, and Base Products in February 2006, TCI Solutions and IDS in April 2005.

We generate revenues from the sale of licenses for our software solutions, complementary computer and other hardware equipment, maintenance and related services, principally software modifications requested by customers. We have derived the substantial majority of our historical revenues from the sale of licenses and related services for our software solutions to large (Tier 1 and Tier 2) supermarkets and convenience store chains and major fuel retailers, and we anticipate that revenues from such customers will continue to represent the substantial majority of our revenues over the near term. Measured by contribution of our software solutions by product line, we have historically derived the substantial majority of our product sales from the sale of our in-store solutions product line, specifically our StoreLine and StorePoint solutions.

We also generate revenues from sales of licenses for our software solutions, maintenance and related services to Tier 3 and Tier 4 grocers in the United States and to a lesser extent in Israel. To some extent, we also sell to such customers hardware manufactured by third parties such as point of sale and other store-level computer hardware, mobile computer terminals, scanning equipment, printers, equipment used in warehouses, etc. In addition, leveraging on our ability to support multiple enterprises from a single data center, we offer Tier 3 and Tier 4 grocers in the United States and Israel a variety of hosted applications, such as pricebook, promotions, loyalty and information services, which we refer to as Connected Services (recently also referred to as SaaS), as well as Connected Payments programs, which are payment processing services through a joint venture with our payment processing software partner, MTXEPS Inc. We receive subscription fees for these Connected Services and Connected Payments programs. We anticipate that revenues relating to these Connected Services will account for a growing portion of our overall revenues in future periods.

During 2008, we continued our strategy of focusing on Tier 1 and Tier 2 supermarkets, large convenience store chains and major fuel retailers. In addition, we continued to derive benefits from the companies and businesses we acquired in recent years, and in particular the IDS acquisition which strengthened and widened our offering in the supply chain and warehouse management areas.

Recent turmoil in global financial and credit markets has caused liquidity problems for many financial institutions and adversely affected investor and consumer confidence generally. This has resulted in a curtailment of capital investment by many of our existing and potential customers, which has adversely affected our results of operations. Conditions may continue to be depressed or may be subject to further deterioration, which could lead to a further reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. A significant adverse change in a customer's financial and/or credit position could also require us to assume greater credit risk relating to that customer's receivables or could limit our ability to collect receivables related to previous purchases by that customer. As a result, our reserves for doubtful accounts and write-offs of accounts receivable may increase.

As a result of the uncertain economic climate around the world, in 2008 we implemented cost-cutting measures. These measures include a decrease in our head count by 219 employees, primarily in the areas of research and development and marketing.

Highlights since the beginning of 2005 include:

- In March 2008, we acquired an additional 5% of StoreNext USA and increased our holdings in this entity to 100%. We paid approximately \$0.6 million for this additional interest. In March 2006, we had increased our holdings in StoreNext USA to 95%, with the acquisition of an additional 45% in StoreNext USA from Fujitsu Transaction Solutions. The consideration we paid for this acquisition was approximately \$4.9 million. The purpose of this acquisition was to decrease the StoreNext USA dependency on a single hardware vendor and thus improve its acceptance in the relevant markets.
- In May 2007, we acquired certain intellectual property assets and related liabilities of BGI International, which provides a suite of software products for food and consumer goods distributors. We paid \$1.37 million upon closing and an additional \$150,000 on the second anniversary of the acquisition. We committed to pay an additional amount of up to \$1.4 million as earn-out payments based on increased license sales in the three-year period following the closing, of which we already paid \$89,000 for the year ended December 31, 2007 and \$23,000 for the year ended December 31, 2008. We believe that this acquisition enabled us to extend the advantages that we achieve for retailers and distributors with the OMI International and IDS acquisitions, by providing additional critical functionality, such as transportation management and distribution center dock scheduling.
- In August 2006, we acquired an additional 31% of the equity of P.O.S. (Restaurant Solutions) Ltd. for \$0.7 million, and increased our holdings in this entity to 100%.
- In February 2006, we acquired substantially all of the assets of Base Products, Inc. d/b/a/ C&L Retail Solutions, a provider of a suite of hardware and software products and services for food and consumer goods retailer, for \$2.6 million in cash. The purpose of this acquisition was to strengthen our customer base and position in the small and independent retail sector in the United States.
- In April 2005, we acquired approximately 73.4% of the issued and outstanding shares (on an as-converted-to-common-stock basis) of TCI Solutions, a provider of retail store and headquarters solutions, including pricing, promotions, inventory management and DSD solutions for the grocery industry, for approximately \$14.5 million in cash and 715,730 of our ordinary shares. The purpose of the acquisition of TCI Solutions was to strengthen our position as a provider of headquarters and in-store systems for retailers, improve the quality of our offerings, broaden our customer base and expand our suite of products. In November 2005, we completed the acquisition of TCI Solutions as we acquired the remaining outstanding common stock and preferred stock of TCI Solutions in a merger, for an aggregate of approximately \$2.6 million in cash.
- In April 2005, we also acquired through our wholly owned subsidiary, Retalix SCM, Inc., substantially all of the assets of IDS, a provider of ERP and distribution solutions for the foodservice, convenience store and grocery industries, for approximately \$37.4 million in cash, and 290,128 of our ordinary shares. In addition, 207,236 of our ordinary shares were released from escrow to the sellers in April 2007, when certain customer retention milestones were met. The purpose of the acquisition of IDS was to enable us to strengthen our position as a provider of supply chain execution and warehouse management systems, improve the quality of our offerings, and in particular, those which facilitate coordination between retail and supply organizations, broaden our customer base and expand our suite of products.

#### *Application of Critical Accounting Policies and Use of Estimates*

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include our accounts and the accounts of our subsidiaries.

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles and does not require management's judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. We believe that the accounting policies discussed below are critical to our financial results and to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

## **Revenue recognition**

Our revenue recognition policy is critical because our revenue is a key component of our results of operations. We derive our revenues from the licensing of integrated software products. To some extent we also derive revenues from the sale of complementary computer and other hardware equipment. We also derive revenues from maintenance and other professional services which are principally software changes and enhancements requested by customers, as well as on-line application, information and messaging services, mostly associated with products sold by us and which we classify as revenues from services.

Determining whether and when some of the criteria required to recognize revenue have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements we must make assumptions and judgments in order to allocate the total price among the various elements we must deliver, to determine whether undelivered services are essential to the functionality of the delivered products and services, to determine whether vendor-specific objective evidence of fair value exists for each undelivered element and to determine whether and when each element has been delivered. If we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Revenues from sales of product and software license agreements are recognized when all of the criteria in Statement of Position, or SOP, 97-2, "Software Revenue Recognition" as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions", herein referred to as SOP 97-2, are met. Revenues from products and license fees are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, no further obligations exist and collectibility is probable.

Revenues from software licenses and/or sale of products that require significant customization, integration and installation are recognized based on SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", according to which revenues are recognized on a percentage of completion basis. Percentage of completion is determined based on the "Input Method", and when collectability is probable. After delivery of milestones, if uncertainty exists about customer acceptance, revenue is not recognized until acceptance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of the losses is identified. As of December 31, 2008, no such estimated losses were identified.

Where software license arrangements involve multiple elements, the arrangement consideration is allocated using the residual method. Under the residual method, revenue is recognized for the delivered elements when (1) Vendor Specific Objective Evidence, or VSOE of the fair values of all the undelivered elements exists, and (2) all revenue recognition criteria of SOP 97-2, as amended, are satisfied. Under the residual method, any discount in the arrangement is allocated to the delivered element. Our VSOE of fair value for maintenance is based on a consistent statistical renewal percentage derived from the majority of maintenance renewals. Revenues from maintenance services are recognized ratably over the contractual period or as services are performed.

Revenues from professional services that are not bundled or linked to a software sale are recognized as services are performed in accordance with the provisions of Staff Accounting Bulletin No. 104 of the Securities and Exchange Commission, or SEC.

Hardware sales are recognized on a gross price basis, in accordance with Emerging Issues Task Force, or EITF, 99-19, "Reporting Gross Revenue as a Principal versus Net as an Agent".

In cases where the products are sold to smaller retailers, through resellers, revenues are recognized as the products are supplied to the resellers in accordance with the provisions of Statement of Financial Accounting Standards, or FAS, Statement No. 48 - "Revenue Recognition When Right of Return Exists". In specific cases where resellers have right of return or we are required to repurchase the products or in case we guarantees the resale value of the products, revenues are recognized as the products are delivered by the resellers.

Revenues from on-line application, information and messaging services, are recognized as rendered in accordance with the provisions of Staff Accounting Bulletin No. 104 of the Securities and Exchange Commission.

Deferred revenues include advances and payments received from customers, for which revenue has not yet been recognized.

Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter and could result in future operating losses. Should changes in conditions cause management to determine that these guidelines are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected (see Note 1.1 to our consolidated financial statements included elsewhere in this annual report).

## ***Goodwill and Intangible Assets***

SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill and intangible assets with an indefinite life be tested for impairment on adoption and at least annually thereafter. Goodwill and intangible assets with an indefinite life are required to be written down when impaired, rather than amortized as previous accounting standards required. Goodwill and intangible assets with an indefinite life are tested for impairment. Goodwill impairment testing is a two-step process. The first step involves comparing the fair value of a company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

Significant estimates used in the fair value methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples of the reportable unit.

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. Such valuations require management to make significant estimations and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from customer relations, acquired developed technologies and trade names, and values of open contracts. In addition, other factors considered are the brand awareness and the market position of the acquired products and assumptions about the period of time the brand will continue to be used in the combined company's product portfolio. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable.

If we do not appropriately allocate these components or we incorrectly estimate the useful lives of these components, our computation of depreciation and amortization expense may not appropriately reflect the actual impact of these costs over future periods, which will affect our net income.

As a result of the decrease in the Company's market capitalization in the latter part of 2008 and the global economic downturn that negatively affected the computer software market, in December 2008 the Company conducted a goodwill impairment test on the goodwill acquired in its various reporting units. Following a determination by the Company that the carrying value of the goodwill exceeded its fair value, the Company concluded in its goodwill impairment test that the goodwill acquired in the US reporting unit had been impaired and therefore, in the fourth quarter of 2008, it recorded an impairment charge of \$58.2 million. As a result of the goodwill impairment, a temporary difference was created for the goodwill portion on which tax amortization is applied, resulting in an approximately \$4 million increase in deferred tax assets.

Should future results or economic events cause additional changes in projected cash flows or other assumptions, or should our business or operational strategies change, future determinations of fair value may not support the current carrying amount of a reporting unit, and the related goodwill would need to be written down further to an amount considered recoverable.

## ***Stock based compensation***

Effective January 1, 2006, we adopted SFAS No. 123 (Revised 2004), "Share-Based Payment," a revision of SFAS No. 123, or SFAS 123(R). SFAS 123(R) supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees, or APB No. 25 and related interpretations, and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, or SAB 107, which provides supplemental implementation guidance on SFAS 123(R). We applied the provisions of SAB 107 in our adoption of SFAS 123(R).

We selected the Black-Scholes option pricing model as the appropriate fair value method for our stock-options awards based on the market value of the underlying shares at the date of grant. We recognize compensation costs using the accelerated vesting attribution method that results in an accelerated recognition of compensation costs in comparison to the straight line method.

In addition, we use historical stock price volatility as the expected volatility assumption required in the Black-Scholes option valuation model. As equity-based compensation expense recognized in our consolidated statement of income for fiscal 2006, 2007 and 2008 is based on awards ultimately expected to vest, such expense has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Accounting for stock based compensation requires significant subjective judgment. Such judgment is implemented in this context in choosing the appropriate pricing model upon which the fair value of stock based compensation is measured as well as a variety of factors involved in the fair value computation, such as volatility, rate of forfeiture, etc.

Should economic events or our business or operational characteristics change, or should the habits of our employees change, future determinations as to fair value may significantly change the value attributed to stock based compensation and significantly impact our results of operations.

#### ***Tax provision***

We operate in a number of countries and, as such, fall under the jurisdiction of a number of tax authorities. We are subject to income taxes in these jurisdictions and we use estimates in determining our provision for income taxes. Deferred tax assets, related valuation allowances and deferred tax liabilities are determined separately by tax jurisdiction. This process involves estimating actual current tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on our balance sheet. We assess the likelihood that deferred tax assets will be recovered from future taxable income, and a valuation allowance is provided for if it is more likely than not that some portion of the deferred tax assets will not be recognized. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that could become subject to audit by tax authorities in the ordinary course of business. In our opinion, sufficient tax provisions have been included in our consolidated financial statements in respect of the years that have not yet been assessed by tax authorities. On a quarterly basis, we also reassess the amounts recorded for deferred taxes and examine whether any amounts need to be added or released.

#### ***Other non critical accounting policies and additional discussion of accounting characteristics***

##### ***Our functional currency***

Our consolidated financial statements are prepared in U.S. dollars in accordance with U.S. generally accepted accounting principles. The currency of the primary environment in which we operate is the U.S. dollar. We mainly generate revenues in dollars or in NIS linked to the dollar. As a result, the dollar is our functional currency. Transactions and balances originally denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (stated below) reflected in the statements of income (loss), the following exchange rates are used: (1) for transactions – exchange rates at transaction dates or average rates of the period reported and (2) for other items (derived from non-monetary balance sheet items such as depreciation and amortization, changes in inventories, etc.) – historical exchange rates. Currency transaction gains or losses are carried to financial income or expenses, as appropriate.

The functional currency of Retalix Italia and Cell-Time Ltd., or Cell-Time, is their local currency (Euro and New Israeli Shekel, respectively). The financial statements of Retalix Italia are included in our consolidated financial statements translated into dollars in accordance with SFAS 52 “Foreign Currency Translation” or SFAS 52. Accordingly, assets and liabilities are translated at year end exchange rates, while operating results items are translated at average exchange rates during the year. Differences resulting from translation are presented in shareholders’ equity under “accumulated other comprehensive income (loss).” The financial statements of Cell-Time are included in our financial statements under the equity method, based on translation into dollars in accordance with SFAS 52; the resulting translation adjustments are presented under shareholders’ equity, in the line item “Accumulated other comprehensive income.”

##### ***Bad debt and allowance for doubtful accounts***

We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the inability of certain of our customers to make required payments. We regularly evaluate the adequacy of our allowance for doubtful accounts by taking into account variables such as past experience, age of the receivable balance and current economic conditions of the party owing the receivable balance. If the financial conditions of certain of our customers were to deteriorate, resulting in an impairment in their ability to make payments, additional allowance for doubtful accounts may be required.



## *Sources of Revenue*

We derive our revenues from the licensing of integrated software products, and to some extent also from the sale of complementary computer and other hardware equipment, all of which we classify as revenues from product sales. We also derive revenues from maintenance and other services which are principally software changes and enhancements requested by customers, all associated with our software products, which we classify as revenues from services. In addition, we provide business flow communication services between retailers and suppliers, data analysis and supply chain information services to suppliers as well as manufacturers and on-line application services primarily to small independent retailers. We do business through subsidiaries in the United States, Israel, the United Kingdom, Italy, France, Japan and Australia.

Our relationships primarily with our large customers, are long-term in nature, as they involve the supply of products that require considerable customer commitment, attention and investment of financial and human resources.

During 2008, none of our customers accounted for 5% or more of our revenues. During 2007, one customer accounted for 5% or more of our revenues. During 2006, two customers each accounted for 5% or more of our revenues.

## *Product Sales*

Product sales consist of the sale of software through perpetual license agreements with direct customers, integrators, distributors and dealers. In addition, sales to Tier 3 and Tier 4 retailers and to distributors also include hardware manufactured by third parties. Such hardware could typically be point of sale and other store level computer hardware, mobile computer terminals, scanning equipment, printers, optical equipment used in warehouses, etc.

## *Services*

Revenues from services consist of:

- **Maintenance** – consists primarily of technical support and use of help-desk services, dealing primarily with difficulties or failures occurring from erroneous use of software products bugs, etc. In some cases the maintenance includes unspecified upgrades, which are mainly bug fixes. We provide maintenance services primarily based on annual arrangements or, alternatively, through dedicated-team arrangements based on professional personnel fully dedicated to the customer and directed by him primarily in the context of performance of change requests and for relatively long periods of time. In some cases, we provide maintenance services on a per-call basis.
- **Development/Enhancement services in the form of short-term projects** – primarily fixed price or hourly/daily fee arrangements for the enhancement of our products to accommodate the request of a specific customer. Such short-term tasks take up to twelve weeks to complete. Examples to this type of revenue could be the development of a new report, a simple type of a promotion or a simple interface to an external system based on the needs specified by the customer. These projects are small in volume and in most cases take only days to complete. Such services can also be provided in the context of dedicated-team arrangements, where specified amounts of personnel are dedicated to customers, charged to the customer and paid for, on the basis of daily rates.
- **Development/Enhancement services in the form of long-term projects** – consists of relatively significant customizations which are of a longer-term in nature. Such tasks are most commonly performed for existing customers who request relatively complicated enhancements such as complicated promotion programs or complicated customizations required due to new fiscal regulations. Such services can also be provided in the context of dedicated-team arrangements.
- **On-line information services, messaging and application services** – including communication and business messaging services between retailers and suppliers, provision of market data analysis and operational supply chain information services to suppliers and manufacturers and a variety of remote on-line retail and operational applications sold to retailers through monthly subscription fee arrangements, also referred to as Connected Services. These revenues were not significant in 2008 and prior years. Most of these services are based on periodic subscription fees and thus are recognized over the service period. Some of these services such as EDI messaging services are charged to customers on the basis of volumes of usage.

### ***Multiple element agreements***

Our sales also consist of multiple element arrangements that in most cases involve the sale of licenses as well as maintenance services in regard to the products sold.

### ***Sales to integrators***

In some cases, we sell our products and provide our services to integrators to which typical customers outsource their IT activities. In these cases, the integrators are the actual customers in all material respects.

### ***Sales through resellers***

We also sell our products, primarily to smaller retailers, through resellers.

### ***Cost of Revenues***

Cost of revenues is comprised of the cost of product sales and the cost of services. Furthermore, intangible assets created through purchase price allocations such as customer base and technology are amortized to cost of revenues over their expected periods of life. In addition, generally we are obligated to pay the Israeli government royalties at a rate of 3% to 5% on revenues from specific products resulting from grants, up to a total of 150% of the grants received. These royalties are presented as part of our cost of revenues.

***Cost of Product Sales*** – consists of costs mostly related to cost of hardware and amortization of intangible assets. Historically, our revenues from hardware sales represented a relatively small portion of our overall revenues. As hardware sales constitute a significant portion of StoreNext USA revenues, our cost of product sales has increased, reflecting the higher costs of hardware. The amortization of intangible assets acquired from OMI International, IDS and TCI Solutions was another factor that contributed to the increase in cost of product sales during recent years.

***Cost of Services*** – consists of costs directly attributable to service sales, including compensation, travel and overhead costs for personnel providing software support, maintenance services, market information services, messaging, Connected Services and other services. Because the cost of services is substantially higher, as a percentage of related revenues, than the cost of licenses, our overall gross margins may vary from period to period as a function of the mix of services versus license revenues in such periods. As compared to our historical results, IDS and OMI International have higher percentages of revenues from services than product license sales, as well as lower gross margins for their service related revenues. As a result, our cost of services has risen since we have merged their activities into ours.

### ***Operating Expenses***

Operating expenses consist of research and development expenses, net, selling and marketing expenses, and general and administrative expenses. In 2006, 2007 and 2008, expenses under SFAS 123(R) resulted in annual compensation expenses of \$3.9 million, \$3.9 million and \$4.8 million, respectively, before taxes.

***Research and Development Expenses, Net*** consist primarily of salaries, related benefits, depreciation of equipment for software developers and amortization of intangible assets such as technology and customer base acquired as part of acquisitions of companies or business activities. These expenses are net of the amount of grants, if any, received from the Israeli government for research and development activities. Under Israeli law, research and development programs that meet specified criteria and are approved by the Office of the Chief Scientist are eligible for grants of up to 50% of certain approved expenditures of such programs. See “ – Liquidity and Capital Resources – Grants from the Office of the Chief Scientist” below.

***Selling and Marketing Expenses*** consist primarily of salaries, related benefits, travel, trade shows, public relations and promotional expenses. We compensate our sales force through salaries and incentives. As we continue to focus our efforts on selling our products directly, we also pay commissions to some of our sales personnel.

***General and Administrative Expenses*** consist primarily of salaries, related benefits, professional fees, bad debt allowances and other administrative expenses. These expenses have increased in recent years due to the increase in our facilities requirements, expenses incurred as a result of the growth of our business, recent acquisitions of companies and new joint ventures.

***Other (Income) Expenses, Net*** consists primarily of gains or losses with respect to ordinary course dispositions of fixed assets. In addition, \$0.2 million gains of sale of product line are included in 2008 Other Income, Net. In addition, during 2007, we wrote off \$0.7 million in accounting, tax and legal due diligence fees in connection with the termination of a proposed acquisition. We determined that such acquisition will not take place. Such charges were written off and recorded as “Other expenses” in our statement of operations for 2007.

***Impairment of Goodwill.*** We conducted a goodwill impairment test on the goodwill acquired in our various reporting units. Following a determination that the carrying value of the goodwill exceeded its fair value, we concluded in our goodwill impairment test that the goodwill acquired in our U.S. reporting unit had been impaired and therefore, in the fourth quarter of 2008, we recorded an impairment charge of \$58.2 million, before taxes.

**Financial Income (Expenses), Net** consists primarily of interest earned on bank deposits and securities, interest paid on loans, credit from banks, expenses resulting from sale of receivables (in 2006 and 2007), net losses or gains on forward contracts and net losses or gains from the conversion into dollars of monetary balance sheet items denominated in non-dollar currencies.

**Share in Income (Losses) of an Associated Company**

Share in income (losses) of an associated company represents our share in the losses of Cell-Time. Store Next Israel, our subsidiary, holds 33.3% of Cell-Time's shares.

**Minority Interests in Losses (Gains) of Subsidiary**

Minority interests in losses (gains) of subsidiaries reflect the pro rata minority share attributable to the minority shareholders in losses or gains of our subsidiary, StoreNext Israel.

**Operating Results**

The following table sets forth the percentage relationship of certain statement of operations items to total revenues for the periods indicated:

	Year ended December 31,		
	2006	2007	2008
<b>Revenues:</b>			
Product sales	35.9%	36.4%	32.9%
Services	64.1	63.6	67.1
<b>Total revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>
<b>Cost of revenues:</b>			
Cost of product sales	18.0%	17.7%	20.4%
Cost of services	21.9	29.5	39.7
<b>Total cost of revenues</b>	<b>39.9%</b>	<b>47.2%</b>	<b>60.1%</b>
<b>Gross profit</b>	<b>60.1%</b>	<b>52.8%</b>	<b>39.9%</b>
<b>Operating expenses:</b>			
Research and development expenses, net	29.6%	26.5%	17.3%
Selling and marketing expenses	16.4	14.3	10.7
General and administrative expenses	13.5	12.4	11.6
Other (income) expenses, net		0.3	(0.2)
Impairment of goodwill			26.3%
<b>Total operating expenses</b>	<b>59.5%</b>	<b>53.5%</b>	<b>66%</b>
<b>Income (loss) from operations</b>	<b>0.6</b>	<b>(0.7)</b>	<b>(26.2)%</b>
Financial income (expense), net	-	0.5	(0.9)
<b>Income (loss) before taxes on income</b>	<b>0.6%</b>	<b>(0.2)%</b>	<b>(27.1)%</b>
Tax benefit	0.2	0.2	4
Minority interests in gains of subsidiaries	(0.2)	(0.2)	(0.3)
<b>Net income (loss)</b>	<b>0.6%</b>	<b>(0.2)%</b>	<b>(23.3)%</b>

Comparison of 2006, 2007 and 2008

Revenues

	Year ended December 31,						% Change	
	2006	2007	2008	2006	2007	2008	2007 vs. 2006	2008 vs. 2007
	(U.S. \$ in millions)			% of total revenues				
Product sales	\$ 73.2	\$ 80.5	\$ 72.9	36%	36%	33%	10%	(9)%
Services	130.5	140.9	148.7	64%	64%	67%	8%	6%
<b>Total revenues</b>	<b>\$ 203.7</b>	<b>\$ 221.4</b>	<b>\$ 221.6</b>				<b>9%</b>	<b>0%</b>

During 2008, our revenue level was similar to that of 2007 but reflected an increase in services and a reduction in product sales, particularly in the second half of the year due to adverse economic conditions. Our services business was less affected by such conditions because they stem from long-term contracts with existing customers. If the economic crisis continues, our service revenues could decline, as well. The product revenues in 2008 consisted of 37% license sales and 63% hardware sales, compared to 54% and 46%, respectively, in 2007. During 2008, our revenues from license sales declined 38% to \$26.9 million, compared to \$43.3 million in 2007. In 2008, hardware sales grew 24% to \$46.0 million, compared to \$37.2 million in 2007.

The increase in services in 2008 was mainly due to contracts with new customers. We have several large customers, with which we have relatively significant dedicated team arrangements, which are based on professional personnel exclusively dedicated to and controlled by these customers and which provide maintenance as well as project-oriented services. As a result, service revenues from these large customers cover both maintenance and project-oriented services, and we do not differentiate between the two. Our total revenues from services in 2008 consisted of 38% from maintenance and 62% from professional services, including all services provided through customer-dedicated personnel arrangements.

We conduct business globally and generate revenues from customers located in three geographical areas: the U.S. region (which includes the United States, Canada and Latin America), International (which includes Europe, Africa, Asia and the Pacific) and Israel. During 2008, our U.S. revenues constituted 57% of total revenues, our international revenues constituted 33% of total revenues, and our Israeli revenues constituted 10% of total revenues, compared to 56%, 36% and 8% in 2007, and 59%, 33% and 8% in 2006, respectively.

During 2008, our U.S. region revenues increased by 2% to \$126 million, as compared to \$123 million in 2007. The increase is mainly due to an increase in service revenues, including maintenance, as well as an increase in hardware revenues, offset in part by a decrease in license revenues.

During 2008, our international revenues decreased by 7% to \$73 million, as compared to \$79 million in 2007, primarily due to lower license revenues in that region. Our international revenues could fluctuate from period to period in the near term, as these sales are still affected to a great extent by a small number of relatively large customers.

During 2008, our Israeli revenues increased by 19% to \$22.2 million, as compared to \$18.7 million in 2007. The increase was primarily due to growth in service revenues.

During 2007, our revenue increase resulted from growth in both products and services. The product revenues in 2007 consisted of 54% license sales and 46% hardware sales, compared to 53% and 47%, respectively, in 2006. During 2007, our revenues from license sales rose 12% to \$43.3 million, compared to \$38.5 million in 2006. The 12% growth in license sales was higher than the 10% growth of product sales and the 9% growth of total revenues. In 2007, hardware sales grew 7% to \$37.2 million, compared to \$34.7 million in 2006.

Revenues from services increased 8% to \$140.9 million in 2007, compared to \$130.5 million in 2006, and remained consistent at 64% of total revenue. We have several large customers, with which we have relatively significant dedicated team arrangements, which are based on professional personnel exclusively dedicated to and controlled by these customers and which provide maintenance as well as project-oriented services. As a result, service revenues from these large customers cover both maintenance and project-oriented services, and we do not differentiate between the two. Our total revenues from services in 2007 consisted of 35% from maintenance and 65% from professional services, including all services provided through customer-dedicated personnel arrangements.

We conduct business globally and generate revenues from customers located in three geographical areas: the U.S. region (which includes the United States, Canada and Latin America), International (which includes Europe, Africa, Asia and the Pacific) and Israel. During 2007, our U.S. revenues constituted 56% of total revenues, our international revenues constituted 36% of total revenues, and our Israeli revenues constituted 8% of total revenues, compared to 59%, 33% and 8% in 2006, respectively.

During 2007, our U.S. region revenues increased by 3% to \$123 million, as compared to \$120 million in 2006. The increase is mainly due to license contracts with tier 1 and tier 2 grocery and convenience stores customers.

During 2007, our international revenues increased by 18% to \$79 million, as compared to \$67 million in 2006, primarily due to higher service revenues in that region. Our international revenues could fluctuate from period to period in the near term, as these sales are still affected to a great extent by a small number of relatively large customers.

During 2007, our Israeli revenues increased by 10% to \$18.7 million, as compared to \$17 million in 2006. The increase was primarily due to growth in service revenues.

### Cost of Revenues

	Year ended December 31,						% Change	
	2006	2007	2008	2006	2007	2008	2007 vs. 2006	2008 vs. 2007
	(U.S. \$ in millions)			% of corresponding revenues				
Cost of product sales	\$ 36.7	\$ 39.1	\$ 45.2	50%	49%	62%	6%	16%
Cost of services	44.6	65.3	88.1	34%	46%	59%	46%	35%
<b>Total cost of revenues</b>	<b>\$ 81.3</b>	<b>\$ 104.4</b>	<b>\$ 133.3</b>				<b>28%</b>	<b>28%</b>

Our total cost of revenues as a percentage of revenues increased from 2007 to 2008 due to higher hardware sales.

During 2008, the cost of product sales increased by 15.6% to \$45.2 million, compared to \$39.1 million in 2007, primarily due to the increase in the cost of sale of hardware, which was derived from the 24% increase in hardware sales. During 2007, the cost of product sales increased by 6.5% to \$39.1 million, compared to \$36.7 million in 2006, primarily due to the increase in the cost of sale of hardware, which was derived from the 7% increase in hardware sales.

During 2008, the cost of services increased by 34.9% to \$88.1 million, compared to \$65.3 million in 2007, primarily due to an increase in headcount, compensation and subcontractors costs and the increase in services revenues that required additional resources. The increase in headcount resulted mainly from a reassignment of employees from research and development to professional services as new products matured in the development cycle and fewer employees needed to be dedicated to their generic development. In addition, 13% of the increase in cost of services in 2008 was attributable to the strengthening of the NIS currency versus the USD, since most of our professional services resources are located in Israel. During 2007, the cost of services increased by 46% to \$65.3 million, compared to \$44.6 million in 2006. 76% of the increase in cost of services in 2007 is attributable to an increase in headcount (as explained above), compensation and subcontractors costs. In addition, 16% of the increase in cost of services in 2007 was attributable to the strengthening of the NIS currency versus the USD.

In 2008, the cost of product sales as a percentage of product sales was 62%, compared to 49% in 2007 primarily due to the increase in the weight of hardware sales in product sales and the decrease in sales of licenses which is the cause of the decrease in product sales in 2008 in comparison to 2007. In 2008, the cost of services as a percentage of service sales increased to 59% from 46%. The increase is attributable mainly to increase in salary expenses due to an increase in headcount and strengthening of the NIS currency versus the USD. The cost of product sales as a percentage of product sales in 2007 was 49%, similar to 50% in 2006. We do not differentiate between the cost of maintenance services and the cost of project-oriented services because we have large customers with which we have relatively significant dedicated team arrangements, which are based on professional personnel exclusively dedicated to and controlled by these customers and which provide maintenance as well as project-oriented services.

## Operating Expenses

	Year ended December 31,						% Change	% Change
	2006	2007	2008	2006	2007	2008	2007 vs. 2006	2008 vs. 2007
	(U.S. \$ in millions)			% of revenues				
Research and development, net	\$ 60.4	\$ 58.7	\$ 38.4	30%	27%	17%	(3)%	(35)%
Selling and marketing	33.5	31.6	23.6	17%	14%	11%	(6)%	(25)%
General and administrative	27.4	27.5	26.7	13%	12%	12%	0%	(3)%
Total operating expenses	\$ 121.3	\$ 117.8	\$ 88.7	60%	53%	40%	(3)%	(25)%

Our total operating expenses decreased as a percentage in revenues from 2007 to 2008 due to reduction of headcount.

**Research and Development Expenses, Net.** These expenses are presented net of grants under programs of the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of the Government of Israel. For more information, please see the discussion in Item 5.C below under “Grants from the Office of the Chief Scientist”. Our considerable research and development expenses reflect our investments in developing our next-generation applications and our recently introduced products, adapting these products to large chain environments as well as integrating our acquired supply chain and warehouse management systems into our suite of products. During 2007 and 2008, as new products matured in the development cycle, we reassigned resources that were dedicated to research and development to professional services. In addition, we reduced expenses related to sub-contractors in Israel. These reductions were partially offset by the strengthening of the NIS versus the U.S. Dollar. As a result, the research and development expenses for 2008 were lower compared to 2007, which in turn were lower compared to 2006. Although we believe that in 2006, in 2007 and in 2008 our research and development expenses were relatively high in comparison to what we expect in the long run as a percentage of revenues, we intend to continue to invest considerable resources in research and development as we believe that this is essential to enable us to establish ourselves as a market leader in our fields of operation. We view our research and development efforts as essential to our ability to successfully develop innovative products that address the needs of our customers as the market for enterprise-wide retail software solutions evolves. Approximately 2% or \$0.4 million of the decrease in research and development expenses in 2008, compared to 2007 is attributable to the expense effect of stock-based compensation. Approximately 47% or \$0.8 million of the decrease in research and development expenses in 2007, compared to 2006 is attributable to the expense effect of stock-based compensation.

**Selling and Marketing Expenses.** During 2008, we reduced many sales and marketing positions. During 2006 and 2007, we invested significant marketing efforts in increasing awareness of our new offerings in the supply chain management area, in maintaining and strengthening relationships with new customers added to our customer base as part of our recent acquisitions and in establishing a presence in new markets in Europe and Asia, but we did not significantly widen our marketing staff or efforts. Approximately \$0.4 million of expenses in 2008 and \$0.5 million of expenses in 2007 and 2006 were attributable to the expense effect stock-based compensation. We anticipate that selling and marketing expenses will begin to increase again in absolute dollars as we expand our operations.

**General and Administrative Expenses.** In 2008, our general and administrative expenses decreased in comparison to 2007 and 2006, when such expenses were consistent as a percentage of sales, mainly due to a headcount reduction. Approximately \$1.4 million of expenses in 2008, approximately \$1.3 million of expenses in 2007 and \$0.4 million of expenses in 2006 were attributable to the expense effect stock-based compensation. The increase in the general and administrative expenses in 2007 compare to 2006 is primarily due to increase in headcount, compensation costs, professional fees and bad debt expenses mainly in the United States.

### Financial Income (Expenses), Net

Financial income (expenses), net, totaled approximately \$2.0 million of expenses in 2008, compared to approximately \$1.0 million of income in 2007, and \$79,000 of income in 2006. During 2008, we recorded higher non-dollar currency losses, higher forward contract net losses and a loss on our auction rate security, offset by higher interest income compared to 2007, in spite of lower interest rates, due to an increase in our cash reserves. During 2007, we recorded higher non-dollar currency gains compared to 2006, in spite of lower interest income and higher interest and bank commission expense.

## Corporate Tax Rate

The general corporate tax rate in Israel is 31% for the 2006 tax year, 29% for the 2007 tax year and 27% for the 2008 tax year and is scheduled to be reduced to 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Our effective consolidated tax rate, however, was 14.9% in 2008, primarily due to a significant non-deductible portion of the goodwill impairment charge, offset by a non-recurring tax benefit arising from an amendment to Israel's Law for Encouragement of Capital Investments, 1959, or the Investments Law, which increased our Approved Enterprise tax-exempt income in 2005 and 2006. In 2007 our effective consolidated tax rate was 103%, primarily due to the differences between the basis of the measurement of income reported for tax purposes and the basis of measurement of income for financial reporting purposes. In 2006, our effective consolidated tax rate was minus 40% (or plus 30% excluding the effect of a release of a valuation allowance attributable to an acquisition, in one of our subsidiaries). We enjoy these lower effective tax rates primarily because of tax reductions to which we are entitled under the Investments Law, with respect to our investment programs that were granted the status of Approved Enterprise under this law. Under our Approved Enterprise investment programs, we are entitled to certain tax exemptions and reductions in the tax rate normally applicable to Israeli companies with respect to income generated from our Approved Enterprise investment programs. We expect to continue to derive a portion of our income from our Approved Enterprise investment programs as well as Benefited Enterprises – see further discussion below. The tax benefits for our existing and operating Approved Enterprise programs are scheduled to expire by 2014. The period of tax benefits for each capital investment plan expires upon the earlier of 12 years from completion of the investment under the approved plan, or 14 years from receipt of approval. We cannot assure you that such tax benefits will be available to us in the future at their current levels or at all.

Part of our taxable income has been tax exempt in recent years due to the Approved Enterprise status granted to most of our production facilities. We have decided to permanently reinvest the amount of such tax exempt income and not to distribute it as dividends. Accordingly, no deferred taxes have been provided in respect of such income in the financial statements attached herein to this annual report.

The amount of income taxes that would have been payable had such tax exempt income, earned through December 31, 2008, been distributed as dividends is approximately \$10.0 million.

Out of our retained earnings as of December 31, 2008, approximately \$40.1 million are tax-exempt. If we were to distribute this tax-exempt income before our complete liquidation, it would be taxed at the reduced corporate tax rate applicable to these profits (10%-25%, depending on the extent of foreign investment in the company), and an income tax liability of up to approximately \$10.0 million would be incurred. Our board of directors has determined that we will not distribute any amounts of our undistributed tax-exempt income as a dividend. We intend to reinvest our tax-exempt income and not to distribute such income as a dividend. Accordingly, no deferred income taxes have been provided on income attributable to our Approved Enterprise program as the undistributed tax exempt income is essentially permanent in duration. On April 1, 2005, an amendment to the Investments Law came into effect (including amendment no. 60 thereof, which was adopted in 2008 with retroactive effect), which revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a Benefited Enterprise (rather than the previous terminology of Approved Enterprise) if it is an industrial facility (as defined in the Investments Law) that will contribute to the economic independence of the Israeli economy and is a competitive facility that contributes to the Israeli gross domestic product. Among other things, the amendment provides tax benefits to both local and foreign investors and simplifies the approval process – the benefited Enterprise routes do not require pre-approval by the Investment Center of the Israeli Ministry of Industry, Trade and Labor, or the Investment Center. The amendment does not apply to investment programs approved prior to December 31, 2004.

As a result of the amendment, tax-exempt income generated under the provisions of the new law will subject us to taxes upon distribution or liquidation.

**Minority Interests in Gains of Subsidiaries.** These amounts consisted in 2006, 2007 and 2008 of the minority interests in the gains of StoreNext Israel.

## **B. Liquidity and Capital Resources**

We had cash and cash equivalents of approximately \$55.2 million, \$22.5 million and \$33.5 million, as of December 31, 2006, 2007 and 2008, respectively. Our total cash and cash equivalents, short-term bank deposits and short-term and long-term investment in marketable securities, net of short-term bank credit increased to approximately \$37.6 million as of December 31, 2008, compared to \$27.6 million as of December 31, 2007, and \$56.2 million as of December 31, 2006. During 2007 and 2008, our financial resources decreased primarily due to the result of our decision to discontinue the factoring of receivables and focus on the collection of receivables; the discontinuance of factoring also saved us financing expenses. Our financing expenses for 2007 relating to factoring of receivables had increased by nearly \$400,000 from \$1,482,000 in 2006 to \$1,862,000 in 2007. We concluded that we could decrease and eventually eliminate these expenses while still maintaining enough liquidity. Though our cash balance decreased in the near term as a result of our decision to discontinue factoring, the impact on our working capital initially was relatively neutral when made, since our accounts receivable increased as a result of our collecting receivables directly and we were able to collect on receivables to a sufficient degree to offset any prior benefits from factoring. Rather, changes to our cash flows were impacted to a much greater degree by the performance of our underlying operations. In 2008, our cash balance increased from 2007 as a result of increased efforts to collect receivables and the elimination of factoring expenses, as well as due to headcount and cost reductions, in addition to our underlying operations. Our cash balance continued to increase in the first quarter of 2009.

As of December 31, 2008, we held an auction rate security totaling \$1 million at par value which is currently associated with failed auctions. Historically, the carrying value of auction rate securities approximated fair value due to the frequent resetting of the interest rates. While we continue to earn interest on this investment at the contractual rates, the estimated market value of this auction rate security no longer approximates par value. We estimated the fair value of this auction rate security based, among other things, on the following: (i) the underlying structure of the security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for the security. The fair market value of the failed auction rate security at December 31, 2008 was \$0.3 million, a decline of \$0.7 million from par value. We continue to monitor the market for auction rate securities and consider its impact (if any) on the fair market value of our investment. If the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record additional unrealized losses in other comprehensive income or impairment charges in 2009, in addition to the impairment charges that we recorded in 2008 (as described above).

Net cash provided by operating activities in 2008 was \$13.2 million primarily due to reduction in receivables as a result of our extensive collection efforts, compared to net cash used in operating activities of \$23.7 million and net cash provided by operating activities of \$3 million in 2007 and 2006, respectively.

Net cash used in investing activities in 2008, 2007 and 2006 of approximately \$5.8 million, \$6.4 million and \$6.9 million, respectively, was primarily attributable to cash spent on business acquisitions, which amounted to approximately \$0.1 million in 2008, \$1.4 million in 2007, and \$2.7 million in 2006. In addition, we increased our holdings in subsidiaries by investments in an aggregate amounts of \$0.7 million, \$0 and \$5.8 million in 2008, 2007 and 2006, respectively.

Our capital expenditures (consisting of the purchase of fixed assets) were \$5.1 million, \$4.7 million and \$2.6 million in 2008, 2007 and 2006, respectively, mostly attributable to investment in the 3rd floor of our headquarters building in 2008 and purchasing computer and peripheral equipment including software systems and licenses in all three years.

Net cash provided by financing activities in 2008 amounted to approximately \$3.8 million, primarily due to issuance of share capital to employees resulting from exercise of options. Net cash used in financing activities in 2007 amounted to approximately \$2.7 million, primarily attributable to a decrease in short term bank credit, offset by cash provided by issuance of share capital to employee resulting from exercise of options. Net cash provided by financing activities in 2006 amounted to \$3.3 million, primarily attributable to proceeds from issuance of share capital to employees resulting from the exercise of options.

#### ***Bank Debt***

As of December 31, 2008, we had outstanding bank loans in the principal amount of \$0.8 million. These loans are primarily in EUROS and accrue interest at the rate of 2.0% per year and mature through July 2011. These loans are unsecured.

#### ***Credit Risk***

Other than the foreign currency forward contracts described below, we have no significant off-balance-sheet concentration of credit risk, such as foreign exchange contracts, option contracts or other foreign hedging arrangements. We may be subject to concentrations of credit risk from financial balances, consisting principally of cash and cash equivalents, short-term bank deposits, trade and unbilled receivables and investments in marketable securities. We invest our cash and cash equivalents and marketable securities in U.S. dollar deposits with major Israeli and U.S. banks, mainly Bank Hapoalim and Bank Leumi in Israel and Wells Fargo in the United States. We believe that the financial institutions that hold our investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments. Most of our revenue has historically been generated from a large number of customers. Consequently, the exposure to credit risks relating to trade receivables is limited. We had formerly factored receivables, but as discussed above, have ceased to do so and instead increased our efforts on direct collection of receivables. We generally do not require collateral. An appropriate allowance for doubtful accounts is included in our accounts receivable.

The fair value of the financial instruments included in our working capital is usually identical or close to their carrying value. The fair value of long-term receivables and long-term loans and other long-term liabilities also approximates the carrying value, since they bear interest at rates close to the prevailing market rates.

We take various measures to compensate for the effects of fluctuations in both exchange rates and interest rates. These measures include traditional currency hedging transactions as well as attempts to maintain a balance between monetary assets and liabilities in each of our principal operating currencies, mainly the U.S. dollar, the NIS, the Euro and the British pound, and securing our future cash flows from foreign exchange fluctuations. In 2008, we began to increase our use of currency hedging, which has resulted in related increased financing expenses.

We have historically had only limited involvement with derivative financial instruments but have begun to increase our currency hedging. We carry out transactions involving foreign exchange derivative financial instruments (forward exchange contracts). These transactions do not qualify for hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." For information relating to our hedging and other market risks, please see Item 11 "Quantitative and Qualitative Disclosures About Market Risk" below.

As of December 31, 2008, we held an auction rate security, or ARS, totaling \$1 million at par value which is currently associated with failed auctions. As explained in note 1d to our audited consolidated financial statements included elsewhere in this annual report, we have determined fair value of this security based on a valuation model. The revaluation of this security resulted in a net realized loss of \$0.7 million, which has been recorded in our statement of income, as it is considered "other-than temporary".



Our management believes that our financial reserves will be sufficient to fund our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, and the continuing market acceptance of our products. Although our cash balance has been increasing in recent quarters, to the extent that our existing financial reserves and cash generated from operations are insufficient to fund our future activities, including investments in, or acquisitions of, complementary businesses, products or technologies, we may need to raise additional funds through public or private equity or debt financing. Such funds may not be available on reasonable terms, if at all, especially if the current uncertainty in the global markets continues.

***Impact of Inflation, Devaluation and Fluctuation in Currencies on Results of Operations, Liabilities and Assets***

Most of our sales are denominated in U.S. dollars or are dollar linked. However, some portions of our expenses, primarily expenses associated with employee compensation, are denominated in NIS unlinked to the dollar. A devaluation of the NIS in relation to the dollar has the effect of decreasing the dollar value of any asset of ours that consists of NIS or receivables payable in NIS, unless such receivables are linked to the dollar. Such devaluation also has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS, unless such expenses or payables are linked to the dollar. Conversely, any increase in the value of the NIS in relation to the dollar has the effect of increasing the dollar value of any of our unlinked NIS assets and the dollar amounts of any of our unlinked NIS liabilities and expenses. In addition, some of our expenses, such as salaries for our Israeli based employees, are linked to some extent to the rate of inflation in Israel. An increase in the rate of inflation in Israel that is not offset by a devaluation of the NIS relative to the U.S. dollar can cause the dollar amount of our expenses to increase.

The following table presents information about the rate of inflation in Israel, the rate of devaluation of the NIS against the U.S. dollar, and the rate of inflation in Israel adjusted for the devaluation:

Year Ended December 31,	Israeli Inflation Rate %	NIS Devaluation (Revaluation) Rate against the U.S. dollar %	Israel Inflation Adjusted for the Devaluation of the NIS against the U.S. dollar %
2004	1.2	(1.6)	2.8
2005	2.4	6.8	(4.4)
2006	(0.1)	(8.2)	8.1
2007	3.4	(9.0)	12.4
2008	3.9	(1.1)	5.0

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations and, in particular, larger periodic devaluations or revaluations may have an impact on our profitability and period-to-period comparisons of our results. We believe that inflation in Israel has not had a material effect on our results of operations but that the recent devaluation of the dollar against the NIS has a material effect on our results of operations.

***Principal Capital Expenditures***

See “Item 4.A History and Development of the Company Principal Capital Expenditures.”

## **C. Research and Development, Patents and Licenses, Etc.**

### **Research and Development**

We believe that our research and development efforts are essential to our ability to successfully develop innovative products that address the needs of our customers as the market for enterprise-wide software solutions evolves. As of December 31, 2008, our research and development staff consisted of 281 employees, of whom 117 were located in Israel, 2 in Italy and the remaining 162 were located primarily in the United States. See also Item 5.A. Research and Development Expenses, Net.

### **Proprietary Rights**

We have no patents or patent applications pending. Our success and ability to compete are dependent in part on our proprietary technology. We rely on a combination of copyright, trademark and trade secret laws and non-disclosure agreements to establish and protect our proprietary rights. To date, we have relied primarily on proprietary processes and know-how to protect our intellectual property. Some of our products utilize open source technologies. These technologies are licensed to us on varying license structures but may include the General Public License. This license and others like it pose a potential risk to products that are integrated with these technologies. See further discussion under "Risk Factors".

### **Grants from the Office of the Chief Scientist**

From time to time we receive grants under programs of the Office of the Chief Scientist, or the OCS, of the Ministry of Industry, Trade and Labor of the Government of Israel. In the years 2006, 2007 and 2008, we received grants from the OCS of \$195,000, \$453,000 and \$263,000, respectively. We currently do not expect to receive material grants from the OCS in the near future. This governmental support is conditioned upon our ability to comply with certain applicable requirements and conditions specified in the OCS's programs, in the OCS rules and in the provisions of the Law for the Encouragement of Research and Development in the Industry, 1984, and the regulations promulgated thereunder, or the Research and Development Law.

Under the Research and Development Law, research and development programs that meet specified criteria and are approved by the research committee of the OCS are eligible for grants of up to 50% of certain approved expenditures of such programs, as determined by said committee.

In exchange, the recipient of such grants is required to pay the OCS royalties from the revenues derived from products incorporating know-how developed within the framework of each such program or derived therefrom (including ancillary services in connection therewith), up to an aggregate of 100% of the dollar-linked value of the total grants received in respect of such program, plus interest. The royalty rates applicable to our programs range from 3% to 3.5%.

The Israeli government is in the process of formulating a proposed amendment to the royalty regulations promulgated under the Research and Development Law. The amendment proposes to include changes to the royalty rates, which would vary from company to company based on the amount of its revenues and approval date of its program, up to a rate of 6%, and proposes to increase the rate of interest accruing on grants by 1% per year. The amendment proposes to have retroactive effect, although there is no assurance as to whether and when it will be adopted.

The Research and Development Law generally requires that the product developed under a program be manufactured in Israel. However, some of the manufacturing volume may be performed outside of Israel, subject to notification to the Chief Scientist in the case of the transfer of up to 10% of a grant recipient's approved Israeli manufacturing volume outside of Israel, or subject to the approval of the Chief Scientist in the case of the transfer of additional manufacturing volume outside of Israel. In case of an approval of the Chief Scientist for the transfer of manufacturing outside of Israel, the grant recipient is required to pay royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased up to 300% of the grant, depending on the portion of the total manufacturing volume that is performed outside of Israel. The Research and Development Law further permits the OCS, among other things, to approve the transfer of manufacturing rights outside Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. The Research and Development Law also allows for the approval of grants in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the research committee is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the OCS whether to approve a program and the amount and other terms of benefits to be granted. For example, the increased royalty rate and repayment amount might be required in such cases.

The Research and Development Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the research committee. Such approval is not required for the sale or export of any products resulting from such research or development. The Research and Development Law further provides that the know-how developed under an approved research and development program may not be transferred to any third parties outside Israel, except in certain special circumstances and subject to prior approval. The OCS may approve the transfer of government-funded know-how outside Israel in the following cases: (a) the grant recipient pays a portion of the sale price paid in consideration for such know-how (according to certain formulas); or (b) the grant recipient receives know-how from a third party in exchange for its government-funded know-how; or (c) such transfer of know-how arises in connection with certain types of cooperation in research and development activities.

The Research and Development Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and non-Israeli interested parties to notify the OCS of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the OCS to comply with the Research and Development Law. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares will be required to notify the OCS that it has become an interested party and to sign an undertaking to comply with the Research and Development Law.

The funds available for OCS grants out of the annual budget of the State of Israel were reduced in 1998, and the Israeli authorities have indicated in the past that the government may further reduce or abolish OCS grants in the future. Even if these grants are maintained, we cannot presently predict what would be the amounts of future grants, if any, that we might receive.

#### **D. Trend Information**

As retail sales have softened with the recent slowdown in the global economy, better use of information technology can help retailers and distributors improve their operational performance and increase customer retention. Despite the current retail environment, retailers generally appear to remain committed to making technology investments, which can deliver a return on investment, or ROI, over the short term and help them manage through this unpredictable environment. At the same time some existing and potential customers have decided to postpone or decrease capital investments during the current slowdown. Trends we identify within the retail industry that could influence demand are increasing focus on areas such as customer loyalty, purchasing and inventory optimization, synchronization of data and use of shared databases, operation of multi-format and multi-channel retail operations and the increasing tendency of large retailers to grow and operate internationally.

Competition in the market for software solutions supporting the operations of retailers and manufacturers is also increasing, which is resulting in significant pressure on prices and subsequent lower gross margins. During the last few years there have also been some significant acquisition transactions within the industry in which large corporations which have not been directly involved in the industry have acquired competitors of ours.

#### **E. Off Balance Sheet Arrangements**

None.

#### **F. Tabular Disclosure of Contractual Obligations**

The following table presents further information relating to our liquidity as of December 31, 2008:

Contractual Obligations (U.S. \$ in millions)*	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-Term Debt Obligations (including current maturities)	\$ 0.8	\$ 0.3	\$ 0.4	\$ 0.1	\$ -
Operating Lease Obligations (with regard to offices and facilities and vehicles)	12.2	5.9	4.9	1.4	-
Severance pay **	5.2	0.1	0.2	0.1	4.8
<b>Total</b>	<b>18.2</b>	<b>6.3</b>	<b>5.5</b>	<b>1.6</b>	<b>4.8</b>

\* See also the notes to our audited consolidated financial statements for the year ended December 31, 2008 included elsewhere in this annual report, and in particular, Notes 5 and 8 thereto.

\*\* Severance pay relates to accrued obligation to employees as required under the labor laws. These obligation are payable only upon termination, retirement or death of the respective employee.

## ITEM 6 – DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

Set forth below is information concerning our executive officers and directors as of June 8, 2009.

Name	Year of Birth	Year Joined	Retalix Position
Ishay Davidi	1962	2008	Chairman of the Board
Gillon Beck	1962	2008	Director
Brian Cooper	1956	1984	Director
Neomi Enoch	1958	2008	Director
Dr. Zvi Lieber	1943	2008	External Director
Amnon Lipkin-Shahak	1944	2002	Director
Ian O'Reilly	1948	2000	Director
Itschak Shrem	1947	2008	Director
Barry Shaked	1957	1982	President, Chief Executive Officer and Director
Hugo Goldman	1954	2007	Executive Vice President and Chief Financial Officer
Danny Moshaioff	1947	1999	Executive Vice President, Corporate Development
Yoni Stutzen	1951	1994	Executive Vice President, International Business Unit
Reuben Halevi	1957	2004	President, Supply Chain Management
Roy Simrell	1965	2009	President, U.S. Retail Division
Isaac Shefer	1957	2008	Executive Vice President, Product Development

*Ishay Davidi* has served as a director since March 2008 and as our Chairman of the Board since August 2008. Mr. Davidi is the Founder and Chief Executive Officer of each of FIMI IV 2007 Ltd., FIMI Opportunity 2005 Ltd, FIMI 2001 Ltd and First Israel Mezzanine Investors Ltd., the managing general partners of the partnerships constituting the FIMI Private Equity Funds. Mr. Davidi also serves as a director at Tefron Ltd., Scope Metals Group Ltd. (TASE), Inrom Industries Ltd., MDT Micro Diamond Technologies Ltd, Orian S.M. Ltd. (TASE), Ophir Optronics Ltd. (TASE), Merhav-Ceramic and Building Materials Center Ltd. (TASE), and Bagir Group Ltd. Mr. Davidi holds a B.Sc. in Industrial and Management Engineering from Tel Aviv University and an M.B.A. from Bar Ilan University.

*Gillon Beck* has served as a director since March 2008. Mr. Beck has been a Senior Partner and director at FIMI Opportunity Funds since 2003. He also serves as a Chairman of Inrom Industries Ltd., a director in Ytong Industries Ltd, Nirlat Paints Ltd, MDT Micro Diamond Technologies Ltd, Metro Motor Marketing Ltd, TANA Industries (1991) Ltd., Orian S.M. Ltd. (TASE), Gamatronic Electronic Industries Ltd. (TASE), Givon H.R. Ltd, and Merhave-Ceramic and Building Materials Center Ltd (TASE) Previously he was director at TAT Technologies LTD (NASDAQ) and Chairman of Medtechnica Ltd (TASE). He holds a B.Sc. in Industrial Engineering from the Technion, Israel Institute of Technology, and an MBA in Finance from Bar Ilan University.

*Brian Cooper* has served as a director since August 1984. From December 1999 to June 2001, Mr. Cooper served as our Vice President, Israeli operations. Mr. Cooper also served as our Chief Financial Officer from August 1984 until December 1999. From 1979 to 1984, Mr. Cooper served as an officer in the Israeli Defense Forces as an economist and programmer. Mr. Cooper has been a director of YCD Multimedia Ltd. since June 2003, a director of Redmatch International Ltd. since October 2007 and a director of GenomeDx Biosciences, Inc. since December 16, 2008. Mr. Cooper holds a B.A. in Economics from Haifa University.

*Neomi Enoch* has served as a director since August 2008. Ms. Enoch is a consultant in the field of company betterment and recovery. From 2003 to 2006, she served as Vice President of Finance of Shufersal Ltd. (TASE: SAE), a leading supermarket chain in Israel. From 1998 to 2003, she served as Vice President of Finance of Partner Communications Company Ltd. (NASDAQ, TASE: PTNR). From 1983 to 1998, she served as Controller and Vice President of Finance of Mul-T-Lock Ltd. Ms. Enoch is a member of the Board of Directors of Blue Square Real Estate Ltd. (TASE: BLSR), Solbar Industries Ltd. (TASE: SLBR), Keter Publishing House Ltd. (TASE: KETR) and Arim Urban Development Ltd. From 2001 to 2003, she served as a member of the Estates Committee, a public committee appointed by Ministry of Justice. From 1999 to 2003, she served as a member of the Advisory Committee and Council to the Bank of Israel. Ms. Enoch holds an M.B.A. from Bradford University and a B.A. in Accounting and Economics from the Tel Aviv University.

*Dr. Zvi Lieber* has served as an external director since October 2008. He has been a business and financial consultant to companies for over 30 years. He is also a senior lecturer in the M.B.A. program at the Peres Academic Center in Rehovot, where he teaches accounting and financing. Dr. Lieber serves as a member of the Board of Directors of Ampa Capital Ltd and of Baran Ltd. From 2002 to 2006, he served as a member of the Board of Directors of the Tel Aviv Stock Exchange Ltd. From 1976 to 2002, he was a senior lecturer of business administration in the Faculty of Management of Tel Aviv University. Dr. Lieber has also served as a director of several other companies and as a member of several public advisory committees appointed by the Government of Israel. Dr. Lieber holds a Ph.D. in Business Administration from the University of Chicago and an M.B.A. from the Hebrew University in Jerusalem.

*Amnon Lipkin-Shahak* has served as a director since April 2002. Since May 2001, Mr. Lipkin-Shahak has served as the Chairman of the Board in the TAHAL Group and as a director in the Kardan Group. Mr. Lipkin-Shahak also serves as a director in El-Al Airlines, Visual Defence and Nilit and as the Chairman of the Executive Committee of the Peres Center for Peace. Between May 1999 and March 2001, Mr. Lipkin-Shahak served as a member of the Israeli parliament (the Knesset). During this period, Mr. Lipkin-Shahak served as a cabinet minister between July 1999 and March 2001. In December 1998, Mr. Lipkin-Shahak retired from his position as the Chief of Staff of the Israeli Defense Forces after thirty-six years of service.

*Ian O'Reilly* has served as a director since November 2000. Mr. O'Reilly serves as the Chairman of the Cambridge Building Society and as a director of Atlas Cedar Ltd. From 1991 to 2000, Mr. O'Reilly served as a Group IT Manager at Tesco Stores Ltd. He received a British Computer Society Qualification from the Cambridge College of Arts and Technology.

*Itshak Shrem* has served as a director since January 2008. Mr. Shrem is Chairman and founder of Shrem Fudim Group, a private banking house publicly traded on the Tel-Aviv Stock Exchange. He also serves as the Chairman of Leader Holdings and Investments Ltd., Polar Communications Ltd. and various affiliated companies. In 1993, Mr. Shrem founded Polaris (now Pitango) venture capital fund. Prior to that, Mr. Shrem spent 15 years at Clal Industries and Investments Ltd. in various capacities, including Chief Operating Officer responsible for the group's capital markets and insurance businesses. Mr. Shrem holds a B.A. in Economics from Bar-Ilan University and an M.B.A. from Tel-Aviv University.

*Barry Shaked* is one of our founders and has served as our President and Chief Executive Officer since our inception in April 1982 and as our Chairman of the Board from 1982 to 2008. From August 1975 to February 1979, Mr. Shaked served as an officer in the Israeli Defense Forces. He attended the Computer Science School of Bar-Ilan University from 1980 to 1983.

*Hugo Goldman* has served as our Executive Vice President and Chief Financial Officer since November 2007. From 2006 to 2007, Mr. Goldman served as Chief Financial Officer of AxisMobile. From 2001 to 2005, he served as Chief Financial Officer of VocalTec Communications. From 1983 to 1999, Mr. Goldman spent 16 years at Motorola Semiconductor Products Sector (now Freescale), where he served in a number of roles, including Chief Financial Officer of the Israeli operations. Mr. Goldman is a Certified Public Accountant and began his career at Kesselman & Kesselman (now a member of PricewaterhouseCoopers). He holds a B.A. in Accounting and Economics from the Tel Aviv University and an M.B.A. from the University of Bradford, UK.

*Danny Moshaioff* has served as an Executive Vice President of Corporate Development since November 2007. From December 1999 until November 2007, Mr. Moshaioff served as our Executive Vice President and Chief Financial Officer. From July 1997 to December 1999, Mr. Moshaioff served as Chief Financial Officer of Blue Square Israel and from September 1995 to June 1997, he served as General Manager of Mashbir Mazon. Mr. Moshaioff served as a director in Neviot Ltd. from January 2004 to September 2005. Mr. Moshaioff received a B.A. in Economics and Statistics from the Hebrew University in 1970 and an M.B.A. from New York University in 1972.

*Roy Simrell* has served as President of our U.S. Retail Division since January 2009. From 2000 to 2009, Mr. Simrell worked at Catalina Marketing in various executive roles, most recently as Corporate Senior Vice President of Information Technology and Research & Development. From 1998 to 2000 he served as Director of ISS45 Point of Sale Systems Application Development for Fujitsu – ICL Retail Systems. Previously he worked at RS Technologies Inc. as Founder / CEO, serving the grocery, hospitality, and convenience store industries. Mr. Simrell is a graduate of DeVry Institute of Technology, 1986 and attended William Rainey Harper College from 1986 to 1990.

*Yoni Stutzen* has served as our Executive Vice President, International Business Unit, since January 2008, and served as our Vice President, International Sales since December 1998. He served as our Vice President, Marketing from August 1994 through December 1998. Mr. Stutzen served as a Marketing Manager for Manof Communications from January 1985 to July 1994 and as international SWIFT systems manager for Bank Hapoalim from January 1980 until December 1984. Mr. Stutzen received a B.Sc. in Industrial and Management Engineering from the Technion, Israel Institute of Technology in 1974.

*Reuben Halevi* has served as President of our Supply Chain Management since January 2009. He served as our Chief Operating Officer for U.S. operations from August 2006 to December 2008. He also served as our Executive Vice President, Product Development from June 2005 until December 2007. Previously, Mr. Halevi has served as a Vice President for Development from January 2005. From January to December 2004, Mr. Halevi served as a senior manager in our development group. During 2000 to 2003, Mr. Halevi served as a senior IT consultant for Supersol, the largest grocery chain in Israel. Mr. Halevi holds a B.Sc. in Industrial and Management Engineering from the Technion, Israel Institute of Technology.

*Isaac Shefer* has served as Executive Vice President, Product Development since January 2008. From 1999 to 2006, Mr. Shefer served as the Chief Information Officer of Supersol, Israel's largest grocery chain. Prior thereto, Mr. Shefer held software development management and project management positions in various organizations in the fields of telecom, manufacturing, distribution, logistics and military. He holds an M.Sc. degree in Computer Science from the Johns Hopkins University in Baltimore, Maryland, and is a graduate of Economics and Computer Science from Bar-Ilan University.

## **B. Compensation**

The aggregate accrued compensation of all the persons as a group who served in the capacity of a director or an executive officer during the year ended December 31, 2008, was approximately \$1.7 million. This amount includes pension, retirement and similar benefits accrued in the aggregate amount of \$135,000. This does not include stock based compensation effects under SFAS 123(R), amounts expended by us for business travel, professional and business associated dues and business expense reimbursements.

Under our articles of association, no director may be paid any remuneration by us for his services as director except as may be approved pursuant to the provisions of the Companies Law, which generally require the approval of our audit committee, followed by the approval of our board of directors and then the approval of our shareholders.

In our 2007 annual meeting of shareholders, a resolution was approved allowing the payment of fees to our independent directors who serve from time to time (other than our statutory external directors) of up to \$25,000 per year. Our external directors receive annual compensation pursuant to applicable regulations under the Israeli Companies Law of approximately \$14,400 each and, in addition, \$540 per board meeting or board committee meeting in which they participate, and \$320 per such meeting in which they participate by telephone.

As compensation for his services to us, Mr. Barry Shaked, our President and Chief Executive Officer, is entitled to receive a monthly fee of \$26,586, linked to the representative exchange rate of the NIS published by the Bank of Israel on the date of each payment. In addition, Mr. Shaked is entitled to receive an annual bonus based on our attainment of certain performance milestones. For the first million dollars of our net income earned, he is entitled to receive a bonus of \$65,000. For each subsequent million dollars of our net income, he is entitled to receive an additional bonus, which is to be \$5,000 less than the prior bonus level, down to \$35,000 for seven million dollars of net income and for each million dollars earned thereafter. If this formula would result in no bonus or a bonus of less than \$50,000, our compensation committee is authorized to approve a bonus in the amount of up to \$50,000.

Mr. Shaked is also entitled to receive, at the beginning of each calendar year, options to purchase a number of our ordinary shares equal to 1.0% of our then outstanding ordinary shares. Commencing in 2010, such grants will be subject to shareholder approval, to the extent required under applicable law. These options are vested at the grant date, but are blocked, in thirds for one year, two years and three years, and become exercisable immediately upon a change of control of the Company or an agreement regarding a change of control. According to this arrangement, in January of 2006, January 2007, January 2008 and January 2009, Mr. Shaked was granted options to purchase a total of up to 194,090, 196,135, 200,014 and 203,155 of our ordinary shares, respectively, at exercise prices of \$24.46, \$16.29, \$15.58 and \$6.00 per share, respectively. The options have a term of four years from the date of grant.

According to our agreement with Mr. Shaked, he is entitled to severance pay equal to one month's salary for every year of employment. In addition, Mr. Shaked is entitled to full compensation and benefits during the first three month period following termination of employment in exchange for post-termination cooperation during such period, and to full compensation and benefits also during the second three month period following termination of employment in exchange for post-employment consulting during such period, and an additional payment equal to five months' salary in the event of termination of employment, other than by us for cause.

In October 2002, our shareholders approved the replacement of the employment agreement with Mr. Shaked with a management agreement with a private company controlled by Mr. Shaked. This arrangement has not changed in any material respect the previous terms of employment, including the terms described above. The term of the management agreement expires on December 31, 2011.

Our employment agreements with most of our employees located in Israel, including executive officers and those that are also members of our board of directors, provide for standard Israeli benefits, such as managers' insurance and an educational fund. We make payments under these programs as follows: pension – 5.0% of gross salary; severance pay – 8.33% of gross salary; disability insurance – up to 2.5% of gross salary (all of which are considered part of managers' insurance); and educational fund – 7.5% of gross salary. The total amount we expensed in 2008 under these arrangements for all executive officers as a group was approximately \$135,000. During 2008, our directors and executive officers were granted options to purchase an aggregate of 200,014 shares under our stock option plans and 54,750 RSUs. The exercise price of these options is \$15.58 per share and their expiration date is December 31, 2011. The RSUs' exercise price is \$0.25 per share. Of these options 66,671 options became exercisable on January 1, 2009, 66,671 will become exercisable on January 1, 2010, 66,672 will become exercisable on January 1, 2011. 18,250 of the RSUs will become exercisable during 2009, 18,250 will become exercisable during 2010, and 18,250 will become exercisable during 2011. These options granted include the options granted to Mr. Shaked under his employment agreement as described above.

## **C. Board Practices**

### ***Corporate Governance Practices***

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law relating to such matters as external directors, the audit committee, the internal auditor and approvals of interested party transactions. These matters are in addition to the ongoing listing conditions of the Nasdaq Global Select Market and other relevant provisions of U.S. securities laws. Under the Nasdaq rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable Nasdaq requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information, see “Item 16G – Corporate Governance.”

According to the Companies Law and our articles of association, the oversight of the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. As part of its powers, our board of directors may cause us to borrow or secure payment of any sum or sums of money for our purposes, at times and upon terms and conditions as it deems fit, including the grant of security interests in all or any part of our property. Our articles of association provide for a board of directors of not less than three and not more than ten directors. Each director is elected at the annual general meeting of shareholders and holds office until the election of his successor at the next annual general meeting, except for external directors, who, subject to the provisions of the Companies Law, hold office for one or two three-year terms. In addition, any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board of directors, may be filled by a vote of a simple majority of the directors then in office. A director elected thereby may serve on the board of directors until the next annual general meeting. Our major shareholders are party to a Shareholders Agreement, dated March 3, 2008, which contains arrangements with respect to voting for director nominees of the various parties; this agreement is summarized in a footnote to the ownership table in “Item 7.A Major Shareholders and Related Party Transactions—Major Shareholders” below. Our officers serve at the discretion of the board of directors. There are no family relationships among our directors and executive officers.

According to the Companies Law, a public company’s chairman of the board may not serve as its chief executive officer, unless otherwise approved by the shareholders for periods of up to three years. The required shareholder approval is a majority of the shares voted on the matter, including at least two-thirds of the shares of non-controlling shareholders voted on the matter, unless the votes of the opposing non-controlling shareholders constitute less than 1% of the voting power of the company (in which case a simple majority of shares voted on the matter will be sufficient). Currently we have a separate chairman and chief executive officer.

Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require at least one director with the requisite financial and accounting expertise and that Messrs. Gillon Beck, Brian Cooper, Ishay Davidi and Itschak Shrem have such expertise.

The Companies Law and Nasdaq listing requirements require us to appoint an audit committee of the board of directors and permit the creation of other committees. The audit committee, the compensation committee and the investment committee are our regular board committees. Our board of directors also creates other committees from time to time on an ad hoc basis.

The board of directors has determined that all of the members of our board of directors except Mr. Shaked are “independent directors,” as defined under the rules of Nasdaq.

### ***Alternate Directors***

Our articles of association provide that any director may appoint, by written notice to us, an alternative director for himself, provided that such person meets the qualifications of a director under the Companies Law. A person may not act as an alternate director for more than one director, and a person serving as a director may not serve as an alternate director. Notwithstanding the foregoing, a member of the board of directors may be appointed as an alternate member of any committee of our board of directors, provided that such alternate member is not already a member of such committee. Any alternate director shall have all of the rights and obligations of the director appointing him or her, except the power to appoint an alternate. The alternate director may not act at any meeting at which the director appointing him or her is present. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment is effective for all purposes and for an indefinite time, but expires upon the expiration of the appointing director’s term. To our knowledge, no director currently intends to appoint any person as an alternate director, except if the director is unable to attend a meeting of the board of directors.



### **External Directors**

Under the Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint at least two individuals as external directors. External directors are required to possess professional qualifications as set out in regulations promulgated under the Companies Law. Any individual who is eligible to be appointed as a director may be appointed as an external director, provided that such person, or the person's relative, partner, employer or any entity under the person's control does not have at the date of appointment, or has not had during the two years preceding the date of appointment, any affiliation with:

- the company;
- any person or entity controlling the company at the time of appointment; or
- any entity controlled by the company or by its controlling entity on the date of the appointment or during the two years preceding such date.

The term affiliation means any of:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

No person can serve as an external director if the person's position or other business creates or may create a conflict of interest with the person's responsibilities as an external director, or if it may adversely affect his ability to serve as a director. Until the lapse of two years from termination of office, a company may not engage an external director to serve as an office holder, employee or service provider, either directly or indirectly, including through a corporation controlled by that person.

External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted on the matter, including at least one-third of the shares of non-controlling shareholders voted on the matter, vote in favor of election; or
- the total number of shares of non-controlling shareholders that voted against the election of the director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years and such director may be reappointed for one additional three-year term. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee and the board of directors confirm that, in light of the external director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to us. Each committee of a company's board of directors that is authorized to carry out a power of the board of directors is required to include at least one external director. One of our external directors, Dr. Zvi Lieber, was elected to a three-year term in October 2008. The three-year term of our other external director, Mr. David Bresler, expired in June 2009, and we are currently in discussions with a candidate for this position, who would be nominated for election at our 2009 annual meeting of shareholders.

An external director is entitled to compensation as provided in regulations under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly from us. We do not have, nor do our subsidiaries have, any directors' service contracts granting to the directors any benefits upon termination of their service in their capacity as directors, except for Mr. Shaked who would be entitled to certain benefits upon termination of his agreement with us as described above in "Item 6B—Compensation."

### **Audit Committee**

Under the Companies Law, the board of directors of a public company must appoint an audit committee, comprised of at least three directors, including all of the external directors, but excluding the chairman of the board of directors and a controlling shareholder or a relative of a controlling shareholder and any director employed by the company or who provides services to the company on a regular basis. The role of the audit committee under Israeli law is to examine deficiencies in the management of the company's business, including by consultation with the internal auditor and the company's independent accountants, and recommend remedial action. In addition, the approval of the audit committee is required to effect certain related party transactions.



Under the Companies Law, an audit committee may not approve an action or a transaction with a related party or with an office holder unless at the time of approval the two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which any approval was granted.

Under the Nasdaq rules, our audit committee, operating under a written charter, assists the board of directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our independent registered public accounting firm. Our audit committee also has the authority and responsibility to oversee our independent auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our independent auditors and to pre-approve audit engagement fees and all permitted non-audit services and fees. Under Israeli law, our shareholders have the authority to appoint and remove our independent auditors. Our audit committee also serves as our nominations committee under the Nasdaq rules and, until March 18, 2008, it served as our compensation committee, as well.

The members of our audit committee are Dr. Zvi Lieber, Amnon Lipkin-Shahak and Ian O'Reilly, all of whom qualify for such membership pursuant to the applicable rules of the SEC and Nasdaq.

The three-year term as an external director of Mr. David Bresler, who served as our "audit committee financial expert" as defined in Item 16A of Form 20-F, expired in June 2009. We will ensure that the individual who is nominated in his place for election at our 2009 annual meeting of shareholders qualifies as an audit committee financial expert and as an independent director.

#### **Investment Committee**

On February 11, 2004, our board of directors established an investment committee. The investment committee is authorized to determine policies with respect to investing our financial reserves based on prevailing financial and economic conditions and our ongoing needs. The members of our investment committee are Gillon Beck and Brian Cooper.

#### **Compensation Committee**

On March 18, 2008, our board of directors established a compensation committee, operating under a written charter, for the purpose of: (1) granting of stock options and awards under equity incentive plans and administration of said plans, subject to the guidelines set by the board of directors from time to time; (2) approval of the compensation of the chief executive officer and officers that report directly to the chief executive officer, subject to approvals required under the Companies Law; and (3) approval and recommendation of broad-based bonuses to employees. The members of our compensation committee are Brian Cooper (Chairman) and Ishay Davidi.

#### **Internal Auditor**

Under the Companies Law, our board of directors must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine whether the company's actions comply with the law, integrity and orderly business procedure. The internal auditor has the right to request that the chairman of the audit committee convene an audit committee meeting, and the latter shall convene such a meeting if he believes that there are grounds to do so. The internal auditor may participate in all audit committee meetings. Under the Companies Law, the internal auditor may not be an interested party, an office holder, or a relative of either, nor may the internal auditor be the company's independent accountant or its representative. The internal auditor may not be dismissed without the approval of the board of directors after it has received the position of the audit committee and after the internal auditor has been given a reasonable opportunity to be heard by the board of directors and the audit committee. Our internal auditor is Fahn Kanne Management and Control Ltd. (an affiliate of Grant Thornton).

#### **D. Employees**

Set forth are tables presenting breakdowns of the total number of our employees according to category of activity and according to main geographical locations of employment:

Category of Activity	As of December 31,		
	2006	2007	2008
Research and Development	669	432	281
Operations	554	813	851
Marketing	187	159	78
Finance and Administration	119	164	140
<b>Total</b>	<b>1,530</b>	<b>1,569</b>	<b>1,350</b>

  

Geographical Location	As of December 31,		
	2006	2007	2008
United States	600	607	547
Israel	783	816	675
Europe	116	104	97
Rest of The World	31	42	31
<b>Total</b>	<b>1,530</b>	<b>1,569</b>	<b>1,350</b>

We believe that we have been able to attract talented engineering and other technical personnel. None of our employees is represented by a labor union and we have not experienced a work stoppage. We believe that our relationship with our employees is good and that our future success will depend on a continuing ability to hire, assimilate and retain qualified employees.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations, including the Industrialists Associations, are applicable to our employees by order of the Israeli Ministry of Labor and Welfare. These provisions principally concern cost of living increases, recreation pay and other conditions of employment.

Israeli labor laws and regulations are applicable to all of our employees in Israel. The laws principally concern matters such as paid annual vacation, paid sick days, the length of the workday, payment for overtime, insurance for work-related accidents, severance pay and other conditions of employment. Israeli law generally requires severance pay, which may be funded, in whole or in part, by Managers' Insurance described below, in certain circumstances, including the retirement or death of an employee or termination of employment without cause, as defined under Israeli law. The payments to Managers' Insurance in respect of severance obligations amount to approximately 8.3% of wages. Furthermore, Israeli employees are required to pay predetermined sums to the National Insurance Institute. The payments to the National Insurance Institute are approximately 17.5% of wages of which the employee contributes approximately 12% and the employer contributes approximately 5.5%.

We contribute amounts on behalf of most of our employees to funds known as Managers' Insurance and/or pension funds. Each employee who agrees to participate in such funds contributes an amount equal to 5% of such employee's base salary and the employer contributes approximately 15% of such salary, which 15% includes the 8.3% for severance pay.

#### **E. Share Ownership**

Mr. Barry Shaked, our President and Chief Executive Officer, beneficially owns, as of June 8, 2009, 1,424,997 of our ordinary shares (including 391,518 shares issuable upon exercise of options exercisable on or within 60 days of that date), which equals approximately 6.9% of our outstanding shares.

Mr. Brian Cooper, a director and our former Vice President, beneficially owns, as of June 8, 2009, 751,485 of our ordinary shares, which equals approximately 3.6% of our outstanding shares.

Our directors Messrs. Ishay Davidi and Gillon Beck, by virtue of their positions as officers and directors of various FIMI private equity funds may be deemed to beneficially own the 3,253,367 ordinary shares held by Ronex Holdings, Limited Partnership, or Ronex, as of June 8, 2009 representing approximately 15.9% of our outstanding shares.

In addition, by virtue of the Shareholders Agreement, dated March 3, 2008, among Ronex, Barry Shaked and Brian Cooper, the foregoing four directors may be deemed to beneficially own all the 5,429,849 ordinary shares held, as of June 8, 2009, by all the parties to such Shareholders Agreement, representing approximately 26.1% of our outstanding shares (assuming the exercise of Mr. Shaked's options referenced above). Each party to the Shareholders Agreement has disclaimed beneficial ownership of shares held by any other party.

In addition, as of June 8, 2009, Mr. Shaked held options to purchase a total of up to 794,137 of our ordinary shares granted to him on January 1, 2006, January 1, 2007, January 1, 2008 and January 1, 2009 pursuant to shareholder resolutions dated May 28, 1998, and October 7, 2008 authorizing the grant to him, on January 1 of each year, of options to purchase one percent of our issued capital. Commencing in 2010, such grants will subject to shareholder approval, to the extent required under applicable law. The exercise price for each share according to this resolution is the Nasdaq closing price on December 31 of the year ending just before the date of grant. These options have a term of four years from the date of grant and are exercisable as follows: 33% – starting one year following the date of grant; 33% – starting two years following the date of grant; and 34% – starting three years following the date of grant. They become exercisable immediately upon a change of control of the Company or an agreement regarding a change of control.

The above options held by Mr. Shaked were granted on the following principal terms:

Amount of Shares for which the Options are Exercisable	Exercise Price in U.S. dollars	Expiration Date
194,090	24.46	January 1, 2010
196,135	16.29	January 1, 2011
200,014	15.58	January 1, 2012
203,898	6.00	January 1, 2013

As of June 8, 2009, other directors and executive officers held options and RSUs to purchase a total of up to 400,336 of our ordinary shares under our Second 1998 Share Option Plan and the 2004 Israeli Share Option Plan (which are described below), as follows:

Options to purchase 42,000 of our ordinary shares at an exercise price of \$23.02 per share. Options to purchase 42,000 shares of these options are fully vested. The expiration date of these options is June 30, 2009.

Options to purchase 155,000 of our ordinary shares at an exercise price of \$15.55 per share. Options to purchase 103,333 shares of these options are fully vested, and the remaining amount will vest on August 1, 2009. The expiration date of these options is August 1, 2010.

Options to purchase 100,000 of our ordinary shares at an exercise price of \$18.54 per share. Options to purchase 33,333 shares of these options are fully vested, and the remaining amount will vest in two equal portions on November 20, 2009 and November 20, 2010. The expiration date of these options is November 20, 2011.

Options to purchase 75,000 of our ordinary shares at an exercise price of \$5.77 per share. These will vest in three equal portions on January 18, 2010, January 18, 2011 and January 18, 2012. The expiration date of these options is January 18, 2013.

RSUs to purchase 20,002 of our ordinary shares at an exercise price of \$0.25 per share. These RSUs will vest in two equal portions on November 20, 2009 and November 20, 2010.

RSUs to purchase 8,334 of our ordinary shares at an exercise price of \$0.25 per share. These will vest in two equal portions on January 9, 2010 and January 9, 2011.

## **Our Share Option Plans**

### **Second 1998 Share Option Plan**

Our Second 1998 Share Option Plan, or Second 1998 Plan provides for the granting of incentive share options to employees, and for the granting of non-statutory options to employees, directors and consultants. Unless terminated sooner or extended, the Second 1998 Plan will terminate automatically in May 2012. As of June 8, 2009, options to purchase 6,633,022 ordinary shares have been granted under the Second 1998 Plan, of which 3,621,708 options have been exercised, 1,883,837 options were forfeited and expired and 1,127,477 options shares were outstanding. The options generally vest over a period of three years and have exercise prices ranging from \$5.77 to \$24.46.

The Second 1998 Plan is administered by our compensation committee, subject to guidelines determined by our board of directors pursuant to applicable law. The compensation committee will, in the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code, or the code, consist of two or more "external directors" within the meaning of Section 162(m) of the Code. The committee has the power to determine the terms of the options granted, including the exercise price, the number of shares subject to each option, the exercisability of the option and the form of consideration payable upon such exercise, subject to applicable law. Our board of directors has the authority to amend, suspend or terminate the Second 1998 Plan, provided that no such action may affect any ordinary share previously issued and sold or any option previously granted under the Second 1998 Plan.

Options granted under our Second 1998 Plan are not generally transferable by the optionee, and each option is exercisable during the lifetime of the optionee only by such optionee. Options granted under the Second 1998 Plan must generally be exercised within three months of the end of the optionee's status as our employee or consultant or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option's term. The exercise price of all incentive and nonstatutory share options granted under the Second 1998 Plan must be at least equal to the fair market value of our ordinary shares on the date of grant, except in the event of options granted in connection with certain merger and acquisition transactions. With respect to any participant who owns shares possessing more than 10% of the voting power of all classes of our outstanding share capital, the exercise price of any incentive share option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive share option must not exceed five years. The term of all other options granted under the Second 1998 Plan may not exceed ten years. Some holders of share options granted under the Second 1998 Plan are entitled to participate in rights offerings that may be made by us to our shareholders.

Our Second 1998 Plan provides that in the event we merge with or into another corporation or sale of substantially all of our assets, each outstanding option will be assumed or an equivalent option will be substituted by the successor corporation. If the successor corporation refuses to assume or substitute for our options as described in the preceding sentence, the options will terminate as of the closing.

On November 19, 2007 our Board of Directors amended the Second 1998 Plan to enable the granting of restricted stock units, or RSUs, under such plan. RSUs are rights to receive our ordinary shares, under certain conditions, for consideration of no more than the underlying ordinary shares' par value. The other terms and conditions of the Second 1998 Plan that are applicable to options also apply to RSUs, where applicable. As of December 31, 2008, RSUs that may vest into 329,750 ordinary shares have been granted under the Second 1998 Plan, out of which to date 199,578 remain outstanding. The RSUs generally vest over a period of three years.

In addition, on November 19, 2007 our Board of Directors increased the pool of authorized ordinary shares reserved for grant of awards under the Second 1998 Plan to 7,000,000 ordinary shares. As of December 31, 2008, 2,370,213 ordinary shares remain available for future grants of options or RSUs under said plan.

#### **2004 Israeli Share Option Plan**

Our 2004 Israeli Share Option Plan provides for the granting of options to employees, directors and consultants under either Section 102 or Section 3(9) of the Israeli Income Tax Ordinance [New Version], 1961, or the Tax Ordinance. The options granted under our 2004 Israeli Share Option Plan are all subject to the “capital gains taxation route” under Section 102 of the Tax Ordinance which generally provides for a reduced tax rate of 25% on gains realized upon the exercise of options and sale of underlying shares, subject to the fulfillment of certain procedures and conditions including the deposit of such options (or shares issued upon their exercise) for a requisite period of time with a trustee approved by the Israeli tax authorities. For as long as the shares issued upon exercise of such options are registered in the name of the trustee, the voting rights with respect to such shares shall remain with the trustee. Under the “capital gains taxation route,” we are generally not entitled to recognize a deduction for Israeli tax purposes on the gain recognized by the employee upon sale of the shares underlying the options. As of June 8, 2009, options and RSUs to purchase 1,988,750 ordinary shares were granted under the 2004 Israeli Share Option Plan, of which 159,454 have been exercised, 953,709 were forfeited and expired and 875,587 remained outstanding. The options and RSUs generally vest over a period of three years and have exercise prices ranging from \$0.25 (nominal RSU exercise price) to \$23.02.

The 2004 Israeli Share Option Plan is administered by our compensation committee, subject to guidelines determined by our board of directors pursuant to applicable law. The compensation committee has the power to determine the terms of the options granted, including the exercise price, the number of shares subject to each option, the exercisability of the option and the form of consideration payable upon such exercise, subject to applicable law. In the event of a merger or sale of substantially all of our assets or stock, our board of directors or compensation committee has discretion as to whether to cause outstanding options to be assumed by the successor company, substituted for successor company options or automatically vested in full. Subject to applicable law and regulations, our board of directors has the authority to amend, suspend or terminate the 2004 Israeli Share Option Plan, provided that no such action may affect any ordinary share previously issued and sold or any option previously granted under the plan.

Options granted under our 2004 Israeli Share Option Plan are not generally transferable by the optionee, and each option is exercisable during the lifetime of the optionee only by such optionee. Options granted under the 2004 Israeli Share Option Plan may generally be exercised by the grantee in circumstances of termination by the grantee until the termination date and in certain circumstances in which the termination was initiated by the employer, within a period of fifteen days following termination, or within six months after such optionee’s termination by death or disability, but in no event later than the expiration of the option’s term and all to the extent that such options are vested at such dates. The term of other options granted under the 2004 Israeli Share Option Plan may not exceed ten years.

On November 19, 2007 our Board of Directors amended the 2004 Israeli Share Option Plan to enable the granting of RSUs. The terms and conditions of the 2004 Israeli Share Option Plan that are applicable to options also generally apply to RSUs, where applicable. The RSUs generally vest over a period of three years. All such RSUs are subject to the “capital gains taxation route” under Section 102 of the Tax Ordinance which may under certain conditions provide for a reduced tax rate of 25% on gains realized upon sale of underlying shares but only with respect to gains reflecting the increase in our ordinary share price from the date of grant onward (other gains will be subject to full marginal tax rates of the grantee, for which we may recognize a deduction for Israeli tax purposes).

As of June 8, 2009, 964,959 ordinary shares remain available for future grants of Options or RSUs under the 2004 Israeli Share Option Plan.

#### **Stock Option Plan of Subsidiaries**

On December 4, 2000, the board of directors of one of our subsidiaries, StoreAlliance.com Ltd., approved an employee stock option plan. Pursuant to this subsidiary plan, as of December 31, 2008, all stock options were forfeited. The options vest as follows: 33.33% after the first year after their grant, another 33.33% after the second year and another 33.33% after the third year, but only during the period the employee is employed either by us or by the subsidiary. In addition, the options are not exercisable prior to the earliest of the following events: (1) the consummation of a public offering of the subsidiary’s securities, (2) a merger or acquisition of the subsidiary, or (3) the lapse of seven years from the date of grant. Any vested options not exercised within the later of 90 days of (a) the end of the optionee’s status as our or the subsidiary’s employee, or (b) the first to occur of such exerciseability events, will expire. The rights of ordinary shares obtained upon exercise of the options will be identical to those of the other ordinary shares of the subsidiary. Any option not exercised within 10 years of the grant date thereof will expire. Some of the options under this subsidiary plan are subject to the terms stipulated by Section 102 of the Tax Ordinance (as in effect prior to January 1, 2003). Among other things, the Section 102 to the Tax Ordinance provides that the subsidiary will be allowed to claim as an expense for tax purposes the amounts credited to the employees as a benefit, when the related tax is payable by the employee.

On November 23, 2004, the board of directors of StoreAlliance.com Ltd. approved an additional employee stock option plan. Pursuant to this Plan, options to purchase 36,000 ordinary shares, NIS 0.01 par value, were granted on December 31, 2004, to certain employees of the subsidiary all subject to the "capital gains taxation route" under Section 102 of the Tax Ordinance. All options granted under this plan bear an exercise price of \$5.55 per share and vest as follows: 33.33% after the first year, another 33.33% after the second year and another 33.33% after the third year (in cases where the optionee is an employee of Retalix or its subsidiary – provided that the employee is still employed by Retalix or its subsidiary at the date of vesting). In addition, the options are not exercisable prior to: (1) the consummation of an initial public offering of the subsidiary's securities; (2) a merger of the subsidiary; or (3) seven years from the date of grant.

As of December 31, 2008, options to purchase 27,033 ordinary shares of the subsidiary were outstanding under the above subsidiary employee plans, at exercise price of \$5.55 per share. The rest of the above options were forfeited.

In December 2004, the board of directors of our subsidiary StoreNext USA approved an employee stock option plan. Pursuant to this plan, options to purchase up to 1,500,000 shares of StoreNext USA may be granted to employees and service providers of the subsidiary or any affiliate. The options are generally subject to vesting after seven years of service, subject to acceleration upon the occurrence of certain events, such as (1) the conversion of StoreNext USA from a limited liability company to a C-corporation, (2) the consummation of an initial public offering of StoreNext USA's securities or (3) a change of control in StoreNext USA (as defined in the option plan). The options expire ten years from grant. On December 14, 2004, StoreNext USA granted options to acquire 1,169,000 of its shares to its employees and directors. These options bear an exercise price of \$0.3748 per share, which reflects the market value according to an independent valuation. In addition, on July 31, 2006 additional options to acquire 84,000 of StoreNext USA shares were granted to its employees at an exercise price of \$0.9422 a share, which reflects the market value according to the management's valuation. Through June 8, 2009, 51,500 of these options were forfeited.

Although Nasdaq rules generally require shareholders' approval of equity compensation plans and material amendments thereto, we follow Israeli practice, which is to have such plans and amendments approved only by the board of directors, unless such arrangements are for the compensation of directors, in which case they also require audit committee and shareholder approval.

## **ITEM 7 – MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

The following table sets forth, as of June 8, 2009, certain information known to us with respect to beneficial ownership of our ordinary shares by (1) each shareholder known by us to be the beneficial owner of five percent or more of our ordinary shares and (2) all of our executive officers and directors as a group. As of June 8, 2009, 20,406,363 of our ordinary shares were outstanding.

Name	Number of ordinary shares held	Percentage of outstanding ordinary shares (1)(2)
Ronex Holdings, Limited Partnership (3)(4)	3,253,367	15.9%
Migdal Insurance & Financial Holdings Ltd. (5)	1,685,990	8.3%
Prisma Investment House Ltd. (6)	1,469,119	7.2%
Barry Shaked (4)(7)	1,424,997	6.9%
Clal Insurance Enterprises Holdings Ltd. and affiliates (8)	1,274,492	6.2%
Brian Cooper (4)	751,485	3.7%

- (1) Unless otherwise indicated, each person named or included in the group has sole power to vote and sole power to direct the disposition of all shares listed as beneficially owned.
- (2) Amounts include shares that are not currently outstanding but are deemed beneficially owned because of the right to purchase them pursuant to options exercisable on June 8, 2009, or within 60 days thereafter. Pursuant to SEC rules, shares deemed beneficially owned by virtue of an individual's right to purchase them are also treated as outstanding when calculating the percent of the class owned by such individual and when determining the percent owned by any group in which the individual is included.
- (3) This information is based solely on Schedule 13D/A filed with the SEC by Ronex Holdings, Limited partnership, and various affiliated FIMI private equity funds on February 12, 2009, and relates to their holdings of our shares as of December 31, 2008. In their initial Schedule 13D filed with the SEC on February 11, 2008, these parties reported beneficial ownership of 2,330,696 shares, constituting 11.7% of our outstanding shares. Based on the information provided in such Schedule 13D/A, the relevant members of the group are: Mr. Barry Shaked, Mr. Brian Cooper (Shaked and Cooper are referred to as the Founders, and their address is: c/o Retalix Ltd. 10 Zarhin Street, Ra'anana 43000, Israel), Ronex Holdings, Limited Partnership, Ronex Holdings Ltd., FIMI Opportunity 2005 Ltd., FIMI IV 2007 Ltd., FIMI Israel Opportunity Fund II, Limited Partnership, FIMI Opportunity II Fund, L.P., FIMI Israel Opportunity IV, Limited Partnership, and FIMI Opportunity IV, L.P., Ishay Davidi Management Ltd., Ishay Davidi Holdings Ltd. and Ishay Davidi. The address of the FIMI entities is: c/o FIMI IV 2007 Ltd., Rubinstein House, 37 Begin Road, Tel Aviv, Israel. The respective shared voting power of the entire group is: 5,429,849 shares.

- (4) Pursuant to the Shareholders Agreement, dated March 3, 2008, among Ronex, Barry Shaked and Brian Cooper, the parties agreed, among other things, to vote their respective ordinary shares for the election to our board of directors of four directors designated by Ronex and four directors designated by Messrs. Shaked and Cooper and two external directors, one of whom to be designated by Ronex and the other to be designated by Messrs. Shaked and Cooper. They also agreed to allow Ronex to designate the Chairman of the Board, subject to certain conditions. The parties to the Shareholders Agreement agreed to meet prior to each general meeting of shareholders and to attempt to reach a unified position with respect to principal issues on the agenda of each such meeting. The parties agreed to vote against any proposed changes to our articles of association which will conflict with the provisions of the Shareholders Agreement. The Shareholders Agreement also contains tag-along and bring-along rights. The foregoing is based upon the Schedule 13D/A filed by the parties on March 3, 2008. By virtue of the Shareholders Agreement, each of parties thereto may be deemed to beneficially own all the 5,429,849 ordinary shares held, as of June 8, 2009, by all such parties, representing approximately 26.1% of our outstanding shares (assuming the exercise of Mr. Shaked's options referenced in footnote 7 below). Each party to the Shareholders Agreement has disclaimed beneficial ownership of shares held by any other party.
- (5) Consists of ordinary shares held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal, according to the following allocation: 833,405 ordinary shares are held by profit participating life assurance accounts; 1,191,349 ordinary shares are held by provident funds and companies that manage provident funds; and 28,232 ordinary shares are held by companies for the management of funds for joint investments in trusteeship, each of which subsidiaries operates under independent management and makes independent voting and investment decisions. Consequently, Migdal does not admit that it is the beneficial owner of any such shares. Migdal is an Israeli public company, with a principal business address at 4 Efal Street, Petach Tikva, Israel. This information is based solely on a Schedule 13G filed with the SEC by Migdal on December 3, 2008, as updated by a letter sent to us by Migdal dated June 7, 2009.
- (6) This information is based solely on Schedule 13/D filed with the SEC by Prisma Investment House Ltd., on February 9, 2009, and relates to their holdings of our shares as of February 3, 2009. In its Schedule 13D filed with the SEC on February 14, 2008, Prisma reported beneficial ownership of 1,832,543 shares, constituting 9.1% of our outstanding shares.
- (7) Includes options to purchase up to 391,518 shares, held by Mr. Shaked, directly or indirectly, that were exercisable on June 8, 2009 or within 60 days thereafter.
- (8) Consists of (i) 992,523 ordinary shares held for members of the public through, among others, provident funds, mutual funds, pension funds, exchange traded funds and insurance policies, which are managed by subsidiaries of Clal, each of which subsidiaries operates under independent management and makes independent voting and investment decisions and (ii) 281,969 ordinary shares beneficially held for Clal's own account. Consequently, Clal does not admit that it beneficially owns such 992,523 ordinary shares and none of its affiliates admits that it is the beneficial owner of any of the foregoing shares. Clal, an Israeli public company, is a majority owned subsidiary of IDB Development Corporation Ltd., an Israeli public company, which in turn is a majority owned subsidiary of IDB Holding Corporation Ltd., an Israeli public company. These companies may be deemed to be controlled by Mr. Nochi Dankner, Mr.s Shelly Bergman, Mrs. Ruth Manor and Mr. Avraham Livnat. Clal's principal business address is 48 Menachem Begin Street, Tel Aviv, Israel. This information is based solely on a Schedule 13G filed with the SEC by Clal and affiliates thereof, on February 26, 2009.

Except as set forth in footnote 4 above, no major shareholders have any different voting rights.

As of June 8, 2009, 7,686,396 of our ordinary shares were held in the United States, by four record holders with mailing addresses in the United States, owning an aggregate of approximately 38% of our outstanding ordinary shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

#### **B. Related Party Transactions**

We are not party to any related party transactions. Certain of our shareholders have entered into a shareholders agreement, as described above.

## **C. Interests of Experts and Counsel**

Not Applicable.

## **ITEM 8 – FINANCIAL INFORMATION**

See Item 18.

### ***Legal Proceedings***

#### **Retalix USA Inc. and Affiliated Foods Midwest Cooperative, Inc. and Integrated Distribution Solutions, LLC, No. 57 117 Y 00012 07.**

In March 2004, Affiliated Foods Midwest Cooperative, Inc., or AFM and IDS entered a contract under which AFM purchased goods and services from IDS. IDS assigned the contract to our subsidiary Retalix SCM, Inc., in accordance with an April 1, 2005 asset purchase agreement. In June 2006, AFM terminated the contract and filed in the District Court of Madison County, Nebraska, complaint against the Company's subsidiary, Retalix USA Inc. ("Retalix USA") and IDS, in which it asserts claims for misrepresentation and concealment, breach of contract and breach of warranties arising from its contract with IDS. In August, 2006, the action was removed to the U.S. District Court for the District of Nebraska, and IDS filed a motion to compel arbitration and Retalix USA filed a motion to dismiss the complaint on various grounds. In September, 2006, the customer opposed to these motions. In October, 2006, the court granted IDS's motion to compel arbitration and reserved judgment on Retalix USA's motion to dismiss the complaint and stayed the federal action, all pending the outcome any arbitration.

In February, 2007, Retalix USA filed a Demand for Arbitration against AFM with the American Arbitration Association in Dallas, Texas, seeking to recover damages, interest and attorney's fees in excess of \$2.3 million as a result of the customers failure to pay for products delivered and services rendered as well as other misconducts. In February, 2007, the customer filed a Counterclaim and Demand for Arbitration seeking to recover damages, interest, taxable arbitration costs and attorney's fees in excess of \$9.9 million for breach of contract, breach of warranties and other misconducts. In August 2007 the arbitrators approved a preliminary hearing scheduling order, according to which the parties exchanged discovery requests, written responses and documents. In November 2007 the customer filed a statement of damages alleging total damages in excess of \$22 million.

In March 2009, the Arbitrators awarded Retalix USA \$2.5 million in compensatory damages. In April 2009, the customer paid the arbitration award amount in full and will be included in the Company's statement of income. In April 2009, the Nebraska federal court affirmed the arbitration award, entered judgment in favor of Retalix USA and against the customer, and dismissed, with prejudice, the customer's claim against Retalix USA and IDS.

#### **In re Commissary Operations, Inc., Chapter 11 Case No. 08-06279 (Bankr. M.D. Tenn.).**

Retalix USA is a creditor in the Chapter 11 bankruptcy case of Commissary Operations, Inc., or COI, presently pending in the United States Bankruptcy Court for the Middle District of Tennessee (Nashville Division), Case No. 08-06279, filed in July 2008. Retalix USA holds claims against COI in amounts totaling approximately \$345,000 (inclusive of the administrative claim, as defined below), consisting of charges for hardware and software and related services sold by Retalix USA to COI. Retalix USA has filed a proof of claim in the bankruptcy case, as well as a request seeking allowance of an administrative expense claim in the amount of \$134,380 and related relief, or the administrative claim. In March 2009, COI and the Official Committee of Unsecured Creditors filed objections to the administrative claim. A hearing before the Bankruptcy Court with respect to the administrative claim that was originally scheduled for April 2009 has been continued until June 2009, when the parties submitted a joint request to continue it until September 2009 to allow additional time for fact discovery. The Bankruptcy Court has not yet ruled on that request.

### **Tamar**

In September, 2006, a former employee of one of the Company's Israeli subsidiaries ("Tamar"), who was employed by said subsidiary prior to its acquisition by the Company, submitted in the magistrates court in Kfar Saba a claim against the subsidiary according to which one of the former managers of the subsidiary allegedly treated him harshly, which caused the plaintiff severe mental damage and disability. The damages claimed under this claim total approximately \$368,000. In January 2007, Tamar's insurance company confirmed that Tamar is covered for any damages resulting from this claim. The Company is of the opinion that its exposure due to this claim is immaterial and thus no provision was recorded in regard to this claim as of December 31, 2008.

### ***Other Claims and Disputes***

The Company and its subsidiaries are also parties to several other claims filed against them totaling approximately \$172,000. In addition, the Company and its subsidiaries are parties to several disputes with former or current customers and service providers. These disputes, estimated at a total of \$514,000, have not materialized to court claims and some of them are in mediation process.

### ***Dividend Policy***

Since 1995, we have not paid cash dividends on our ordinary shares, and we do not intend to pay cash dividends in the foreseeable future. Our board of directors is authorized to declare dividends, subject to applicable law. Dividends may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent financial statements or as accrued over a period of two years, whichever is higher. Alternatively, if we do not have sufficient profits or other surplus, then permission to effect a distribution can be granted by order of an Israeli court. In any event, a distribution is permitted only if there is no reasonable concern that the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency. The Shareholders Agreement dated as of March 3, 2008 states that it is the view of the parties thereto that, subject to applicable law, we should distribute as a dividend of at least 30% our annual net income, commencing with calendar year 2008. Our board of directors has not yet considered such a dividend policy.

### ***Significant Changes***

Except as described elsewhere in this annual report, no significant change has occurred since the date of the annual financial statements included in this annual report.



**ITEM 9 – THE OFFER AND LISTING****A. Offer and Listing Details**

Our ordinary shares have been quoted on the Nasdaq Global Select Market (formerly known as the Nasdaq National Market) under the symbol “RTLX” since July 1998. Our ordinary shares have also been quoted on the Tel Aviv Stock Exchange since November 1994.

The following table sets forth, for the periods indicated, the high and low market prices of our ordinary shares, as reported on the Nasdaq Global Select Market.

	<b>High</b>	<b>Low</b>
<b>2004</b>	\$ 24.74	\$ 16.45
<b>2005</b>	26.99	20.17
<b>2006</b>	27.07	16.02
<b>2007</b>	23.30	15.67
<b>2008</b>	18.23	3.24
<b>2007:</b>		
First Quarter	\$ 21.83	\$ 17.00
Second Quarter	23.30	19.00
Third Quarter	20.13	15.67
Fourth Quarter	20.91	16.66
<b>2008:</b>		
First Quarter	\$ 18.23	\$ 12.76
Second Quarter	17.11	12.64
Third Quarter	13.48	9.13
Fourth Quarter	12.09	3.24
<b>2009:</b>		
First Quarter	\$ 9.21	\$ 5.30
<b>Most recent six months:</b>		
December 2008	\$ 6.70	\$ 5.00
January 2009	6.22	5.51
February 2009	7.55	5.30
March 2009	9.21	7.48
April 2009	9.00	8.019
May 2009	8.90	8.26
June 2009 (through June 10, 2009)	\$ 9.10	\$ 8.32



The following table sets forth, for the periods indicated, the high and low market prices in NIS, of our ordinary shares on the Tel Aviv Stock Exchange.

		High		Low
<b>2004</b>	NIS	110.00	NIS	73.79
<b>2005</b>		122.40		90.95
<b>2006</b>		123.40		65.39
<b>2007</b>		93.75		61.30
<b>2008</b>	NIS	60.90	NIS	14.55
<b>2007:</b>				
First Quarter	NIS	90.12	NIS	69.13
Second Quarter		93.75		79.77
Third Quarter		84.49		65.03
Fourth Quarter		83.80		61.30
<b>2008:</b>				
First Quarter		60.90		48.60
Second Quarter		58.21		42.36
Third Quarter		45.00		30.20
Fourth Quarter		41.00		14.55
<b>2009:</b>				
First Quarter	NIS	37.50	NIS	22.00
<b>Most recent six months:</b>				
December 2008	NIS	25.80	NIS	19.00
January 2009		25.44		22.00
February 2009		31.55		23.11
March 2009		37.50		31.50
April 2009		38.98		33.23
May 2009		36.85		34.40
June 2009 (through June 10, 2009)		35.98		34.64

## **B. Plan of Distribution**

Not applicable.

## **C. Markets**

Our ordinary shares are quoted on the Nasdaq Global Select Market under the symbol "RTLX", and are quoted on the Tel Aviv Stock Exchange under the symbol "RETALIX".

## **D. Selling Shareholders**

Not applicable.

## **E. Dilution**

Not applicable.

## **F. Expenses of the Issue**

Not applicable.

## **ITEM 10 – ADDITIONAL INFORMATION**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

Our memorandum of association and articles of association were last amended October 7, 2008. The following is a summary description of certain provisions of our amended memorandum of association and articles of association, and certain relevant provisions of the Israel Companies Law which apply to us:

We were first registered with the Israeli Registrar of Companies on March 5, 1982, as a private company. On November 7, 1994, we became a public company, and were assigned Public Company Number 520042029.

#### **Objects and Purposes**

Our objects and purposes include a wide variety of business purposes, and are set forth in detail in Section 2 of our memorandum of association, previously filed with the Securities and Exchange Commission. We are also authorized to donate reasonable sums to charity.

We are authorized to issue 30,000,000 ordinary shares par value NIS 1.0 per share, of which 20,406,363 ordinary shares were outstanding as of June 8, 2009.

#### **Directors**

According to our articles of association, our board of directors is to consist of not less than three and not more than ten directors, such number to be determined by a resolution of our shareholders.

#### **Election of Directors**

Directors, other than external directors, are elected by our shareholders at our annual general meeting of shareholders, or, in the event of vacancies, by our board of directors. In the event that any directors are appointed by our board of directors, their appointment is required to be ratified by the shareholders at the next shareholders' meeting following the appointment. Our shareholders may remove a director from office. There is no requirement that a director own any of our shares or retire at a certain age.

#### **Remuneration of Directors**

Remuneration of directors is subject to the approvals required under the Companies Law as described below.

#### **Powers of the Board of Directors**

Our board of directors may resolve to take action by a resolution approved by a vote of a simple majority of the directors then in office and lawfully entitled to participate in the meeting and vote on the matter and who are present when such resolutions are put to a vote and voting thereon, provided that a quorum is constituted at the meeting. A quorum at a meeting of our board of directors requires the presence, in person or by any other means of communication by which the directors can hear each other simultaneously, of at least three of the directors then in office and who are lawfully entitled to participate in the meeting and vote on the matters brought before the meeting. Our board of directors may elect one director to serve as the chairman of the board of directors to preside at the meetings of the board of directors, and may also remove such director or a chairman.

The oversight of the management of our business is vested in our board of directors, which may exercise all such powers and do all such acts as we are authorized to exercise and do, and are not, by the provisions of our articles of association or by law, required to be exercised or done by our shareholders. Our board of directors may, in its discretion, cause our company to borrow or secure the payment of any sum or sums of money for the purposes of our company, at such times and upon such terms and conditions in all respects as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the our property, both present and future, including our uncalled or called but unpaid capital for the time being.

#### **Dividend and Liquidation Rights**

Our board of directors is authorized to declare dividends, subject to applicable law. Dividends on our ordinary shares may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent financial statements or as accrued over a period of two years, whichever is higher. Alternatively, if we do not have sufficient profits or other surplus, then permission to effect a distribution can be granted by order of an Israeli court. In any event, a distribution is permitted only if there is no reasonable concern that the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Our board of directors is authorized to declare dividends, provided that there is no reasonable concern that the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Dividends may be paid in cash or other property.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to their respective holdings. Dividends and liquidation rights may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

#### **Redeemable Shares**

Our articles of association allow us to create redeemable shares, but at the present time, we do not have any redeemable shares.

#### **Fiduciary Duties of Office Holders**

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances.

The duty of care of an office holder includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and the performance of his other duties or his personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to a company's affairs which the office holder has received due to his position as an office holder.

#### **Approval of Certain Transactions Under Israeli Law**

Under the Companies Law, the approval of the board of directors is required for all compensation arrangements of office holders who are not directors. Under the Companies Law, director's compensation arrangements require the approval of the audit committee, the board of directors and the shareholders, in that order. However, if the compensation terms of external directors comply with certain provision of the applicable regulations under the Companies Law, then board approval suffices.

The Companies Law requires that an office holder of a company disclose to the company, promptly and in any event no later than the board of directors meeting in which the transaction is first discussed, any personal interest that he may have and all related material information known to him, in connection with any existing or proposed transaction by the company. A personal interest of an office holder includes an interest of a company in which the office holder is, directly or indirectly, a 5% or greater shareholder, director or general manager or in which the office holder has the right to appoint at least one director or the general manager. In the case of an extraordinary transaction, the office holder's duty to disclose applies also to a personal interest of the office holder's relative, which term is defined in the Companies Law as the person's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing.

Under Israeli law, an extraordinary transaction is a transaction:

- other than in the ordinary course of business;
- otherwise than on market terms; or
- that is likely to have a material impact on the company's profitability, assets or liabilities.

Under the Companies Law, once an office holder complies with the above disclosure requirements, the board of directors may approve a transaction between the company and an office holder, or a third party in which an office holder has a personal interest. A transaction that is adverse to the company's interest may not be approved.

If the transaction is an extraordinary transaction, approval of both the audit committee and the board of directors is required. In specific circumstances, shareholder approval may also be required. A director who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee generally may not be present at this meeting or vote on this matter, unless a majority of members of the board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the members of the board of directors has a personal interest, shareholder approval is also required.

In addition, under the Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to 20% or more of the company's outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds five percent or more of the company's outstanding share capital or voting rights or that it will cause any person to become, as a result of the issuance, a holder of more than five percent of the company's outstanding share capital or voting rights.

Rather than follow the Nasdaq rules requiring shareholder approval for the issuance of securities in certain circumstances, we follow the Israeli laws set forth above.

### **Changing the Rights Attached to Shares**

We may only change the rights of shares with the approval of the holders of a majority of that class of shares present and voting at the separate general meeting called for that class of shares. An enlargement of a class of shares is not considered changing the rights of such class of shares.

### **Shareholders Meetings**

We have two types of shareholders meetings: the annual general meetings and special general meetings. An annual general meeting must be held once in every calendar year, but not more than 15 months after the last annual general meeting. Our board of directors may (and, under the Companies Law, shall, at the request of (1) at least two directors or one quarter of the directors then serving or (2) any one or more shareholders holding at least five percent (5%) of our outstanding ordinary shares) convene a special general meeting whenever it sees fit, at any place within or outside of the State of Israel.

A quorum in a general meeting consists of two or more holders of ordinary shares, present in person or by proxy, and holding shares conferring in the aggregate twenty-five percent (25%) or more of the voting power in our company (or any higher percentage which may be required under applicable rules and regulations). If there is no quorum within half an hour of the time set, the meeting is postponed until the following week, or any other time that the chairman of the board of directors and the shareholders present agree to. At the postponed meeting, any two shareholders present in person or by proxy will constitute a quorum. Nasdaq requires a quorum of at least 33-1/3% of our ordinary shares, but we have elected to follow our home country practice, as described above, in lieu of this Nasdaq requirement.

Every ordinary share entitles the holder thereof to one vote. A shareholder may vote in person or by proxy, or if the shareholder is a corporate body, by its representative. No cumulative voting is permitted.

## **Duties of Shareholders**

Under the Companies Law, the disclosure requirements which apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company, but excluding a shareholder whose power derives solely from his or her position as a director of the company or any other position with the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a majority vote, provided that either:

- at least one-third of the shares of shareholders who have no personal interest in the transaction and are present and voting, in person, by proxy or by written ballot, at the meeting, vote in favor; or
- the votes of shareholders who have no personal interest in the transaction that are voted against the transaction do not represent more than one percent of the voting rights in the company.

In addition, under the Companies Law, each shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations toward the company and other shareholders and to refrain from abusing his power in the company, such as in certain shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder or any other power toward the company. However, the Companies Law does not define the substance of this duty of fairness.

## *Exculpation, Insurance and Indemnification of Office Holders*

### **Exculpation of Office Holders**

Under the Companies Law, an Israeli company may not exempt an office holder from liability with respect to a breach of his duty of loyalty, but may exempt in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care (except in connection with distributions to shareholders), provided that the articles of association of the company allow it to do so. Our articles of association do not authorize us to so exempt our office holders.

### **Insurance of Office Holders**

Our articles of association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders with respect to an act performed in his capacity of an office holder, for:

- a breach of his duty of care to us or to another person;
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice our interests; or
- a financial liability imposed upon him in favor of another person.

### **Indemnification of Office Holders**

Our articles of association provide that we may indemnify an office holder with respect to an act performed in his capacity of an office holder against:

- a financial liability imposed on him in favor of another person by any judgment, including a settlement or an arbitration award approved by a court, which indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that the undertaking to indemnify is limited to events that the board of directors believes are foreseeable in light of actual operations at the time of providing the undertaking and to a sum or criterion that the board of directors determines to be reasonable under the circumstances;
- reasonable litigation expenses, including attorney's fees, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and
- reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him by a court, in proceedings we institute against him or instituted on our behalf or by another person, a criminal charge from which he was acquitted, or a criminal charge in which he was convicted for a criminal offense that does not require proof of criminal intent.

In addition, our articles of association provide that the commitment in advance to indemnify an office holder in respect of a financial obligation imposed upon him in favor of another person by a court judgment (including a settlement or an arbitrator's award approved by court) shall in no event exceed, in the aggregate, a total of indemnification (for all persons we have resolved to indemnify for the matters and circumstances described therein) equal to one quarter (25%) of our total shareholders' equity at the time of the actual indemnification.

#### *Limitations on Exculpation, Insurance and Indemnification*

The Companies Law provides that a company may not exculpate or indemnify an office holder nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty, unless, with respect to indemnification or insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if the breach was done intentionally or recklessly (as opposed to mere negligence);
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder.

In addition, under the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and board of directors and, if the beneficiary is a director, by our shareholders. We have obtained director's and officer's liability insurance and have issued indemnification letters to our directors and officers in accordance with the foregoing provisions.

#### **Anti-Takeover Provisions; Mergers and Acquisitions**

The Companies Law provides for mergers, provided that each party to the transaction obtains the approval of its board of directors and shareholders. For purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares not held by the other party, or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party, have voted against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of that party. Finally, a merger may not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each of the parties.

In addition, provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions or other types of transactions, including mergers. These provisions generally require that the transaction be approved by a majority of the participating shareholders holding at least 75% of the shares voted on the matter. In addition to shareholder approval, court approval of the transaction is required, which entails further delay.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company, unless there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company, unless there is already a 45% shareholder of the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The tender offer must be extended to all shareholders, but the offerer is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offerer and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If as a result of an acquisition of shares the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and other company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation, to taxation prior to the sale of the shares received in such stock-for-stock swap.

### **C. Material Contracts**

None

### **D. Exchange Controls**

#### *Exchange Controls and Other Limitations Affecting Security Holders*

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding some transactions. However, legislation remains in effect under which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

### **E. Taxation**

*The following is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes. Holders of our ordinary shares should consult their own tax advisors as to the U.S., Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any federal, foreign, state or local taxes.*

#### **U.S. Taxation**

Subject to the limitations described in the next paragraph, the following discussion summarizes the material U.S. federal income tax consequences to a “U.S. Holder” arising from the purchase, ownership and sale of the ordinary shares. For this purpose, a “U.S. Holder” is a holder of ordinary shares that is: (1) an individual citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws; (2) a corporation (or entity treated as a corporation for U.S. federal tax purposes) or a partnership (other than a partnership that is not treated as a U.S. person under any applicable U.S. Treasury Regulations) created or organized under the laws of the United States or the District of Columbia or any political subdivision thereof; (3) an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of source; (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust; (5) a trust that has a valid election in effect to be treated as a U.S. person to the extent provided in U.S. Treasury regulations, or (6) any person otherwise subject to U.S. federal income tax on a net income basis in respect of the ordinary shares, if such status as a U.S. Holder is not overridden pursuant to the provisions of an applicable tax treaty.

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase our ordinary shares. This summary generally considers only U.S. Holders that will own our ordinary shares as capital assets. Except to the limited extent discussed below, this summary does not consider the U.S. federal tax consequences to a person that is not a U.S. Holder, nor does it describe the rules applicable to determine a taxpayer’s status as a U.S. Holder. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), final, temporary and proposed U.S. Treasury Regulations promulgated thereunder, administrative and judicial interpretations thereof, and the U.S./Israel Income Tax Treaty, all as in effect as of the date hereof and all of which are subject to change, possibly on a retroactive basis, and all of which are open to differing interpretations. We will not seek a ruling from the U.S. Internal Revenue Service (“IRS”) with regard to the U.S. federal income tax treatment of an investment in our ordinary shares by U.S. Holders and, therefore, can provide no assurances that the IRS will agree with the conclusions set forth below.

This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to a particular shareholder based on such shareholder’s particular circumstances and in particular does not discuss any estate, gift, generation-skipping, transfer, state, local or foreign tax considerations. In particular, this discussion does not address the U.S. federal income tax treatment of a U.S. Holder who is: (1) a bank, life insurance company, regulated investment company, or other financial institution or “financial services entity”; (2) a broker or dealer in securities or foreign currency; (3) a person who acquired our ordinary shares in connection with employment or other performance of services; (4) a U.S. Holder that is subject to the U.S. alternative minimum tax; (5) a U.S. Holder that holds our ordinary shares as a hedge or as part of a hedging, straddle, conversion or constructive sale transaction or other risk-reduction transaction for U.S. federal income tax purposes; (6) a tax-exempt entity; (7) real estate investment trusts; (8) a U.S. Holder that expatriates out of the United States or a former long-term resident of the United States; or (9) a person having a functional currency other than the U.S. dollar. This discussion does not address the U.S. federal income tax treatment of a U.S. Holder that owns, directly or constructively, at any time, ordinary shares representing 10% or more of our voting power. Additionally, the U.S. federal income tax treatment of persons who hold ordinary shares through a partnership or other pass-through entity are not considered. Each prospective investor is advised to consult his or her own U.S. tax advisor with respect to the specific U.S. federal and state income tax consequences to such person of purchasing, holding or disposing of ordinary shares.

Each prospective investor is advised to consult his or her own tax advisor with respect to the specific U.S. federal and state income tax consequences to such person of purchasing, holding or disposing of our ordinary shares.

### **Distributions on Ordinary Shares**

Since 1995, we have not paid cash dividends on our ordinary shares. The Shareholders Agreement dated as of March 3, 2008 states that it is the view of the parties thereto that, subject to applicable law, we should distribute as a dividend commencing with calendar year 2008. Our board of directors has not yet considered such a dividend policy. In the event that we do pay dividends, and subject to the discussion under the heading "Passive Foreign Investment Companies" below, a U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution which exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder's tax basis for the ordinary shares to the extent thereof, and then capital gain. Corporate holders generally will not be allowed a deduction for dividends received. In general, preferential tax rates not exceeding 15% for "qualified dividend income" and long-term capital gains are applicable for U.S. Holders that are individuals, estates or trusts (these preferential rates are scheduled to expire for taxable years beginning after December 31, 2010, after which time dividends are scheduled to be taxed at ordinary income rates and long-term capital gains are scheduled to be taxed at rates not exceeding 20%). For this purpose, "qualified dividend income" means, *inter alia*, dividends received from a "qualified foreign corporation." A "qualified foreign corporation" is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States which includes an exchange of information program. The IRS has stated that the Israel/U.S. Tax Treaty satisfies this requirement and we believe we are eligible for the benefits of that treaty.

In addition, our dividends will be qualified dividend income if our shares are readily tradable on Nasdaq or another established securities market in the United States. Dividends will not qualify for the preferential rate if we are treated, in the year the dividend is paid or in the prior year, as a passive foreign investment company or PFIC. Due to the nature of our operations, we do not believe we are a PFIC; see the discussion of our beliefs concerning our PFIC status above. If our PFIC status is correct, dividend distributions with respect to our shares should be treated as qualified dividend income, subject to the U.S. Holder satisfying the holding period and other requirements. A U.S. Holder will not be entitled to the preferential rate: (i) if the U.S. Holder has not held our ordinary shares or ADRs for at least 61 days of the 121 day period beginning on the date which is 60 days before the ex-dividend date, or (ii) to the extent the U.S. Holder is under an obligation to make related payments on substantially similar property. Any days during which the U.S. Holder has diminished its risk of loss on our ordinary shares are not counted towards meeting the 61-day holding period. Finally, U.S. Holders who elect to treat the dividend income as "investment income" pursuant to Code section 163(d)(4) will not be eligible for the preferential rate of taxation.

The amount of a distribution with respect to our ordinary shares will be measured by the amount of the fair market value of any property distributed, and for U.S. federal income tax purposes, the amount of any Israeli taxes withheld therefrom. (See discussion above under "Taxation of Non-Resident Holders of Shares.") Cash distributions paid by us in NIS will be included in the income of U.S. Holders at a U.S. dollar amount based upon the spot rate of exchange in effect on the date the dividend is includible in the income of the U.S. Holder, and U.S. Holders will have a tax basis in such NIS for U.S. federal income tax purposes equal to such U.S. dollar value. If the U.S. Holder subsequently converts the NIS, any subsequent gain or loss in respect of such NIS arising from exchange rate fluctuations will be U.S. source ordinary exchange gain or loss.

Distributions paid by us will generally be foreign source income for U.S. foreign tax credit purposes. Subject to the limitations set forth in the Code, U.S. Holders may elect to claim a foreign tax credit against their U.S. income tax liability for Israeli income tax withheld from distributions received in respect of the ordinary shares. In general, these rules limit the amount allowable as a foreign tax credit in any year to the amount of regular U.S. tax for the year attributable to foreign source taxable income. This limitation on the use of foreign tax credits generally will not apply to an electing individual U.S. Holder whose creditable foreign taxes during the year do not exceed \$300, or \$600 for joint filers, if such individual's gross income for the taxable year from non-U.S. sources consists solely of certain passive income. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received with respect to the ordinary shares if such U.S. Holder has not held the ordinary shares for at least 16 days out of the 31-day period beginning on the date that is 15 days before the ex-dividend date or to the extent that such U.S. Holder is under an obligation to make certain related payments with respect to substantially similar or related property. Any day during which a U.S. Holder has substantially diminished his or her risk of loss with respect to the ordinary shares will not count toward meeting the 16-day holding period. A U.S. Holder will also be denied a foreign tax credit if the U.S. Holder holds the ordinary shares in an arrangement in which the U.S. Holder's reasonably expected economic profit is insubstantial compared to the foreign taxes expected to be paid or accrued. The rules relating to the determination of the U.S. foreign tax credit are complex, and U.S. Holders should consult with their own tax advisors to determine whether, and to what extent, they are entitled to such credit. U.S. Holders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income taxes withheld, provided such U.S. Holders itemize their deductions.



## Disposition of Shares

Except as provided under the PFIC rules described below, upon the sale, exchange or other disposition of our ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's tax basis for the ordinary shares and the amount realized on the disposition (or its U.S. dollar equivalent determined by reference to the spot rate of exchange on the date of disposition, if the amount realized is denominated in a foreign currency). The gain or loss realized on the sale or exchange or other disposition of ordinary shares will be long-term capital gain or loss if the U.S. Holder has a holding period of more than one year at the time of the disposition.

In general, gain realized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares will generally be treated as U.S. source income for U.S. foreign tax credit purposes. A loss realized by a U.S. Holder on the sale, exchange or other disposition of ordinary shares is generally allocated to U.S. source income. However, U.S. Treasury Regulations require such loss to be allocated to foreign source income to the extent certain dividends were received by the taxpayer within the 24-month period preceding the date on which the taxpayer recognized the loss. The deductibility of a loss realized on the sale, exchange or other disposition of ordinary shares is subject to limitations.

## Passive Foreign Investment Companies

Special U.S. federal income tax laws apply to a U.S. holder who owns shares of a corporation that was (at the time during the U.S. holder's holding period) a Passive Foreign Investment Company, or PFIC. We would be a passive foreign investment company, or PFIC, if either:

- 75% or more of our gross income (including our pro rata share of gross income for any company, U.S. or foreign, in which we are considered to own 25% or more of the shares by value), in a taxable year is passive (the "Income Test"); or
- At least 50% of our assets, averaged over the year and generally determined based upon value (including our *pro rata* share of the assets of any company in which we are considered to own 25% or more of the shares by value), in a taxable year are held for the product of, or produce, passive income (the "Asset Test").

As noted above, under certain "look-through" rules, the assets and income of certain subsidiaries are taken into account in determining whether a foreign company meets the income test and/or asset test.

For this purpose, passive income generally consists of dividends, interest, rents, royalties, annuities and income from certain commodities transactions and from notional principal contracts. Cash is treated as generating passive income.

If we are or become a PFIC, each U.S. Holder who has not elected to treat us as a qualified electing fund by making a "QEF election", or who has not elected to mark the shares to market (as discussed below), would, upon receipt of certain distributions by us and upon disposition of our ordinary shares at a gain, be liable to pay U.S. federal income tax at the then prevailing highest tax rates on ordinary income plus interest on such tax, as if the distribution or gain had been recognized ratably over the taxpayer's holding period for the ordinary shares. In addition, when shares of a PFIC are acquired by reason of death from a decedent that was a U.S. Holder, the tax basis of such shares would not receive a step-up to fair market value as of the date of the decedent's death, but instead would be equal to the decedent's basis if lower, unless all gain were recognized by the decedent. Indirect investments in a PFIC may also be subject to special U.S. federal income tax rules.

The PFIC rules would not apply to a U.S. Holder who makes a QEF election for all taxable years that such U.S. Holder has held the ordinary shares while we are a PFIC, provided that we comply with certain reporting requirements. Instead, each U.S. Holder who has made such a QEF election is required for each taxable year that we are a PFIC to include in income such U.S. Holder's *pro rata* share of our ordinary earnings as ordinary income and such U.S. Holder's *pro rata* share of our net capital gains as long-term capital gain, regardless of whether we make any distributions of such earnings or gain. In general, a QEF election is effective only if we make available certain required information. The QEF election is made on a shareholder-by-shareholder basis and generally may be revoked only with the consent of the IRS. Although we have no obligation to do so, we intend to comply with the applicable information reporting requirements for U.S. Holders to make a QEF election.

A U.S. Holder of PFIC shares which are traded on certain public markets, including the NASDAQ, can elect to mark the shares to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC shares and the U.S. Holder's adjusted basis in the PFIC shares. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years.

We believe that we were not a PFIC for 2008 and do not anticipate being a PFIC in 2009. The tests for determining PFIC status, however, are applied annually, and it is difficult to make accurate predictions of futures income and assets which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. Holders who made a QEF or mark-to-market election. U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules, including the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our ordinary shares in the event that we qualify as a PFIC.

### **Backup Withholding**

A U.S. Holder may be subject to backup withholding (currently at a rate of 28%, but scheduled to increase to 31% for taxable years beginning after December 31, 2010) with respect to cash dividends and proceeds from a disposition of ordinary shares. In general, back-up withholding will apply only if a U.S. Holder fails to comply with certain identification procedures. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

### **Non-U.S. Holders of ordinary Shares**

Except as provided below, an individual, corporation, estate or trust that is not a U.S. Holder generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares.

A non-U.S. Holder may be subject to U.S. federal income or withholding tax on a dividend paid on our ordinary shares or the proceeds from the disposition of our ordinary shares if: (i) if such item is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States or, in the case of a non-U.S. Holder that is a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment or, in the case of gain realized by an individual non-U.S. Holder, a fixed place of business in the U.S.; (ii) in the case of a disposition of our ordinary shares, the individual non-U.S. Holder is present in the U.S. for 183 days or more in the taxable year of the sale and certain other conditions are met; (iii) the non-U.S. Holder is subject to U.S. federal income tax pursuant to the provisions of the U.S. tax law applicable to U.S. expatriates.

In general, non-U.S. holders will not be subject to the 28% backup withholding with respect to the payment of dividends on our ordinary shares if payment is made through a paying agent, or office of a foreign broker outside the United States. However, if payment is made in the United States or by a U.S. related person, non-U.S. Holders may be subject to backup withholding, unless the non-U.S. Holder provides on an applicable Form W-8 (or a substantially similar form) a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. A U.S. related person for these purposes is a person with one or more current relationships with the United States.

Non-U.S. holders generally may be subject to backup withholding at a rate of 28% on the payment of the proceeds from the disposition of our ordinary shares to or through the U.S. office of a broker, whether domestic or foreign, or the office of a U.S. related person, unless the non-U.S. Holder provides a taxpayer identification number, certifies to its foreign status or otherwise establishes an exemption. Non-U.S. Holders will not be subject to backup withholding with respect to the payment of proceeds from the disposition of ordinary shares by a foreign office of a broker.

The amount of any backup withholding from a payment to a non-U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

### **Taxation of our U.S. Subsidiaries**

The following summary describes our organizational structure in the United States and the applicable income taxes.

We operate in the United States through several corporations. Retailix Holdings, Inc., referred to as Retailix USA Holdings, is the U.S. parent, which is wholly-owned by Retailix Ltd. Retailix USA Holdings owns 100% of the stock of several U.S. corporations – Retailix USA Inc., RCS, and 95% of a U.S. limited liability company – StoreNext USA. StoreNext USA is treated as a partnership for U.S. federal tax purposes. As such, 95% of StoreNext USA's results are included in the Retailix's U.S. federal income tax return. Retailix USA Holdings and its wholly-owned subsidiaries have elected to file U.S. federal income tax returns on a consolidated basis. Generally, U.S. federal and state income taxes are imposed on the taxable income of the U.S. consolidated group. The statutory tax rates applicable to the U.S. subsidiaries are 37%-40%. The corporation is subject to the same U.S. federal income tax rates on capital gain income. The U.S. companies are subject to state income/franchise taxes in the states in which they do business. Depending on each state's requirements, taxes may be imposed on a consolidated, combined or separate company basis. State taxes are imposed on the U.S. taxable income at an approximate rate of 6% after the U.S. federal tax benefit of deducting those state income taxes.

### **Israeli Taxation**

The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us. It also discusses Israeli tax consequences material to persons purchasing our ordinary shares. To the extent that the summary is based on new tax legislation yet to be judicially or administratively interpreted, we cannot be sure that the views expressed will accord with any future interpretation. The summary is not intended, and should not be construed, as specific professional advice and does not exhaust all possible tax considerations. Accordingly, you should consult your tax advisor as to the particular tax consequences of an investment in our ordinary shares.

## General Corporate Tax Structure

Israeli companies are generally subject to corporate tax at the rate of 31% of the taxable income for the 2006 tax year, at the rate of 29% of the taxable income for the 2007 and at the rate of 27% of the taxable income for the 2008 tax year. The corporate tax rate is scheduled to decrease as follows: 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003. However, the effective tax rate payable by a company that derives income from an Approved Enterprise may be considerably less, as further discussed below.

Following a temporary order, which came into effect on January 1, 2009 and will expire at the end of one year, an Israeli company may elect a 5% rate of corporate tax (instead of 25%) for dividends received in 2009 from a foreign subsidiary and used in Israel either in 2009 or within one year after actual receipt of the dividend, whichever is later. The 5% tax rate is subject to various conditions, which include conditions with regard to the identity of the corporation that distributes the dividends, the source of the dividend, the nature of the use of the dividend income, and the period during which the dividend income will be used in Israel.

### Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, ("the Investments Law"), as in effect prior to 2005, provided that upon application to the Investment Center of the Israeli Ministry of Industry ("the Investment Center"), Trade and Labor, a proposed capital investment in eligible facilities may be designated as an Approved Enterprise. See the discussion below regarding an amendment to the Investments Law that came into effect in 2005.

Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, such as the equipment to be purchased and utilized under the program. The tax benefits derived from any certificate of approval relate only to taxable income derived from growth in manufacturing revenues attributable to the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits under the law are not available for income derived from products manufactured outside of Israel.

Taxable income of a company derived from an Approved Enterprise is subject to tax at the maximum rate of 25%, rather than the regular corporate tax rate, for the benefit period. This period is ordinarily seven years beginning with the year in which the Approved Enterprise first generates taxable income, and is limited to 12 years from when production begins or 14 years from the date of approval, whichever is earlier. A company owning an Approved Enterprise may elect to receive an alternative package of benefits, which allows the company to receive tax exemptions rather than grants. Under the alternative package, the company's undistributed income derived from an Approved Enterprise will be exempt from tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and the company will be eligible for the tax benefits under the law for the remainder of the benefit period.

After expiration of the initial tax exemption period, the company is eligible for a reduced corporate tax rate of 10% to 25% for the following five to eight years, depending on the extent of foreign investment in the company (as shown in the table below). The determination of foreign ownership is made on the basis of the lowest level of foreign ownership during the tax year. The benefits period is limited to 12 years from completion of the investment under the approved plan or 14 years from the date of the approval, whichever is earlier. A company in which more than 25% of the shareholders are non-residents of Israel, defined in the Investment Law as a Foreign Investors Company, may be eligible for benefits for an extended period of up to ten years.

Percent of Foreign Ownership	Rate of		Tax Exemption
	Reduced Tax	Reduced Tax Period	Period
0-25%	25%	5 years	2 years
25-49%	25%	8 years	2 years
49-74%	20%	8 years	2 years
74-90%	15%	8 years	2 years
90-100%	10%	8 years	2 years

The benefits available to an Approved Enterprise are conditional upon compliance with the conditions stipulated in the Investments Law and related regulations and the criteria described in the specific certificate of approval. If a company violates these conditions, in whole or in part, it would be required to refund the amount of tax benefits and any grants received with interest and adjustments for inflation based on the Israeli consumer price index.

A portion of our production facilities has been granted the status of Approved Enterprise. Income arising from our Approved Enterprise facilities is tax-free under the alternative package of benefits described above (for the first 2 years) and entitled to reduced tax rates (for the next five to years). We have derived, and expect to continue to derive, a substantial portion of our income from our Approved Enterprise facilities. The tax benefits attributable to our current Approved Enterprises are scheduled to expire through 2014.

If a company distributes dividends from tax-exempt Approved Enterprise income, the company will be taxed on the otherwise exempt income at the same reduced corporate tax rate that applies to it after the initial exemption period. Distribution of dividends derived from Approved Enterprise income that was taxed at reduced rates, but not tax exempt, does not result in additional tax consequences to the company. Shareholders who receive dividends derived from Approved Enterprise income are generally taxed at a rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (but the 12-year limitation does not apply to a Foreign Investors Company). We are not obliged to distribute exempt retained profits under the alternative package of benefits, and may generally decide from which source of income to declare dividends. We currently intend to reinvest the amount of our tax-exempt income and not to distribute such income as a dividend.

### ***Amendment of the Investments Law***

On April 1, 2005, an amendment to the Investments Law came into effect, which revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the alternative package of benefits will qualify for benefits as a Benefited Enterprise (rather than the previous terminology of Approved Enterprise) if it is an industrial facility (as defined in the Investments Law) that will contribute to the economic independence of the Israeli economy and is a competitive facility that contributes to the Israeli gross domestic product. Among other things, the amendment provides tax benefits to both local and foreign investors and simplifies the approval process – the Benefited Enterprise routes do not require pre-approval by the Investment Center. A company wishing to receive the tax benefits afforded to a Benefited Enterprise is required to select the tax year from which the period of benefits under the Investment Law are to commence by simply notifying the Israeli Tax Authority on the date on which it is obligated to file its tax return for such year or within 12 months of the end of that year, the earlier. In order to be recognized as owning a Benefited Enterprise, a company is required to meet a number of conditions set forth in the amendment, including making a minimal investment in manufacturing assets for the Benefited Enterprise. The amendment does not apply to investment programs approved prior to December 31, 2004.

Pursuant to the amendment, a company with a Benefited Enterprise is entitled to certain tax benefits, provided that no more than 12 to 14 years have passed since the beginning of the year of election under the Investments Law. The tax benefits granted to a Benefited Enterprise are determined, as applicable to us, according to one of the following new tax routes:

- Similar to the currently available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of from seven to ten years, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Benefited Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%). The company is required to withhold tax at the source at a rate of 15% from any dividends distributed from income derived from the Benefited Enterprise; and
- A special tax route enabling companies owning facilities in certain geographical locations in Israel to pay corporate tax at the rate of 11.5% on income of the Benefited Enterprise. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents.

Generally, a company that is Abundant in Foreign Investment (as defined in the Investments Law) is entitled to an extension of the benefits period by an additional five years, depending on the rate of its income that is derived in foreign currency.

The amendment changes the definition of “foreign investment” in the Investments Law so that the definition now also includes the purchase of shares of a company from another shareholder, provided that the company’s outstanding and paid-up share capital exceeds NIS 5 million. Such changes to the aforementioned definition are retroactive to 2003.

The amendment will apply to programs in which the year of election under the Investments Law is 2004 or later, unless such programs received Approved Enterprise approval from the Investment Center on or prior to December 31, 2004, in which case the amendment provides that the terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

### ***Tax Benefits for Research and Development***

Israeli tax law allows, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures in scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry and the research and development is for the promotion of the enterprise. Such of research and development expenditures not so approved are deductible over a three-year period.

### ***Law for the Encouragement of Industry (Taxes), 1969***

According to the Law for the Encouragement of Industry (Taxes), 1969, an industrial company is a company resident in Israel, at least 90% of the income of which, in a given tax year, determined in Israeli currency exclusive of income from defense loans, capital gains, interest and dividends, is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose primary activity in a given tax year is industrial production activity. We believe that we currently qualify as an industrial company under this definition.

Under the law, industrial companies are entitled to the following preferred corporate tax benefits:

- Deduction of costs related to the issuance of shares on a stock market over a three-year period for tax purposes;
- Amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes;
- The option to file a consolidated tax return with related Israeli industrial companies that satisfy conditions described in the law; and
- Accelerated depreciation rates on equipment and buildings.

Our status as an industrial company is not contingent upon the receipt of prior approval from any governmental authority. However, entitlement to certain benefits under the law is conditioned upon receipt of approval from Israeli tax authorities. Also, the Israeli tax authorities may determine that we do not qualify as an industrial company, which would entail the loss of the benefits that relate to this status. In addition, we might not continue to qualify for industrial company status in the future, in which case the benefits described above might not be available to us in the future.

#### ***Israeli Transfer Pricing Regulations***

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into force. Accordingly, all cross-border transactions carried out between related parties must be conducted on an arm's length principle basis and will be taxed accordingly.

#### **Capital Gains Tax Applicable to Resident and Non-Resident Shareholders**

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in Israeli resident companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a treaty between Israel and the country of the non-resident provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

The tax rate generally applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such individual is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company), in which case the tax rate will be 25%. Israeli resident companies are subject to tax on capital gains derived from the sale of listed shares at the regular corporate tax rate, unless such companies were not subject to the Income Tax Law (Inflationary Adjustments), 1985, or the Adjustments Law, (or certain regulations) as of August 10, 2005, in which case the applicable tax rate is 25%. However, the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, provided such gains did not derive from a permanent establishment of such shareholders in Israel, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock market outside of Israel (including Nasdaq), provided however that such shareholders did not acquire their shares prior to an initial public offering, that such capital gains are not derived from a permanent establishment in Israel, and that such shareholders are not subject to the Adjustments Law. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In certain instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

In addition, under the convention between the United States and Israel concerning taxes on income, as amended, or the U.S.-Israel Tax Treaty, generally, Israeli capital gains tax will not apply to the sale, exchange or disposition of shares by a person who holds the shares as a capital asset and who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty, and who is entitled to claim the benefits available under the U.S.-Israel Tax Treaty. However, this exemption will not apply if (i) the treaty U.S. resident holds, directly or indirectly, shares representing 10% or more of our issued voting power during any part of the 12-month period preceding the sale, exchange or disposition, subject to specified conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In this case, the sale, exchange or disposition would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel Tax Treaty, the treaty U.S. resident would be permitted to claim a credit for the taxes against the U.S. federal income tax imposed on the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

#### **Taxation of Dividends Applicable to Non-Resident Shareholders**

Non-residents of Israel are subject to Israeli income tax on income accrued or derived from sources in Israel, including passive income such as dividends. On distributions of dividends, other than bonus shares and stock dividends, income tax is applicable at the rate of 20%, or 25% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. As aforesaid, dividends of income generated by an Approved Enterprise (or Benefited Enterprise) are subject to withholding tax at a rate of 15%.

Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of shares who is a treaty U.S. resident is 25%, or 15% if the dividends are generated by an Approved Enterprise (or Benefited Enterprise). However, if the income out of which the dividend is being paid is not attributable to an Approved Enterprise (or Benefited Enterprise) and not more than 25% of our gross income consists of interest or dividends, then such tax rate is reduced to 12.5% for a non-resident that is a U.S. corporation and holds 10% or more of our issued voting power during the part of the tax year that precedes the date of payment of the dividend and during the whole of its prior tax year.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statements by Experts**

Not applicable.

#### **H. Documents on Display**

We are subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the SEC. You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Certain of our SEC filings are also available to the public at the SEC's website at <http://www.sec.gov>.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. We will also furnish to the SEC quarterly reports on Form 6-K containing unaudited financial information after the end of each of the first three quarters.

#### **I. Subsidiary Information**

Not applicable.

## ITEM 11 – QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations may result primarily from weak economic conditions in the markets in which we sell our products and from changes in exchange rates or in interest rates. We have only limited involvement with derivative financial instruments. From time to time we carry out transactions involving foreign exchange derivative financial instruments (forward exchange contracts). These transactions do not qualify for hedge accounting under SFAS 133, and are designed to minimize non-dollar currency exposure resulting from the difference between non-dollar financial assets and liabilities.

In 2008, due to the increased volatility of the US Dollar, we increased our use of foreign currency forward contracts. We continue to actively utilize currency hedging transactions to manage our exposure. As the value of the US Dollar has risen to a greater degree than expected, we have recently incurred significant expenses under accounting rules relating to the total value of our open contracts. As of December 31, 2008, we had the following open foreign currency forward contracts all of up to six months in term and maturing between January to June 2009:

Sell	Buy		
In millions	In millions	Transaction date	Forward date
US Dollar \$8	NIS 29.4	September -October 2008	January- June 2009
Euro 1.3	\$1.9	July 2008	January- March 2009
New Israeli Shekel 13.5	\$3.6	September 2008	February-June 2009

The fair value of these outstanding contracts as of December 31, 2008 reflects an asset in the amount of \$103,000, which was credited to financial income.

Other than foreign exchange derivative financial instruments as described above, we do not use derivative financial instruments in our investment portfolio.

The table below presents principal amounts and related weighted average rates by periods of maturity for our investments in deposits (primarily included in cash and cash equivalents in our consolidated financial reports) and marketable securities held as of December 31, 2008.

(In thousands, except percentages)

		Maturity and available for sale			Total book value	Total fair value
		2009	2010-11	2012-37		
Corporate securities held to maturity bearing fixed interest rate (1)	Book value WAYM *	\$ 490 4.87%	\$ 380 5.25%	\$ 182 3.23%	\$ 1,052 4.72%	\$ 1,026 4.72%
Marketable Securities (1)	Book value WAY**	\$ 2,749 3.57%		300 5.4%	\$ 3,049 3.75%	\$ 3,049 3.75%
Dollar linked money market funds and deposits (2)	Book value WAIR***	\$ 23,400 0.07%			\$ 23,400 0.07%	\$ 23,400 0.07%
New Israeli Shekels linked Deposits (2)	Book value WAIR***	\$ 2,036 0.38%			\$ 2,036 0.38%	\$ 2,036 0.38%
British Pounds Sterling linked Deposits (2)	Book value WAIR***	\$ 1,112 0.55%			\$ 1,112 0.55%	\$ 1,112 0.55%
Euro linked deposits (2)	Book value WAIR***	\$ 3,440 0.81%			\$ 3,440 0.81%	\$ 3,440 0.81%
Australian Dollars Linked deposits (2)	Book value WAIR***	\$ 1,947 2.39%			\$ 1,947 2.39%	\$ 1,947 2.39%
Rand Linked deposits (2)	Book value WAIR***	\$ 1,589 0.20%			1,589 0.20%	1,589 0.20%
JPY Linked deposits (2)	Book value WAIR***	\$ 22 0.00%			22 0.00%	22 0.00%
Total	Book value WAY****	\$ 36,785 0.63%	\$ 380 5.25%	\$ 482 4.58%	\$ 37,647 0.72%	\$ 37,622

\* Weighted average yield to maturity

\*\* Weighted average yield as per the performance of 2008

\*\*\* Weighted average interest rate

\*\*\*\* Weighted average yield

(1) Classified in the consolidated financial statements attached herein as marketable securities and marketable debt securities

(2) Classified in the consolidated financial statements attached herein as cash and cash equivalents

## Foreign Currency Risk

The majority of our revenues is denominated in U.S. Dollars and or linked to the U.S. dollar, and our financing is mostly in U.S. dollars, and thus the U.S. dollar is our functional currency. However, some portions of our revenues are denominated in British Pounds Sterling, Euros, Australian Dollars and New Israeli Shekels. This situation exposes us from time to time, to fluctuations between the exchange rates of the dollar and the NIS, the British Pound Sterling, the Euro and the Australian Dollar. We hold most of our financial assets in dollar or dollar linked investment channels. In addition, we tend from time to time, to enter into short-term forward inter-currency transactions in an attempt to maintain a similar level of assets and liabilities in any non-U.S. Dollar currency and thus trying to offset exposures to inter-currency fluctuations.

The following table sets forth our non-dollar assets and liabilities as of December 31, 2008:

(in thousands)

	Currency	Israeli currency	Other non-dollar currency
Assets		\$ 33,993	\$ 32,092
Liabilities		\$ 20,766	\$ 7,759

## Interest Rate Risk

Our interest expenses and income are sensitive to changes in interest rates, as all of our cash reserves and borrowings are subject to interest rate changes. Most of our financial reserves are term interest-bearing deposits. The interest rates on these deposits are based on various factors, such as currency and region. The interest rate on our borrowings is linked to LIBOR, which fluctuates.

The policies under which our exposures to currency and interest rate fluctuations are managed is reviewed and supervised by our board of directors. We manage these exposures by performing ongoing evaluations on a timely basis and revising our strategy as the need arises.

## **ITEM 12 – DESCRIPTION OF SECURITIES OTHER THEN EQUITY SECURITIES**

Not applicable.

## **PART II**

## **ITEM 13 – DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

## **ITEM 14 – MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.



## **ITEM 15 – CONTROLS AND PROCEDURES**

### **Disclosure controls and procedures**

As of December 31, 2008, we performed an evaluation under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within Retalix to disclose material information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of December 31, 2008.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2008 based on the framework for Internal Control-Integrated Framework set forth by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management concluded that as of December 31, 2008, our internal control over financial reporting was effective.

### **Attestation report of the registered public accounting firm**

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, the independent registered public accounting firm that audited our 2008 consolidated financial statements included in this annual report, has issued an attestation report on our internal control over financial reporting. The report appears elsewhere herein.

### **Changes in internal control over financial reporting**

Except for organizational changes in the accounting department of our U.S. office and the implementation of further internal controls that strengthen the governance over our U.S. office activity there were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors determined that Mr. David Bresler is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Bresler is "independent" as defined in Nasdaq rules. Since Mr. Bresler's three-year term as an external director expired in June 2009, we will ensure that the individual who is nominated in his place for election at our 2009 annual meeting of shareholders qualifies as an audit committee financial expert and as an independent director.

## **ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a Code of Ethics, which applies to all of our employees, officers and directors. We will provide a copy of our Code of Ethics, free of charge, to any person who requests one. Such requests may be sent to our offices at 10 Zarhin Street, Ra'anana, Israel, Attention: Controller.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, serves as our principal independent registered public accounting firm. The following table presents the aggregate fees for professional audit services and other services rendered by our principal independent registered public accounting firm in 2007 and 2008:

	Year Ended December 31, (U.S. \$ in thousands)	
	2007	2008
Audit Fees	2,024	950
Audit Related Fees	196	108
Tax Fees	216	239
Other Fees	0	0
<b>Total</b>	<b>2,436</b>	<b>1,297</b>

“Audit Fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent registered public accounting firm provides, such as statutory audits including audits required by the Office of the Chief Scientist and other Israeli government institutes, consents and assistance with and review of documents filed with the SEC. “Audit-Related Fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements, due diligence related to acquisitions and other accounting issues that occur from time to time. “Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance and tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

Our audit committee has adopted a pre-approval policy for the engagement of our independent registered public accounting firm to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves on a specific basis non-audit services in the categories of Audit-Related Services and Tax Services and other services that may be performed by our independent registered public accounting firm, and the maximum pre-approved fees that may be paid as compensation for each pre-approved service in those categories. Any proposed services exceeding the maximum pre-approved fees require specific approval by the Audit Committee.

With respect to each pre-approved service actually requested to be provided, an executive officer is required to notify the audit committee in writing and state whether, in the executive officer’s view, the provision of such service by the outside auditor would impair its independence. The audit committee has the ultimate authority to determine which services to pre-approve.

**ITEM 16D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

We follow the Companies Law, the relevant provisions of which are summarized in this Annual Report, rather than comply with the Nasdaq requirements relating to: (i) shareholder approval with respect to issuance of securities under certain circumstances, as described in “Item 6E – Share Ownership – Our Share Option Plans” and “Item 10B – Memorandum and Articles of Association – Approval of Certain Transactions Under Israeli Law”; and (ii) the quorum for shareholder meetings, as described in “Item 10B – Memorandum and Articles of Association – Shareholder Meetings”.

**PART III****ITEM 17 – FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of this item.

**ITEM 18 – FINANCIAL STATEMENTS**

The Financial Statements required by this item are found at the end of this annual report, beginning on page F-1.

**ITEM 19 – EXHIBITS**

- (a) Financial Statements
  - 1. Reports of Independent Registered Public Accounting Firm
  - 2. Consolidated Balance Sheets
  - 3. Consolidated Statements of Income
  - 4. Statements of Changes in Shareholders' Equity
  - 5. Consolidated Statements of Cash Flows
  - 6. Notes to Consolidated Financial Statements

(b) Exhibits

<b>Exhibit No.</b>	<b>Exhibit</b>
1.1	Memorandum of Association of Registrant, as amended (previously filed November 2, 2005 as an exhibit to Retalix's report on Form 6-K and incorporated herein by reference).
1.2	Articles of Association of Registrant, as amended.
4.1	Employment Agreement dated December 1, 1999, between Point of Sale Limited and Danny Moshaioff (previously filed as an exhibit to Retalix's annual report on Form 20-F for the fiscal year ended December 31, 1999 and incorporated herein by reference).
4.2	Agreement dated December 30, 1999, between Point of Sale Limited and the Corex Development Company (C. D. C.) Limited (previously filed as an exhibit to Retalix's annual report on Form 20-F for the fiscal year ended December 31, 1999 and incorporated herein by reference).
4.3	Second 1998 Share Option Plan, as amended (previously filed on July 2, 2008 as an exhibit to Retalix's annual report on Form 20-F for the fiscal year ended December 31, 2007 and incorporated herein by reference).
4.4	2004 Israeli Share Option Plan, as amended (previously filed on July 2, 2008 as an exhibit to Retalix's annual report on Form 20-F for the fiscal year ended December 31, 2007 and incorporated herein by reference).
4.5	Asset Purchase Agreement, dated as of April 1, 2005, among Retalix Ltd., Integrated Distribution Solutions, LLC, certain owners of Integrated Distribution Solutions, LLC, and Retalix SCM, Inc. (previously filed on June 2, 2005 as exhibit 2.1 to Retalix's registration statement on Form F-3 and incorporated herein by reference).
8	Principal Subsidiaries of Retalix Ltd. (previously filed on June 21, 2007 as an exhibit to Retalix's annual report on Form 20-F for the fiscal year ended December 31, 2006 and incorporated herein by reference).
12.1	Certification required by Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification required by Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
15.1	Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

RETALIX LTD.

Date: June 22, 2009

By: /s/ Barry Shaked

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Barry Shaked, President and Chief Executive Officer

Date: June 22, 2009

By: /s/ Hugo Goldman

\_\_\_\_\_  
Hugo Goldman, Chief Financial Officer

**RETALIX LTD.**  
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The amounts are stated in U.S. dollars (\$) in thousands.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders of  
**RETALIX LTD.**

We have audited the accompanying consolidated balance sheets of Retalix Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2008. We also have audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's Board of Directors and management are responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying 'Management's Annual Report on Internal Control over Financial Reporting' under Item 15. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in note 1w to the consolidated financial statements, in 2006 the Company changed the manner in which it accounts for quantifying of prior year misstatements. In addition, as discussed in note 1k to the consolidated financial statements, in 2007 the Company changed the manner in which it accounts for income tax uncertainties.

/s/ Kesselman & Kesselman  
A member of PricewaterhouseCoopers International Limited  
Tel Aviv, Israel  
June 22, 2009

**RETALIX LTD.  
CONSOLIDATED BALANCE SHEETS**

	December 31	
	2008	2007
	U.S. \$ in thousands	
<b>Assets</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	33,546	22,484
Marketable securities	3,239	3,455
Accounts receivable		
Trade	70,017	81,429
Other	11,554	1,710
Prepaid expenses	4,003	3,775
Inventories	1,037	1,289
Deferred income taxes	4,871	8,286
	128,267	122,428
<b>NON-CURRENT ASSETS</b>		
Long-term receivables	3,382	5,681
Long term prepaid expenses	539	627
Long term investments	862	1,657
Amounts funded in respect of employee rights upon retirement	8,663	8,806
Deferred income taxes	15,462	7,050
Other	424	168
	29,332	23,989
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	14,734	12,568
<b>GOODWILL</b>	50,660	108,926
<b>OTHER INTANGIBLE ASSETS, net of accumulated amortization</b>		
Customer relationship	15,386	16,450
Other	2,413	4,229
	17,799	20,679
<b>Total assets</b>	240,792	288,590

**The accompanying notes are an integral part of these consolidated financial statements.**



**RETALIX LTD.  
CONSOLIDATED BALANCE SHEETS**

	December 31	
	2008	2007
	U.S. \$ in thousands (except share data)	
<b>Liabilities and shareholders' equity</b>		
<b>CURRENT LIABILITIES</b>		
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	2,596	3,005
Deferred revenues	19,135	16,763
	45,962	50,817
<b>LONG-TERM LIABILITIES</b>		
Long-term loans, net of current maturities	523	786
Employee rights upon retirement	13,860	14,362
Deferred tax liability	286	219
Other tax payables	1,112	1,097
	15,781	16,464
Total liabilities	61,743	67,281
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)</b>		
	3,327	2,791
<b>MINORITY INTERESTS</b>		
	3,327	2,791
<b>SHAREHOLDERS' EQUITY</b>		
Share capital - Ordinary shares of NIS 1.00 par value (authorized: December 31, 2008 and December 31, 2007 - 30,000,000 shares; issued and outstanding: December 31, 2008 - 20,389,771 shares and December 31, 2007 - 20,001,382 shares, respectively)	5,380	5,273
Additional paid in capital	175,435	166,752
Retained earnings (accumulated deficit)	(5,421)	46,195
Accumulated other comprehensive income	328	298
	175,722	218,518
Total shareholders' equity	175,722	218,518
Total liabilities and shareholders' equity	240,792	288,590

**The accompanying notes are an integral part of these consolidated financial statements.**

**RETALIX LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

	Year ended December 31		
	2008	2007	2006
U.S. \$ in thousands (except earning per share data)			
<b>REVENUES:</b>			
Product sales	72,907	80,511	73,195
Services and projects	148,720	140,900	130,549
Total revenues	221,627	221,411	203,744
<b>COST OF REVENUES:</b>			
Cost of product sales	45,201	39,132	36,690
Cost of services and projects	88,078	65,281	44,562
Total cost of revenues	133,279	104,413	81,252
<b>GROSS PROFIT</b>	<b>88,348</b>	<b>116,998</b>	<b>122,492</b>
<b>OPERATING EXPENSES:</b>			
Research and development - net	38,357	58,653	60,375
Selling and marketing	23,623	31,617	33,495
General and administrative	26,677	27,539	27,426
Other (income) expenses - net	(376)	643	22
Impairment of goodwill	58,182	-	-
Total operating expenses	146,463	118,452	121,318
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(58,115)</b>	<b>(1,454)</b>	<b>1,174</b>
<b>FINANCIAL INCOME (EXPENSES), net</b>	<b>(1,978)</b>	<b>1,032</b>	<b>79</b>
<b>INCOME (LOSS) BEFORE TAXES ON INCOME</b>	<b>(60,093)</b>	<b>(422)</b>	<b>1,253</b>
<b>TAX BENEFIT</b>	<b>8,960</b>	<b>435</b>	<b>507</b>
<b>INCOME (LOSS) AFTER TAXES ON INCOME</b>	<b>(51,133)</b>	<b>13</b>	<b>1,760</b>
<b>SHARE IN INCOME (LOSS) OF AN ASSOCIATED COMPANY</b>	<b>54</b>	<b>(3)</b>	<b>(57)</b>
<b>MINORITY INTERESTS IN PROFITS OF SUBSIDIARIES</b>	<b>(537)</b>	<b>(508)</b>	<b>(425)</b>
<b>NET INCOME (LOSS)</b>	<b>(51,616)</b>	<b>(498)</b>	<b>1,278</b>
<b>EARNINGS (LOSS) PER SHARE - in U.S. \$:</b>			
Basic	(2.55)	(0.02)	0.07
Diluted	(2.55)	(0.02)	0.06
<b>WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS (LOSS) PER SHARE - in thousands:</b>			
Basic	20,265	19,851	19,491
Diluted	20,265	19,851	20,127

The accompanying notes are an integral part of these consolidated financial statements.

**RETALIX LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital		Additional paid-in capital	Retained earnings	Accumulated other comprehensive Income (loss)	Total
	Ordinary shares					
	Number of shares in thousands	Amount				
U.S. \$ in thousands						
<b>BALANCE AT JANUARY 1, 2006</b>	19,409	5,132	150,042	49,531	(288)	204,417
Effect of SAB 108 adjustments				(1,621)		(1,621)
				47,910		202,796
<b>CHANGES DURING 2006:</b>						
Net income				1,278		1,278
Differences from translation of non dollar currency financial statements of a subsidiary and associated company					390	390
Comprehensive income						1,668
Stock based compensation expenses			3,891			3,891
Issuance of share capital to employees and non-employee resulting from exercise of options	204	46	2,650			2,696
<b>BALANCE AT DECEMBER 31, 2006</b>	19,613	5,178	156,583	49,188	102	211,051
Effect of FIN 48 adjustments				(2,495)		(2,495)
				46,693		208,556
<b>CHANGES DURING 2007:</b>						
Loss				(498)		(498)
Unrealized losses on investments					(200)	(200)
Differences from translation of non dollar currency financial statements of a subsidiary and associated company					396	396
Comprehensive loss						(302)
Stock based compensation expenses			3,889			3,889
Additional consideration in respect of acquisition of a subsidiary	207	50	3,923			3,973
Issuance of share capital to employees and non-employee resulting from exercise of options	181	45	2,357			2,402
<b>BALANCE AT DECEMBER 31, 2007</b>	20,001	5,273	166,752	46,195	298	218,518
<b>CHANGES DURING 2008:</b>						
Loss				(51,616)		(51,616)
Unrealized gains on investments					200	200
Differences from translation of non dollar currency financial statements of a subsidiary and associated company					(170)	(170)
Comprehensive loss						(51,586)
Stock based compensation expenses			4,777			4,777
Issuance of share capital to employees and non-employee resulting from exercise of options	388	107	3,906			4,013
<b>BALANCE AT DECEMBER 31, 2008</b>	20,389	5,380	175,435	(5,421)	328	175,722

The accompanying notes are an integral part of these consolidated financial statements.

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

	Year ended December 31		
	2008	2007	2006
U.S. \$ in thousands			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	(51,616)	(498)	1,278
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:			
Minority interests in gains of subsidiaries	537	508	425
Depreciation and amortization	6,265	7,004	8,340
Losses (gains) from sale of property, plant and equipment	(46)	(57)	22
Share in loss (income) of an associated company	(54)	3	57
Stock based compensation expenses	4,777	3,889	3,891
Changes in accrued liability for employee rights upon retirement	(396)	2,739	2,102
Losses (gains) on amounts funded in respect of employee rights upon retirement	312	(950)	(580)
Deferred income taxes - net	(4,928)	(6,570)	(2,699)
Net decrease (increase) in trading securities	342	(216)	3,025
Impairment of available for sale securities	700	-	-
Amortization of discount on marketable debt securities	5	11	56
Impairment of goodwill	58,182		
Other	(26)	(109)	(32)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable:			
Trade (including the non-current portion)	13,395	(34,700)	(10,588)
Other (including long term other tax receivable)	(10,065)	1,278	(889)
Increase (decrease) in accounts payable and accruals:			
Trade	(6,655)	3,537	(730)
Employees, employee institutions and other	(113)	(2,290)	933
Decrease (increase) in inventories	247	(118)	1,022
Increase (decrease) in deferred revenues	2,381	2,810	(2,616)
	<u>13,244</u>	<u>(23,729)</u>	<u>3,017</u>
Net cash provided by (used in) operating activities - forward			

**The accompanying notes are an integral part of these consolidated financial statements.**

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

	Year ended December 31		
	2008	2007	2006
	U.S. \$ in thousands		
Net cash provided by (used in) operating activities - brought forward	13,244	(23,729)	3,017
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Maturity of marketable debt securities held to maturity	370	9,743	6,212
Investment in marketable debt securities held to maturity	(208)	(9,047)	(2,066)
Acquisition of subsidiaries and business consolidated for the first time (a)	(110)	(1,370)	(2,653)
Additional investments in subsidiaries	(714)	-	(5,754)
Refund in respect of cost of investment	-	-	651
Purchase of property, plant, equipment and other assets	(5,055)	(4,676)	(2,567)
Proceeds from sale of property, plant and equipment	55	69	35
Amounts funded in respect of employee rights upon retirement, net	(168)	(1,097)	(777)
Long-term loans collected from (granted to) employees	36	17	(4)
Net cash used in investing activities	(5,794)	(6,361)	(6,923)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayment of long-term bank loans	(241)	(352)	(117)
Issuance of share capital to employees and non-employees resulting from exercise of options	4,012	2,402	2,696
Short-term bank credit - net	(11)	(4,731)	760
Net cash provided by (used in) financing activities	3,760	(2,681)	3,339
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(148)	69	61
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	11,062	(32,702)	(506)
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	22,484	55,186	55,692
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	33,546	22,484	55,186

The accompanying notes are an integral part of these consolidated financial statements.

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

**SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:**

	Year ended December 31		
	2008	2007	2006
	U.S. \$ in thousands		
<b>(a) Supplementary disclosure of cash flow information -</b>			
Fair value of assets acquired and liabilities assumed of subsidiaries and businesses acquired at the date of acquisition:			
Working capital (excluding cash and cash equivalents)	-	174	302
Property plant and equipment	-	(6)	(54)
Goodwill and other intangible assets arising from acquisition	(110)	(1,679)	(2,901)
Increase in account payable- other	-	141	-
	(110)	(1,370)	(2,653)
<b>(b) Supplementary disclosure of cash flow information -</b>			
cash paid during the year for:			
Interest	41	1,766	1,508
Income tax	5,057	6,713	4,605
<b>(c) Supplemental information on investing activities not involving cash flows:</b>			

1. 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 shares. In addition, shareholders of IDS were issued an 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 resolution of an indemnity claim by the Company with respect to a third party. Claim against the Company that the Company successfully defended.
2. 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. See also note 2a.

**The accompanying notes are an integral part of these consolidated financial statements.**

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES:**

**a. General:**

1) Nature of operations:

- a) Retalix Ltd. (“the Company”), an Israeli corporation whose shares are listed on the Nasdaq Global Select Market (under the symbol “RTLX”) and on the Tel-Aviv Stock Exchange (“TASE”), separately and together with its subsidiaries and an associated company (“the Group”), develops, manufactures and markets integrated enterprise-wide, open software solutions for the sales operations and supply chain management operations of food and fuel retailers, including supermarkets, convenience stores and fuel stations as well as suppliers and manufacturers in the food industry.
- b) As to the Group’s geographical segments and principal customers, see note 14.
- c) Subsidiary – over which the Company has control and over 50% of the ownership.
- d) Associated company – an investee company (which is not a subsidiary), over which financial and operational policy the Company exerts significant influence.

2) Accounting principles and use of estimates in the preparation of financial statements:

The financial statements have been prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States of America (“U.S. GAAP”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the dates of the financial statements as well as the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

Accounting principle and estimates used in the preparation of these financial statements were applied on a consistent manner.

3) Functional currency:

The currency of the primary economic environment in which the operations of the Group and almost each member of the Group (except for one subsidiary and the associated company) are conducted is the U.S. dollar (“dollar”; “\$”). Most of the Group’s revenues and also most of the Group’s expenses incur in dollars or in Israeli currency linked to the dollar. The Group’s financing is mostly in dollars. Thus, the functional currency of the Group is the dollar.

Transactions and balances originally denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (stated below) reflected in the statements of income (loss), the following exchange rates are used: (i) for transactions – exchange rates at transaction dates or average rates; and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization, changes in inventories, etc.) – historical exchange rates. Currency transaction gains or losses are carried to financial income or expenses, as appropriate. The functional currency of one subsidiary and of the associated company is their local currency (Euro and “New Israeli Shekel” (“NIS”), respectively). The financial statements of the said subsidiary are included in the consolidation based on translation into dollars in accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“FAS”) No. 52 “Foreign Currency Translation” (“FAS 52”):

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

Assets and liabilities are translated at year end exchange rates, while operating results items are translated at average exchange rates during the year. Differences resulting from translation are presented in shareholders' equity under accumulated other comprehensive income (loss).

The financial statements of the associated company are included in the financial statements of the Company in accordance with the equity method, based on translation into dollars in accordance with FAS 52, the resulting translation adjustments are presented under shareholders' equity-accumulated other comprehensive income (loss).

**b. Principles of consolidation:**

- 1) The consolidated financial statements include the accounts of the Company and its subsidiaries.
- 2) Intercompany balances and transactions have been eliminated in consolidation.
- 3) As for goodwill and other intangible assets arising on business combinations, see h. below.

**c. Cash equivalents**

The Group considers all highly liquid investments, which include short-term bank deposits with an original maturity date of three months or less that are not restricted as to withdrawal or use, to be cash equivalents.

**d. Marketable securities and long term investments**

Marketable securities consist mainly of debt securities. The Company accounts for investments in marketable securities in accordance with FAS Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Investments in certain marketable bonds are classified as held to maturity because the Company has the intent and ability to hold such bonds to maturity and are stated at amortized cost with the addition of computed interest accrued to balance sheet date (such interest represents the computed yield on cost from acquisition to maturity). Interest and amortization of premium discount for debt securities are carried to financial income or expenses.

Investments in other bonds and marketable securities that are classified as "trading securities" are stated at market value. The changes in market value of these securities are carried to financial income or expenses.

The Company invests in an Action Rate Security (ARS) with a par value of \$1 million and maturity in 2036, which is classified as available-for-sale and is recorded at fair value in its books. Since this ARS does not have an active market, fair value is determined using a valuation model that considers references to other instruments with similar characteristics, in performance of a Trinomial Discount Model relying as little as possible on entity-specific inputs. Changes in fair value are reflected in other comprehensive income (loss). Unrealized losses considered to be other than temporary are charged to income as an impairment charge. During 2008, other than temporary impairment of \$ 700,000 was recorded, see note 6.



**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

**e. Investment in an associated company**

This investment is accounted for by the equity method and included among other non-current assets.

**f. Inventories**

Inventories include hardware products that are included in finished goods and are valued at the lower of cost or market. Cost is determined on a “first-in, first-out” basis.

**g. Property, plant and equipment:**

- 1) These assets are stated at cost; assets of acquired subsidiaries are included at their fair value at date of acquisition of these subsidiaries.
- 2) The assets are depreciated by the straight-line method, on the basis of their estimated useful life.

Annual rates of depreciation are as follows:

	%
Computers and peripheral equipment	20-33
Vehicles	15
Office furniture and equipment	6-25 (mainly 6)
Buildings	4
Land lease rights	3

Leasehold improvements are amortized by the straight line method over the term of the lease, which is shorter than the estimated useful life of the improvements. Land lease rights are amortized by the straight line method over the term of the lease.

**h. Goodwill and other intangible assets**

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for as purchases. The goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment at least annually or between annual tests if certain events or indicators of impairment occur. See note 4, for disclosure on impairment of goodwill in the amount of \$ 58,182,000 recorded during 2008.

Other intangible assets are amortized over a period of one to fifteen years, except trademark (see note 2b).

**i. Impairment in value of long-lived assets**

Assets that are to be held and used by an entity are being reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

**j. Contingent Consideration**

The aggregate consideration for certain of the Company’s acquisitions increased when certain future internal performance goals were later satisfied. Such additional consideration was paid in the form of additional ordinary shares of the Company, which were reserved for that purpose. The measurement and recognition of contingent consideration are accounted in accordance with FAS No. 141, Business Combinations (“FAS 141”), contingent consideration is recorded when a contingency is satisfied and additional consideration is issued or become issuable. The Company records the additional consideration issued or issuable in connection with the relevant acquisition when a specified internal performance goal is met. For additional consideration paid in shares, the Company calculates the amount of additional consideration using the closing price of its shares on the date the performance goal is satisfied.

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

**k. Income taxes:**

- 1) Deferred income taxes are determined by the asset and liability method based on the estimated future tax effects of differences between the financial accounting and the tax bases of assets and liabilities under the applicable tax law. Deferred tax balances are computed using the tax rates expected to be in effect at time when these differences reverse. Valuation allowances in respect of the deferred tax assets are provided when it is more likely than not that all or a portion of the deferred income tax assets will not be realized. See note 10g for additional information regarding the composition of the deferred taxes.
- 2) Upon the distribution of dividends from the tax-exempt income of “Approved Enterprises” (see also notes 9c(2) and 10g(5)), the amount distributed will be subject to tax at the rate that would have been applicable had the Company not been exempted from payment thereof. The Company intends to permanently reinvest the amounts of tax exempt income and it does not intend to cause distribution of such dividends. Therefore, no deferred income taxes have been provided in respect of such tax-exempt income.
- 3) The Group may incur an additional tax liability in the event of an inter-company dividend distribution from foreign subsidiaries; no additional deferred income taxes have been provided, since it is the Group’s policy not to distribute, in the foreseeable future, dividends which would result in additional tax liability.
- 4) Taxes which would apply in the event of disposal of investments in foreign subsidiaries have not been taken into account in computing the deferred income taxes, as it is the Company’s policy to hold these investments, not to realize them.
- 5) Effective January 1, 2007, the Company adopted FIN 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FAS 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes, and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company’s accounting policy, pursuant to the adoption of FIN 48, is to classify interest and penalties recognized in the financial statements relating to uncertain tax positions under the provision for income taxes.

The adoption of FIN 48 resulted in the recording as of January 1, 2007, of an increase of the tax liabilities totaling \$2,495,000 (including interest in the amount of \$222,000) associated with tax benefits and other uncertainties related to tax returns, which was accounted for as a reduction of the retained earnings balance as of January 1, 2007.

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

**I. Revenue recognition**

The Group derives its revenues from the licensing of integrated software products, and to some extent from the sale of complementary computer and other hardware equipment, all of which it classifies as revenues from product sales. The Group also derives revenues from maintenance and other professional services which are principally software changes and enhancements requested by customers as well as on-line application, information and messaging services, mostly associated with products sold by the Group and which it classifies as revenues from services and projects.

Revenues from sales of products and software license agreements are recognized when all of the criteria in Statement of Position (“SOP”) 97-2, “Software Revenue Recognition” as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions”, herein referred to as SOP 97-2, are met. Revenues from products and license fees are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, no further obligations exist and collectability is probable.

Revenues from software licenses and or sale of products that require significant customization, integration and installation are recognized based on SOP 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts”, according to which revenues are recognized on a percentage of completion basis. Percentage of completion is determined based on the “Input Method” when collectability is probable. Provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of the losses is identified. As of December 31, 2008, no such estimated losses were identified.

Where software license arrangements involve multiple elements (mostly software licenses, maintenance and other professional services), the arrangement consideration is allocated using the residual method. Under the residual method, revenue is recognized for the delivered elements when (1) Vendor Specific Objective Evidence (“VSOE”) of the fair values of all the undelivered elements exists, and (2) all revenue recognition criteria of SOP 97-2, as amended, are satisfied. Under the residual method, any discount in the arrangement is allocated to the delivered element. The Company’s VSOE of fair value for maintenance is based on a consistent statistical renewal percentage derived from the majority of maintenance renewals. Revenues from maintenance services are recognized ratably over the contractual period or as services are performed.

Revenues from professional services that are not bundled or linked to a software sale are recognized as services are performed.

Hardware sales are recognized on a gross price basis, in accordance with Emerging Issues Task Force (“EITF”) 99-19, “Reporting Gross Revenue as a Principal versus Net as an Agent”.

In cases where the products are sold to smaller retailers, through resellers, revenues are recognized as the products are supplied to the resellers in accordance with the provisions of FAS No. 48 – “Revenue Recognition When Right of Return Exists”. In specific cases where resellers have right of return or the Company is required to repurchase the products or in case the Company guarantees the resale value of the products, revenues are recognized as the products are delivered by the resellers.

**RETALIX LTD**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

Revenues from on-line application, information and messaging services, are recognized as rendered in accordance with the provisions of Staff Accounting Bulletin No. 104 of the Securities and Exchange Commission.

Deferred revenue includes advances and payments received from customers, for which revenue has not yet been recognized as well as obligations related to the provision of maintenance services.

The Company recognizes revenues net of VAT.

**m. Research and development**

Research and development expenses are charged to income as incurred. Participations and grants in respect of research and development expenses are recognized as a reduction of research and development expenses as the related costs are incurred, or as the related milestone is met. Upfront fees received in connection with cooperation agreements are deferred and recognized over the period of the applicable agreements as a reduction of research and development expenses.

In connection with a business combination, amounts assigned to tangible and intangible assets to be used in a particular research and development project that have not reached technological feasibility and have no alternative future use are charged to “acquisition of research and development in process” at the acquisition date

**n. Concentration of credit risk**

Financial instruments, which potentially subject the Company to credit risk, consist principally of marketable securities, trade receivables (including allowance for doubtful accounts) and interest bearing investments. The cash and cash equivalents as of December 31, 2008 are deposited mainly with leading Israeli and U.S. banks. As of December 31, 2008, the Company had an investment of \$0.3 million of a security held in ARS – see note 1d. In the opinion of the Company, the credit risk inherent in these balances is remote. In addition, the Company performs on-going credit evaluations of its clients and generally does not require collateral.

**o. Allowance for doubtful accounts**

The allowance for doubtful accounts is determined on the basis of rates applied to customer balances in accordance with aging and on the basis of analysis of specific debts which are doubtful of collection. In determining the allowance for doubtful accounts, the Group considers, among other things, its past experience with such customers, the economic environment, the industry in which such customers operate, financial information available on such customers, etc.

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

**p. Earnings per share (“EPS”)**

Basic EPS is computed by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted EPS reflects the increase in the weighted average number of shares outstanding that would result from the assumed exercise of options, calculated using the treasury-stock method in accordance with FAS No. 128, “Earnings Per Share” (“FAS 128”). The options of certain subsidiaries (see note 9b(2)) have no effect on the Company’s diluted EPS since their effect on the subsidiaries EPS is anti-dilutive. As to the data used in the per share computation, see note 15d.

**q. Other comprehensive income (loss)**

Other comprehensive income (loss), presented in shareholders’ equity, represents currency translation adjustments of non-dollar currency financial statements of a subsidiary, of an associated company and in 2007 and 2008 the unrealized losses of investment in available for sale security (accumulated balance at December 31, 2008, 2007 and 2006, is \$328,000, \$298,000 and \$102,000, respectively).

**r. Stock based compensation**

The Company accounts for stock based compensation to employees in accordance with FAS No. 123 (revised 2004), “Share-Based Payment” (“FAS No. 123 (R)”), which was adopted effectively commencing January 2006.

The Company uses historical stock price volatility as the expected volatility assumption required in the Black-Scholes option valuation model. As equity-based compensation expense recognized in the Company’s consolidated statement of income is based on awards ultimately expected to vest, such expense has been reduced for estimated forfeitures. FAS 123(R) requires future forfeitures to be estimated at grant date and at each balance sheet date thereafter.

The Company accounts for equity instruments issued to third party service providers (non-employees) in accordance with the fair value based on an option-pricing model, pursuant to the guidance in EITF 96-18 “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services”.

The fair value of the options granted to employees and third party services is revalued over the related service periods and recognized over the vesting period using the accelerated method.

The total compensation costs recognized in the year ended December 31, 2008, 2007 and 2006 income statement for stock-based employee compensation awards were \$3,846,000, \$3,017,000 and \$2,923,000, respectively, net of the tax effect of \$393,000, \$40,000 and \$45,000, respectively.

The total compensation costs recognized in the year ended December 31, 2008, 2007 and 2006 income statement for stock-based non employee compensation awards were \$475,000, \$799,000 and \$516,000, respectively, net of the tax effect of \$63,000, \$33,000 and \$237,000, respectively.

**RETALIX LTD**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

**s. Advertising expenses**

These costs are charged to selling and marketing expenses as incurred. Advertising expenses totaled \$2,175,000, \$2,820,000 and \$2,095,000 in the years ended December 31, 2008, 2007 and 2006, respectively.

**t. Derivative financial instruments**

The Company has only limited involvement with foreign exchange derivative financial instruments (forward exchange contracts). The transactions are designed to hedge the currency exposure on identifiable assets and liabilities in currencies other than the functional currency. These contracts do not qualify for hedge accounting under FASB Statement No. 133 “Accounting for Derivative Instruments and Hedging Activities”(“FAS 133”). As a result, changes in the fair value of derivatives are reflected, as incurred, in the statements of income and included in “financial income (expenses) – net”.

**u. Sale of receivables**

The Group factored some of its trade receivables. The factoring is effected through banks, on a non-recourse basis. The transfer of accounts receivable qualify as a sales transaction under the provisions of FASB Statement No.140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (“FAS 140”). The resulting costs are charged to financial income (expenses) – net, as incurred. The balance of factored receivables amounted approximately \$1,094,000 and \$10,448,000 as of December 31, 2008 and 2007, respectively. The expenses resulting from the sales of trade receivables in the years ended December 31, 2008, 2007 and 2006 amounted to \$0, \$1,862,000 and \$1,482,000, respectively, and are included in financial expenses. In the fourth quarter of 2007 the company decided to discontinue the factoring of receivables.

**v. Fair Value Measurement**

Effective January 1, 2008, the Company adopted FAS 157, “Fair Value Measurements”and, effective October 10, 2008, adopted FSP No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active”, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. FAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, FAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 –           Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 –           Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 –           Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For further disclosure, see note 6 and 13.

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

**w. Staff Accounting Bulletin No. 108 (“SAB 108”)**

In September 2006, the SEC staff issued SAB 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements”. SAB 108, requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company’s financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and the roll-over methods.

**x. Recently Adopted Standards**

- 1) In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“FAS 159”). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We adopted the provisions of FAS 159 on January 1, 2008, and have elected not to measure any of our current eligible financial assets or liabilities at fair value.

**y. Newly issued accounting pronouncements:**

- 1) In December 2007, the FASB issued FAS No. 141(R), *Business Combinations* (“FAS 141(R)”). FAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. FAS 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company will be required to adopt SFAS 141(R) on January 1, 2009, and currently assessing the impact that it will have on the Consolidated Financial Statements.
- 2) In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin ARB No. 51, Consolidated Financial Statements* (“FAS 160”). FAS 160 requires (1) that non-controlling (minority) interests be reported as a component of stockholders’ equity, (2) that net income attributable to the parent and to the non-controlling interest be separately identified in the consolidated statement of operations, (3) that changes in a parent’s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (4) that any retained non-controlling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value and (5) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. FAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will be required to adopt SFAS 160 on January 1, 2009 and it does not expect the adoption of this Statement to have a material effect on the Consolidated Financial Statements.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

- 3) In March 2008, the FASB issued FAS No. 161, “*Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*” (“FAS 161”), which requires additional disclosures about the objectives of using derivative instruments; the method by which the derivative instruments and related hedged items are accounted for under FASB Statement No.133 and its related interpretations; and the effect of derivative instruments and related hedged items on financial position, financial performance, and cash flows. SFAS 161 also requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company will be required to adopt SFAS 161 on January 1, 2009. This Statement will not impact the consolidated financial results as it is disclosure-only in nature.
- 4) In April 2008, the FASB issued FAS No.142-3, “*Determination of the Useful Life of Intangible Assets*” (“FAS 142-3”). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142, “*Goodwill and Other Intangible Asset*” (“FAS 142”). More specifically, FAS 142-3 removes the requirement under paragraph 11 of FAS 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements.
- FAS 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements, regardless of whether those arrangements have explicit renewal or extension provisions, when determining the useful life of an intangible asset. In the absence of such experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for entity-specific factors. FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this pronouncement will not have a material impact on the financial statements.
- 5) In April 2009, the FASB issued FAS No. 157-4, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*” (“FAS 157-4”). FAS 157-4 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that indicate a transaction is not orderly. FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 on a prospective basis and will be adopted by the Company in the third quarter of fiscal 2009. The Company does not expect that the adoption of FAS 157-4 will have a material effect on its consolidated results of operations and financial condition.



**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**

- 6) In April 2009, the FASB issued FAS No. 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FAS 115-2 and FAS 124-2"). FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FAS 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009 and will be adopted by the Company in the third quarter of fiscal 2009. The Company does not expect that the adoption of FAS 115-2 and FAS 124-2 will have a material effect on its consolidated results of operations and financial condition.
- 7) In May 2009, the FASB issued FAS No. 165, "Subsequent Events" ("FAS 165"). FAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. FAS 165 is effective for interim or annual financial periods ending after June 15, 2009 and will be adopted by the Company in the third quarter of fiscal 2009. The Company does not expect the adoption of FAS 165 will have a material effect on its consolidated results of operations and financial condition.

**z. Reclassification**

Certain comparative figures have been reclassified to conform to the current year presentation.

**NOTE 2 – ACQUISITIONS:**

The results of the following acquisitions done by the Company to further expand its product offerings and market position are included in the Company's consolidated statement of income (loss) as of the date of the acquisition of each company.

- a. On August 15, 2008, the Company, through its subsidiary StoreAlliance.com Ltd. acquired the Supplier's Portal activity, an online inter business trading system, from Bezeq International Ltd for net consideration of NIS 1,025,000 (\$286,000). The identified intangible assets acquired included customer relationships of NIS 891,000 (\$247,000) to be amortized over an estimated useful life of 20 years. Goodwill arising on the acquisition amounted to NIS 134,000 (\$39,000)
- b. In March 2008, the Company through its subsidiary Retalix Holdings Inc. acquired an additional 5% of StoreNext USA and increased its holdings to 100%. The consideration the Company paid for this acquisition was \$625,000 in cash. The identified intangible assets acquired included customer relationships of approximately \$106,000 to be amortized over an estimated useful life of 15 years and trademark of approximately \$93,000 that is not being amortized. Goodwill arising on the additional acquisition amounted to approximately \$426,000.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 2 – ACQUISITIONS (continued):**

- c. On May 1, 2007, the Company, through its subsidiary Retalix Holdings Inc. acquired substantially all of the assets and certain identified liabilities of BGI International for \$1,370,000 in cash (including transaction costs in amount of \$20,000) and an additional \$150,000 were paid on the two year anniversary of the acquisition. In addition, up to an additional \$1.4 million will be payable by the Company over a three years period from the acquisition based on the excess of revenues derived from the BGI acquired assets over certain defined thresholds. The identified intangible assets acquired amounted to approximately \$736,000 and included customer relationships of approximately \$200,000 to be amortized over an estimated useful life of 6 years and acquired technology of approximately \$536,000 to be amortized over an estimated useful life of 3 years. Goodwill arising on the acquisition till December 31, 2008 amounted to approximately \$1,032,000 following an earn-out payment of \$89,000 during the year 2008. The goodwill is amortized for tax purposes over a period of 15 years.
- d. In August 2006, the Company acquired an additional 31% of the equity of P.O.S. (Restaurant Solutions) Ltd., or PRS. This acquisition increased the Company’s holdings in PRS to 100%. The consideration the Company paid for this acquisition was approximately \$730,000 in cash. Goodwill arising on the acquisition amounted to approximately \$288,000.
- e. In March 2006, the Company through its subsidiary Retalix Holdings Inc., acquired an additional 45% of the equity of StoreNext Retail Technology LLC (“StoreNext USA”) and increased its holdings in StoreNext USA to 95%. The consideration the Company paid for this acquisition was approximately \$4,875,000 in cash. The identified intangible assets acquired amounted to approximately \$1,553,000 and included mainly customer relationships of approximately \$833,000 to be amortized over an estimated useful life of 15 years. Goodwill arising on the acquisition amounted to approximately \$3,323,000.
- f. In February 2006, the Company, through its subsidiary Retalix Holdings Inc. acquired substantially all of the assets and liabilities of Base Products, Inc., a provider of a suite of hardware and software products and services for food and consumer goods retailers, for \$2,653,000 in cash. The identified intangible assets acquired amounted to approximately \$1,287,000 and included mainly customer relationships of approximately \$1,277,000 to be amortized over an estimated useful life of 15 years. Goodwill arising on the acquisition amounted to approximately \$1,614,000. The goodwill is amortized for tax purposes over a period of 15 years.

Following is the allocation of the purchase price of the 2008 acquisitions:

Year ended December 31, 2008			
Initially consolidated			
U.S. \$ in thousands			
	Goodwill arising on Acquisitions	Identified intangible assets	Total
Bezeq Int.	39	247	286
BGI	89	-	89
SN USA	426	199	625
	554	446	1,000

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT:**

- a. Composition of property, plant and equipment, grouped by major classification is as follows:

	December 31	
	2008	2007
U.S. \$ in thousands		
Computers and peripheral equipment	15,514	18,729
Land lease rights and buildings	13,043	9,901
Vehicles	470	538
Office furniture and equipment	4,334	5,137
Leasehold improvements	2,417	2,404
	35,778	36,709
Less - accumulated depreciation	21,044	24,141
	14,734	12,568

- b. As to geographical locations, see note 14b.

- c. Depreciation expenses totaled \$2,941,000 \$3,352,000 and \$3,431,000, in the years ended December 31, 2008, 2007 and 2006, respectively.

**NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS:**

- a. **Goodwill**

The changes in the carrying amount of goodwill for each reportable geographical segment are as follows:

	U.S.	Israel	International (Europe)	Total
	U.S \$ in thousands			
Balance as of January 1, 2007	99,529	3,801	4,176	107,506
Goodwill attributed to new subsidiaries acquired during 2007 and additional investments in subsidiaries	4,916	-	-	4,916
Differences from translation of non dollar currencies	-	-	387	387
Other adjustments*	(3,883)	-	-	(3,883)
Balance as of December 31, 2007	100,562	3,801	4,563	108,926
Goodwill attributed to new business acquired during 2008 and additional investments in subsidiaries	515	39		554
Differences from translation of non dollar currencies			(196)	(196)
Other adjustments*	(442)			(442)
Impairment of goodwill	(58,182)			(58,182)
Balance as of December 31, 2008	42,453	3,840	4,367	50,660

\* Mainly from changes in deferred tax assets resulting from business combinations.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS (continued):**

The Company identified its various reporting units, which consist of geographical areas, and for which separately identifiable cash flow information is available. The Company uses a valuation model of future discounted cash flows to determine the fair value of the reporting units and whether any impairment of goodwill exists.

In December 2008 the company performed its annual goodwill impairment test on the goodwill acquired in its various reporting units. As a result of the decrease in the Company's market capitalization in the latter part of 2008 and the global economic downturn that negatively affected the computer software market, in December 2008 the Company determined that the carrying value of the goodwill exceeded its fair value. The Company further concluded in its goodwill impairment test that the goodwill acquired in the US reporting unit had been impaired and therefore, in the fourth quarter of 2008, an impairment charge of \$58.2 million was recorded.

**b. Intangible assets:**

- 1) The following table presents the components of the Company's acquired intangible assets with definite lives:

	Weighted average amortization period Years	Original amount December 31		Amortized balance December 31	
		2008	2007	2008	2007
		U.S. \$ in thousands			
Customer relationship	14.8	24,925	24,572	15,386	16,450
Acquired technology	4.4	10,777	10,777	1,701	3,516
Distribution rights	-	759	759	11	19
Other identified intangible assets	3.9	2,030	1,937	701	694
<b>Total</b>		<b>38,491</b>	<b>38,045</b>	<b>17,799</b>	<b>20,679</b>

- 2) Intangible assets amortization expenses totaled \$3,310,000, \$3,595,000 and \$5,130,000 in the years ended December 31, 2008, 2007 and 2006, respectively. Future annual amortization expenses are approximately \$2,750,000, \$1,756,000, \$1,354,000, \$1,318,000 and \$1,318,000 in 2009, 2010, 2011, 2012 and 2013, respectively.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 5 – LONG-TERM LOANS, NET OF CURRENT MATURITIES:**

- a. Long-term loans classified by currency of repayment are as follows:

	Interest rate as of December 31, 2008	December 31	
		2008	2007
		U.S. \$ in thousands	
		%	
Bank loan -			
In EURO	Fixed at 2%		911
Other:			
Loan from shareholders of a subsidiary	LIBOR*+0.75%		133
			140
			772
Less - current maturities			258
			523
			786

\* The \$ LIBOR rate as of December 31, 2008 – 1.425%.

- b. The loans (net of current maturities) mature in the following years after the balance sheet date:

	December 31	
	2008	2007
		U.S. \$ in thousands
2009		263
2010	254	269
2011	129	121
2012 and thereafter (through 2013)	140	133
	523	786

**NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:**

As described in Note 1, the provisions of FAS 157 were adopted by the Company on January 1, 2008 for financial assets and liabilities.

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by FAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at December 31, 2008				
	Total	Level 1	Level 2	Level 3	
		U.S. \$ in thousands			
Marketable securities*	2,749	2,749			
Derivatives**	103		103		
ARS, see below	300			300	

\* Marketable securities consist mainly of debt securities classified as trading and are recorded at fair value.

\*\* Derivatives represent foreign currency forward contracts and cylinders which are valued primarily based on observable inputs including forward and spot prices for currencies.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):**

The Company's marketable debt securities at December 31, 2008 include investments in ARS. Those securities, except for illiquid ARS, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in an active market.

The following table summarizes the activity for the ARS where fair value measurements are estimated utilizing Level 3 inputs:

	U.S. \$ in thousands
Carrying value as of January 1, 2008	800
Changes to fair value:	
Included in earnings-financial expenses	(500)
Carrying value as of December 31, 2008	300

As of December 31, 2008 and 2007, the Company held ARS which failed auctions, in an amount of \$1 million at par value. Fair value for this ARS, as explained in note 1d, was determined using a valuation model. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee based on the credit rating, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. As of December 31 2007 \$ 200,000 were reflected in other comprehensive loss. As of December 31 2008, unrealized losses considered to be other than temporary in the amount of \$ 700,000 (including \$200,000 in other comprehensive loss) are reflected in financial expenses.

**NOTE 7 – EMPLOYEE RIGHTS UPON RETIREMENT:**

- a. Israeli, Italian, U.K. and Australian labor laws generally require payment of severance pay upon dismissal of an employee or upon termination by the employees of employment in certain other circumstances. The severance pay liability of the Israeli companies and one of the Italian subsidiaries in the Group to their employees, which reflects the undiscounted amount of the liability, is based upon the number of years of service and the latest monthly salary, and is partly covered by insurance policies and by regular deposits with recognized severance pay funds. The amounts funded as above are presented among non-current assets. The Israeli companies in the Group may only make withdrawals from the amounts funded for the purpose of paying severance pay.
- b. Some of the Company's U.S. subsidiaries provide 401 (k) plans for the benefit of their employees. Under these plans, contributions are based on a specified percentage of pay.
- c. The severance expenses amounted to \$ 2,195,000, \$3,417,000 and \$2,469,000 in the years ended December 31, 2008, 2007 and 2006, respectively. The 401 (k) plans expenses as mentioned in b. above amounted to \$725,000 \$985,000 and \$1,029,000 in the years ended December 31, 2008, 2007 and 2006, respectively.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 7 – EMPLOYEE RIGHTS UPON RETIREMENT (continued):**

- d. The profits (loss) on the amounts funded totaled \$ (312,000), \$950,000 and \$580,000 in the years ended December 31, 2008, 2007 and 2006, respectively.
- e. Cash flow information regarding the Company's liability for employee rights upon retirements:
- 1) The Group expects to contribute in the year ending December 31, 2009, \$3,148,000 to the insurance companies and severance pay funds in respect of its severance pay obligation.
  - 2) The Company expects to pay \$490,000 future benefits to its employees during 2009 to 2018 upon their normal retirement age – see breakdown below. The amount was determined based on the employee's current salary rates and the number of service years that will be accumulated upon the retirement date. These amounts do not include amounts that might be paid to employees that will cease working for the Company before their normal retirement age.

	U.S. \$ in thousands
Year ending December 31:	
2009	56
2010	56
2011	101
2012	53
2013	50
Thereafter (through 2014)	174
	490

**NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES:**

**a. Commitments:**

- 1) Lease agreements:

The Group has entered into operating lease agreements for the premises it uses; the last lease expires in 2013. In addition, the Company leases vehicles under standard commercial leases for periods of three years per vehicle.

The projected charges under the above leases are mainly denominated in U.S. \$, at rates in effect as of December 31, 2008, as follows:

	U.S. \$ in thousands
Year ending December 31:	
2009	5,905
2010	3,473
2011	1,483
2012	1,019
2013	341
	12,221

Office and vehicles lease expenses totaled \$7,748,000, \$4,639,000 and \$4,735,000 in the years ended December 31, 2008, 2007 and 2006, respectively.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):**

- 2) Effective April 1, 1998, the Company's Chief Executive Officer ("the CEO"), is entitled to receive a bonus subject to the Company's attaining certain performance milestones: For the first \$1,000,000 of the Company's net income, he is entitled to a bonus of \$65,000 and for every subsequent \$1,000,000 of net income \$5,000 less than the entitlement in respect of the previous \$1,000,000, but not less than a bonus of \$35,000 for every million dollars over the seventh million of net income. In the event that the bonus is less than \$50,000 or the Company incurred a loss for any particular financial year, the compensation committee shall be entitled to determine that the CEO shall receive a bonus of up to \$50,000, without further authorization by the board of the shareholding.

In addition, according to the same arrangement, the CEO is entitled to options to be granted beginning each calendar year equal to 1% of the Company's issued share capital per grantee for each year. Options granted starting January 1, 2009 are subject to shareholders' approval. The exercise price of the options is equal to the closing market price of the shares at the day preceding the grant date. The options are fully vested and shares are blocked over three years from grant date, and become exercisable in three equal portions at the end of each year during said three-year period.

- 3) Royalty commitments:

The Company and some of its subsidiaries are committed to pay the Government of Israel royalties on revenues derived from certain products, the research and development of which, is partly financed by royalty-bearing Government participations. These funding programs are managed by the Israeli government within the jurisdiction of The Ministry of Commerce and Industry and specifically by the Office of the Chief Scientist. At the time the grants were received, successful development of the related projects was not assured.

In case of failure of a project that was partly financed, the Company is not obligated to pay any such royalties. Under the terms of these funding programs, royalties of 3%-3.5% are payable on sales of products developed under such funding programs, up to 100% of the amount of funding received (dollar linked and bearing annual interest at the LIBOR rate).

Payment of royalties on account of development projects funded as above is conditional upon the ability to generate revenues from products developed under such projects. Accordingly, the Group is not obligated to pay any royalties on account of funded projects, which fail to generate revenues.

As of December 31, 2008, maximum royalty the company might be required to pay in the future on account of projects funded under the Office of the Chief Scientist is \$5,787,000, including interest.



**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):**

**b. Contingent liabilities:**

Lawsuits against the Company and its subsidiaries:

- 1) Prior to the acquisition of Retail Control Systems Inc., or RCS, a legal claim was filed against RCS in the Circuit Court of the Seventeenth Judicial Circuit, County of Winnebago, Illinois, by a dealer who sold one of RCS's products early in 1994, and claims that RCS promised features and enhancements were never delivered. The damages claimed in this suit are uncertain and the Company does not foresee any material effect on the financial statements.  
  
The claim is covered and handled by RCS's errors and omissions insurers. The limit of liability under the relevant errors and omissions insurance policy was \$1,000,000 per claim and in aggregate. The court recently set this matter for trial to begin on November 9, 2009. The Company is of the opinion that RCS has meritorious defenses against this claim and that it will not result in any material expense and therefore no provision was recorded in regard to this claim as of December 31, 2008.
- 2) In June 2006, a customer in the U.S ("the customer"), filed in the District Court of Madison County, Nebraska, complaint against the Company's subsidiary, Retalix USA Inc. ("Retalix USA") and IDS, in which it asserts claims for misrepresentation and concealment, breach of contract and breach of warranties arising from its contract with IDS. In August, 2006, the action was removed to the U.S. District Court for the District of Nebraska, and IDS filed a motion to compel arbitration and Retalix USA filed a motion to dismiss the complaint on various grounds. In September, 2006, the customer opposed to these motions. In October, 2006, the court granted IDS's motion to compel arbitration and reserved judgment on Retalix USA's motion to dismiss the complaint and stayed the federal action, all pending the outcome any arbitration. In February, 2007, Retalix USA filed a Demand for Arbitration against the customer with the American Arbitration Association in Dallas, Texas, seeking to recover damages, interest and attorney's fees in excess of \$2.3 million as a result of the customers failure to pay for products delivered and services rendered as well as other misconducts. In February, 2007, the customer filed a Counterclaim and Demand for Arbitration seeking to recover damages, interest, taxable arbitration costs and attorney's fees in excess of \$9.9 million for breach of contract, breach of warranties and other misconducts. In August 2007 the arbitrators approved a preliminary hearing scheduling order, according to which the parties exchanged discovery requests, written responses and documents. In November 2007 the customer filed a statement of damages alleging total damages in excess of \$22 million. In March 2009, the arbitrators awarded Retalix USA \$2.5 million in compensatory damages. In April 2009, the customer paid the arbitration award amount in full and will be included in the Company's statement of income. In April 2009, the Nebraska federal court affirmed the arbitration award, entered judgment in favor of Retalix USA and against the customer, and dismissed, with prejudice, the customer's claim against Retalix USA and IDS.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):**

- 3) In March 2007, a customer in the U.S., filed in the District Court of El Paso County, Texas, a complaint against Retalix USA, seeking actual and consequential damages in excess of \$270,000 and in addition, other damages totaling three times the actual damages, as well as attorney's fees, expenses and interest for breach of contract, breach of warranty and other misconducts. In April 2007 Retalix USA filed its Original Answer and counterclaim against the customer for breach of contract, pursuant to which Retalix USA seeks \$ 214,000 plus interest and attorney's fees for breach of contract. In April 2009 this matter was settled, the customer signed for a long term maintenance agreement with no impact on the financial statements.
- 4) In September, 2006, a former employee of one of the Company's Israeli subsidiaries ("Tamar"), who was employed by said subsidiary prior to its acquisition by the Company, submitted in the magistrates court in Kfar Saba a claim against the subsidiary according to which one of the former managers of the subsidiary allegedly treated him harshly, which caused the plaintiff severe mental damage and disability. The damages claimed under this claim total approximately \$368,000. In January 2007, Tamar's insurance company confirmed that Tamar is covered for any damages resulting from this claim. The Company is of the opinion that its exposure due to this claim is immaterial and thus no provision was recorded in regard to this claim as of December 31, 2008.
- 5) In January 2007 as part of the liquidation of Pantin Group Ltd ("Pantin"), the liquidator of Pantin submitted in the district court a claim against the Company, according to which the Company needed to provide sales reports as of December 2006 for certain customers of the Company. Retalix submitted audited sales reports as requested. Settlement has been reached and approved on March 2009 in the amount of 25,000 Euro that have been accrued.
- 6) The Company and its subsidiaries are also parties to several other claims filed against them totaling approximately \$172,000. In addition, the Company and its subsidiaries are parties to several disputes with former or current customers and service providers. These disputes, estimated at a total of \$514,000, have not materialized to court claims and some of them are in mediation. The Company is of the opinion that its exposure due to the claims above is immaterial and thus no provision was recorded in regard to these claims as of December 31, 2008.

**NOTE 9 – SHAREHOLDERS' EQUITY:**

**a. Share capital:**

- 1) The Company's shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company and right to receive dividends, if and when declared.
- 2) As to shares issued in consideration for acquisitions of subsidiaries, see note 2.

**NOTE 9 – SHAREHOLDERS' EQUITY (continued):**

**b. Stock based compensation:**

1) Company's Option plans:

On March 5, 1998, the Company's Board of Directors approved the Second 1998 Share Option Plan ("the Second 1998 Plan" or the "US Plan"). Under the Second 1998 Plan (as was amended from time to time) up to 5,000,000 options are available for grant to employees, directors and consultants of the Company, to purchase Ordinary shares of the Company. Each option is exercisable into one ordinary share of the Company. The exercise price of each option under this plan is to be at least equal to the fair value of one Ordinary share at the grant date. Unless terminated earlier, the options will expire starting from 2005 through May 2012. These options vest over the period of 0 – 3.5 years.

On November 19, 2007, the Company's Board of Directors amended the "Second 1998 plan" share Option Plan" (the "US Plan") so as to enable to grant of Restricted Stock Units pursuant to such US Plan.

In addition, on November 19, 2007, the Company's Board of Directors approved an increase of the pool of authorized and unissued Ordinary Shares for the purpose of grant of awards under the "Second 1998 Plan" by 2,000,000 shares, such that the aggregate pool of reserved shares shall be of 7,000,000 shares.

As of December 31, 2008 and 2007, 2,370,213 and 1,990,597 options, respectively remained available for grant under the Second 1998 Plan.

Through December 31, 2008 and 2007, 3,614,603 and 3,300,470 options, respectively, have been exercised under the Second 1998 Plan at exercise prices ranging between \$8.75 and \$14.875 per share.

On May 10, 2004, the Company's Board of Directors approved the 2004 Israeli Share Option Plan (the "Israeli Plan"). Under the Israeli Plan up to 2,000,000 options can be granted to Israeli employees, directors and consultants of the Company to purchase Ordinary shares of the Company. Each option is exercisable into one Ordinary share of the Company. Unless terminated earlier, the options granted to date under the Israeli Plan will expire under the terms of the option agreements beginning in May 2008 through May 2010. These options vest over the period of 0 – 3.5 years.

On November 19, 2007, the Company's Board of Directors amended the company's "2004 Israeli Plan" so as to enable to grant of Restricted Stock Units pursuant to such Israeli Plan.

As of December 31, 2008 and 2007, 1,065,293 and 353,884 options, respectively remained available for grant under the Israeli Plan.

Through December 31, 2008 and 2007, 149,967 and 75,711 options, respectively have been exercised under the Israeli Plan.

During 2007 and 2008 the Company's Board of Directors approved to grant up to an aggregate of 329,750 Restricted Stock Units ("RSUs"), in an exercise price of NIS 1, pursuant to the Israeli Plan and the US Plan, exercisable into Shares of the Company to Israeli employees or consultants of the company and to US employees. As of December 31, 2008, 199,578 RSUs are nonvested and 55,916 are forfeited.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 9 – SHAREHOLDERS' EQUITY (continued):**

The options and the RSUs granted under the Israeli Plan are all subject to the “capital gains taxation route” under Section 102 of the Income Tax Ordinance [New Version], 1961, which generally provides for a reduced tax rate of 25% on gains realized upon the exercise of options and sale of underlying shares, subject to the fulfillment of certain procedures and conditions. Under the “capital gains taxation route,” the Company is not entitled to recognize a deduction for tax purposes of the gain recognized by the employee upon sale of the shares underlying the options.

Compensation expense in respect of the CEO entitlement to options. Total expenses in the years ended December 31, 2008, 2007 and 2006 in respect of these options, before the tax effect, were \$538,000, \$832,000 and \$923,000, respectively.

Following is a summary of the status of the option plans:

	2008		2007		2006	
	Number of options and RSUs	Weighted average exercise price	Number of options and RSUs	Weighted average exercise price	Number of options	Weighted average exercise price
	U.S. \$		U.S. \$		U.S. \$	
Options and RSUs outstanding at beginning of year	3,279,338	16.53	3,091,410	18.05	2,134,998	17.63
Changes during the year:						
Granted	254,764	12.29	671,135	10.37	1,325,090	18.07
Exercised*	(388,389)	10.21	(180,692)	13.36	(204,451)	13.16
Forfeited or expired	(1,345,789)	17.81	(302,515)	20.36	(164,227)	18.79
Options and RSUs outstanding at end of year**	1,799,924	16.33	3,279,338	16.53	3,091,410	18.05
Options and RSUs exercisable at year-end	869,044	19.24	1,798,963	17.88	1,429,256	17.18
Weighted average grant date fair value of options and RSUs granted during the year		5.4		10.3		6.10

\* The total intrinsic value of options exercised during the years ended December 31 2008, 2007 and 2006 is \$1,124,083, \$1,163,741 and \$1,492,000, respectively.

\*\* As of December 31, 2008, there was \$2,430,687 of total unrecognized compensation cost (net of forfeitures) related to nonvested share-based compensation arrangements granted under the plans. The weighted average realization period of the above unrecognized compensation cost was 1.37 years.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 9 – SHAREHOLDERS' EQUITY (continued):**

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Following are the relevant weighted average assumptions:

	Year ended December 31		
	2008	2007	2006
Dividend yield	0%	0%	0%
Expected volatility	65%-69%	33%-42%	33%-42%
Risk free interest rate	1%-3%	3%-5%	3%-5%
Expected holding period (in years)	3-4	2.5-4	3-4

The following table summarizes information about options and RSUs under the Company's plans outstanding at December 31, 2008:

Exercise price U.S.\$	Number of options and RSUs outstanding at December 31, 2008	Aggregate intrinsic value * in U.S. \$ In thousands	Number of options and RSUs exercisable at December 31, 2008	Aggregate intrinsic value * in U.S. \$ In thousands	Weighted average remaining contractual life (in years) of options and RSUs outstanding	Weighted average remaining contractual life (in years) of exercisable options and RSUs
RSUs 0.25	199,578	1,148	-	-	1.96	-
15.55	402,500	-	257,500	-	1.61	1.61
15.58	200,014	-	-	-	3.00	3.00
16.29	196,135	-	65,378	-	2.00	2.00
18.54	100,000	-	33,333	-	2.93	2.93
18.55	355,000	-	230,833	-	1.61	1.61
23.02	127,607	-	127,607	-	0.50	0.50
24.46	194,090	-	129,393	-	1.00	1.00
26.00	25,000	-	25,000	-	0.50	0.50
	1,799,924	1,148	869,044	-	**1.77	**1.41

\* Based on the Company's share last known closing price at the Nasdaq Global Select Market as at December 31, 2008, of \$6 per share.

\*\* The weighted average in respect of all the options and RSUs.

**NOTE 9 – SHAREHOLDERS' EQUITY (continued):**

2) Stock option plan of subsidiaries:

- a) On December 4, 2000, a subsidiary's board of directors approved an employee stock option plan ("the Subsidiary Plan"). Pursuant to the Subsidiary Plan, 270,000 Ordinary shares, of NIS 0.01 par value, of the subsidiary are reserved for issuance upon the exercise of options to be granted to some of the Company's and of the subsidiary's employees. In addition, within the context of an investment agreement signed on December 31, 2000, additional options to purchase 90,000 shares of NIS 0.01 par value each were granted to an investor. Virtually all of the above mentioned options except those granted to the investor vest as follows: 33.33% after the first year, another 33.33% after the second year and another 33.33% after the third year, (in cases where the optionee is an employee of the Company or its subsidiary – provided that the employee is still the subsidiary's or the Company's employee). In addition, all the above options including those granted to the investor are not exercisable prior to: (1) the consummation of an IPO of the subsidiary's securities, (2) a merger of the subsidiary or (3) seven years from the date of grant. The rights conferred by Ordinary shares obtained upon exercise of the options will be identical to those of the other Ordinary shares of the subsidiary. Any option not exercised within 10 years of grant date, will expire.

Some of the options under the Subsidiary Plan are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Among other things, the Ordinance provides that the subsidiary will be allowed to claim as an expense for tax purposes the amounts credited to the employees as a benefit, when the related tax is payable by the employee.

During 2001, the subsidiary granted the said options to purchase 270,000 shares partly at an exercise price per share of NIS 0.01, and to two employees at an exercise price of \$5.55. During November 2008 65,000 options were exercised to shares. As of December 31, 2008, all of the unexercised options were forfeited.

On November 23, 2004, the above subsidiary's board of directors approved an additional employee stock option plan ("the Subsidiary 2004 Plan"). Pursuant to the Subsidiary 2004 Plan, options to purchase 36,000 ordinary shares, of NIS 0.01 par value each, were granted on December 31 2004, to certain employees of the subsidiary all subject to the taxation route for grants under Section 102 of the Income Tax Ordinance [New Version], 1961. All options granted under the Subsidiary 2004 Plan bear an exercise price of \$5.55 and vest as follows: 33.33% after the first year, another 33.33% after the second year and another 33.33% after the third year (in cases where the optionee is an employee of the Company or its subsidiary – provided that the employee is still employed by the subsidiary or the Company at the date of vesting). In addition, the options are not exercisable prior to: (1) the consummation of an IPO of the subsidiary's securities, (2) a merger of the subsidiary or (3) seven years from the date of grant.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 9 – SHAREHOLDERS' EQUITY (continued):**

- b) On December 1, 2004, the board of directors of another subsidiary (the "Additional Subsidiary") approved an employee stock option plan ("the Additional Subsidiary Plan"). Pursuant to the Additional Subsidiary Plan, options to purchase up to 1,500,000 shares of the Additional Subsidiary can be granted to its employees, officers and other service provider providing services to the Company or any affiliate. In addition, the Additional Subsidiary Plan stipulates that options granted pursuant to it, are not to be exercised prior to: (1) the conversion of the corporate entity of the Additional Subsidiary from a limited liability company, to a C corporation or (2) the consummation of an IPO of the Additional Subsidiary's securities, (3) a merger or a significant change of control in the Additional Subsidiary or (4) five years from the date of grant. Accordingly, on December 14, 2004, the Additional Subsidiary granted options to acquire 1,169,000 of its shares, of which 639,000 options were granted to its employees, and 530,000 options were granted to employees of affiliates. The options granted bear an exercise price of \$0.3748, which reflects the market value per share according to an independent valuation. Through December 31, 2008, 31,000 of these options were forfeited. In addition, on July 31, 2006 additional options to acquire 84,000 of the Additional Subsidiary's shares were granted to its employees at an exercise price of \$0.9422 a share, which reflects the market value per share according to the management valuation. All of these Additional Subsidiary options vest seven years from grant and have full vesting upon an IPO or change of control or upon the administrating committee discretion, accelerated vesting in the event of merger, sale, disposition, or initial public offering of the majority interest of the subsidiary. Through December 31, 2008, 47,000 of these options were forfeited. The plan shall terminate ten years from the grant date.

**c. Dividends:**

- 1) In the event that cash dividends are declared by the Company, such dividends will be paid in Israeli currency. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency, at the rate of exchange prevailing at the time of conversion.

The Company's board of directors is authorized to declare dividends, subject to applicable law. Dividends may be paid only out of profits and other surplus, as defined in the Israeli Companies Law, as of the end of the most recent financial statements or as accrued over a period of two years, whichever is higher. Alternatively, if the Company does not have sufficient profits or other surplus, then permission to effect a distribution can be granted by order of an Israeli court. In any event, a distribution is permitted only if there is no reasonable concern that the dividend will prevent the Company from satisfying the Company's existing and foreseeable obligations as they become due.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 9 – SHAREHOLDERS' EQUITY (continued):**

- 2) Out of the Company's retained earnings as of December 31, 2008 and 2007, approximately \$40,079,000 and \$17,365,000 are tax-exempt respectively, due to "Approved Enterprise" status granted to some of the Company's facilities – see note 10b. If such tax-exempt income is distributed by cash dividend (including a liquidation dividend), it would be taxed at the reduced corporate tax rate applicable to such profits (25%) and an income tax liability of up to approximately \$10,020,000 and \$4,340,000 would be incurred as of December 31, 2008 and 2007, respectively. The Company's board of directors has determined that it will not distribute any amounts of its undistributed tax exempt income as dividends. The Company intends to reinvest the amount of its tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to the Company's "Approved Enterprise" as the undistributed tax exempt income is essentially permanent in duration. See also notes 10b and 10g(5).

**NOTE 10 – TAXES ON INCOME:**

**a. Corporate taxation in Israel:**

Tax rates:

- 1) The income of the company and its Israeli subsidiaries (other than income from "approved enterprises", see b. below) is taxed at the regular rate. According to the provisions of the Law for Amending the Israel Income Tax Ordinance, 2005 (hereinafter – Amendment 147) of August 2005, corporate tax rates will be gradually lowered, resulting in the corporate following tax rates for 2006 and thereafter are as follows: 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and for 2010 and thereafter – 25%.

- 2) Subsidiaries outside Israel:

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. Our U.S. subsidiaries are taxed on a consolidated basis. The enacted statutory tax rates applicable to our primary subsidiaries outside Israel are as follows:

Company incorporated in the U.S. – tax rate of 37%-40%.

Company incorporated in Italy – tax rate of 33%.

Companies incorporated in Australia, France, Japan and U.K. – tax rate of 30%-40%.

**b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the law")**

Some production facilities of the company have been granted approved enterprise status under the above law including Amendment No. 60 thereof, which became effective in April 2005, which is discussed below.

The company is entitled to additional tax benefits as "companies of foreign investors", as defined by the law.



**NOTE 10 – TAXES ON INCOME (continued):**

The main tax benefits available to the Company are:

1) Reduced tax rates:

In respect of income derived from the approved enterprises, the Company is entitled to benefits under the law's reduced tax rates during a period of seven years from the year in which such enterprises first earn taxable income (limited to twelve years from commencement of production or fourteen years from the date of approval, whichever is earlier).

The Company has nine approved enterprises.

Income derived from the approved enterprises is tax exempt during the first two years of the seven-year tax benefit period as above, and is subject to a reduced tax rate of 25% during the remaining five years of benefits.

As of December 31, 2008, the periods of benefits relating to six of the approved enterprises of the Company have already expired. The periods of benefits relating to other three approved enterprise programs will expire in 2009, 2011 and 2014.

In the event of a cash dividend distribution of cash dividends (and for beneficiated enterprise – also liquidation dividend) out of income which was tax exempt as above, the company would have to pay the 25% income taxes in respect of the amount distributed (the amount distributed for this purpose includes the amount of the income taxes that applies as a result of the distribution (see 10g(5) below and note 9c(2)).

2) Accelerated depreciation:

The Company is entitled to claim accelerated depreciation in respect of equipment used by approved enterprises during the first five tax years of the operation of these assets.

The entitlement to the above benefits is conditional upon the company's fulfillment of the conditions stipulated by the above law, the regulations published thereunder and the certificates of approval for the specific investments in approved enterprises. In the event that the Company fails to comply with these conditions, the benefits may be cancelled and the company may be required to refund the amount of the benefits, in whole or in part, with interest and adjustments for inflation based on the Israeli Consumer Price Index ("Israeli CPI").

**c. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 ("the Inflationary Adjustments Law")**

Pursuant to the Israel Income Tax Law (Adjustments for Inflation), 1985 (hereinafter – the Adjustments Law), the results for tax purposes have been measured through 2007 on a real basis, based on changes in the Israel CPI. The Israeli companies in the Group are taxed under this law. Under the Israel Income Tax Law (Adjustments for Inflation) (Amendment No. 20), 2008 (hereinafter – the amendment), the provisions of the Adjustments Law will no longer apply to the Company in the 2008 tax year and thereafter, and therefore, the results of the Company and its Israeli subsidiaries will be measured for tax purposes in nominal terms. The amendment includes a number of transition provisions regarding the end of application of the Adjustments Law, which applied to the Company through the end of the 2007 tax year.

These financial statements are presented in dollars. The difference between the changes in the Israeli CPI and the exchange rate of the dollar, both on an annual and a cumulative basis causes a difference between taxable income and income reflected in these financial statements. Paragraph 9(f) of FAS No. 109, "Accounting for Income Taxes", prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are remeasured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 10 – TAXES ON INCOME (continued):**

**d. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:**

The Company is an “industrial company” as defined by this law and as such is entitled to certain tax benefits, consisting mainly of accelerated depreciation and the right to claim expenses in connection with issuance of its shares to the public, as well as the amortization of patents and certain other intangible property rights, as a deduction for tax purposes.

**e. Carryforward tax losses:**

Carryforward tax losses of the Company as of December 31, 2008 and 2007 aggregate approximately \$18,059,000 and \$5,274,000, respectively.

Carryforward tax losses of certain subsidiaries as of December 31, 2008 and 2007 aggregate approximately \$53,730,000 and \$53,150,000, respectively.

As of December 31, 2008 and 2007, the Company’s U.S. subsidiaries (which are taxed on a consolidated basis) have U.S. federal net operating loss carryforwards of approximately \$43,600,000 and \$43,400,000, respectively, which include approximately \$5,600,000 relating to excess stock option deductions. The U.S. subsidiaries have state net operating loss carryforwards of approximately \$33,200,000, which includes approximately \$5,600,000 relating to excess stock option deductions discussed above. Federal and State net operating loss carryforwards of the U.S. subsidiaries expire at various dates from 2014 through 2028. Utilization of the U.S. subsidiaries federal and state net operating losses attributable to acquired subsidiaries, of approximately \$35,700,000 and \$15,800,000, respectively, are subject to an annual limitation under Internal Revenue Code (“IRC”) section 382 determined by multiplying the value of the acquired entity’s stock at the time of acquisition by the applicable long-term tax exempt rate.

**f. Uncertain tax positions:**

Effective January 1, 2007, the Company adopted FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The following table summarizes the activity of our unrecognized tax benefits:

	Year ended December 31, 2008	Year ended December 31, 2007
	U.S. \$ in thousands	U.S. \$ in thousands
Balance at Beginning of Year	3,000	2,273
Increase (decrease) in tax positions for prior year	(373)	189
Increase in tax positions for current year	45	538
	2,672	3,000

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 10 – TAXES ON INCOME (continued):**

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$ 2,672,000 and \$3,000,000 at December 31, 2008 and 2007, respectively. The liability in respect of unrecognized tax benefits included accrued potential interest of \$ 792,000 and \$ 371,000, respectively. We expect unrecognized tax expenses to change over the next 12 months due to closure of the Company's tax assessment for the years 2003-2004.

In years 2008 and 2007, the Company recognized interest expense related to unrecognized tax benefits in the amounts of \$421,000 and \$149,000, respectively. As of December 31, 2008, the amounts of interest and penalties accrued on the balance sheet are \$792,000.

In addition, consistent with the provisions of FIN 48, the Company reclassified a liability for unrecognized tax benefits in amount of \$1,112,000 from current to non-current liabilities because payment of cash is not anticipated within one year subsequent to the balance sheet date. This non-current liability is included in the consolidated balance sheet among long-term liabilities.

**g. Deferred income taxes:**

The deferred tax asset in respect of the balances of temporary differences (mostly in respect of carryforward losses) and the related valuation allowance are as follows:

		December 31	
		2008	2007
		U.S. \$ in thousands	
1)	Provided in respect of the following:		
	Provisions for employee rights	1,522	1,766
	Deferred revenues	2,224	2,792
	Carryforward tax losses	19,676	18,810
	Doubtful accounts	2,045	1,680
	Research and development	5,277	7,645
	Employee stock options and RSUs	1,802	1,023
	Non employee stock options	501	439
	Depreciable fixed assets	115	104
	Goodwill and other intangible assets	5,387	-
	Other	304	643
		38,853	34,902
	Goodwill and other intangible assets	(286)	(3,675)
		38,567	31,227
	Less - valuation allowance	(18,520)	(16,110)
		20,047	15,117

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 10 – TAXES ON INCOME (continued):**

- 2) The deferred taxes are presented in the balance sheets as follows:

	December 31	
	2008	2007
U.S. \$ in thousands		
As a current asset	4,871	8,286
As a non-current asset	15,462	7,050
	<u>20,333</u>	<u>15,336</u>
As a non-current liability	(286)	(219)
	<u>20,047</u>	<u>15,117</u>

- 3) Realization of the deferred tax assets is conditional upon earning a sufficient amount of taxable income in the coming years. The value of the deferred tax assets, however, could decrease in future years if estimates of future taxable income are reduced.
- 4) The deferred taxes are computed at the tax rates of 21%- 40%.
- 5) As stated in b. above, part of the income of the Company's income is tax exempt due to the approved enterprise status granted to most of their production facilities. The Company has decided to permanently reinvest the amount of such tax exempt income and not to distribute it as dividends. Accordingly, no deferred taxes have been provided in respect of such income in these financial statements (see note 9c(2)).

**h. Income (loss) before taxes on income and income taxes (tax benefit) included in the income statements:**

	Year ended December 31		
	2008	2007	2006
U.S. \$ in thousands			
1) Income (loss) before taxes on income:			
Israeli	(3,757)	(972)	(2,025)
Non-Israeli	(56,336)	550	3,278
	<u>(60,093)</u>	<u>(422)</u>	<u>1,253</u>
2) Income taxes (tax benefit) included in the income statements:			
Current:			
Israeli	(5,478)	1,461	1,583
Non-Israeli	1,009	957	502
	<u>(4,469)</u>	<u>2,418</u>	<u>2,085</u>
Deferred:			
Israeli	(1,696)	(3,454)	(3,139)
Non-Israeli	(2,795)	601	547
	<u>(4,491)</u>	<u>(2,853)</u>	<u>(2,592)</u>
	<u>(8,960)</u>	<u>(435)</u>	<u>(507)</u>

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 10 – TAXES ON INCOME (continued):**

- 3) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rate applicable to companies in Israel (2008-27%, 2007-29% and 2006-31%) and the actual tax expense:

	Year ended December 31		
	2008	2007	2006
	U.S. \$ in thousands		
Income before taxes on income, as reported in the income statements	(60,093)	(422)	1,253
Theoretical tax expense (tax benefit)	(16,221)	(122)	388
Less - tax benefits arising from approved enterprise status	-	-	346
	(16,221)	(122)	42
Increase (decrease) in taxes resulting from permanent differences:			
Disallowable deductions	722	1,292	1,266
Disallowable goodwill Impairment	11,771		
Increase (decrease) in taxes resulting from different tax rates applicable to non - Israeli subsidiaries	(1,788)	178	95
Changes in valuation allowance	2,410	661	(1,325)
Differences between the basis of measurement of income reported for tax purposes and the basis of measurement of income for financial reporting purposes - see c. above	291	(3,013)	(1,184)
Prior years tax expenses*	(5,793)	-	-
Increase in taxes on income resulting from the computation of deferred taxes at a rate which is different from the theoretical rate	(134)	609	591
Other	(218)	(40)	8
Taxes on income (tax benefit) for the reported years	(8,960)	(435)	(507)

\* During 2008 the Company recorded a tax benefit of approx \$5.8 million due to a recent retrospective applied change in the Israeli Law for the Encouragement of Capital Investments, under which the Company was entitled to additional tax benefits in the years 2005 and 2006 (prior to the change the financial statement changes include tax expenses were calculated based on the prior enacted law as required under FAS 109).

**i. Tax assessments**

The Company has received final tax assessments through the year ended December 31, 2004. Tamar Industries M.R Electronics 1985 Ltd. received a final assessment through the year ended December 31, 2005. Kochav Orion Advertising and Information Ltd, Orlan Orion Systems Ltd, Palm Point Ltd. and PRS received final assessments through the year ended December 31, 2004. Retalix Italia received final assessments through the year ended December 31, 2002. Retalix Holdings, Inc. received final tax assessments through the year ended December 31, 2003. The other subsidiaries have not been assessed since incorporation.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 11 – MONETARY BALANCES IN NON-DOLLAR CURRENCIES:**

	December 31, 2008		
	Israeli currency		
	Linked to the Israeli CPI	Unlinked	Other non-dollar currencies
	U.S. \$ in thousands		
Assets	11,756	22,237	32,092
Liabilities	(1,326)	(19,440)	(7,759)

**NOTE 12 – SUPPLEMENTARY BALANCE SHEET INFORMATION:**

	December 31	
	2008	2007
	U.S. \$ in thousands	
<b>a. Accounts receivable:</b>		
1) Trade:		
Open accounts	78,257	90,293
Less - allowance for doubtful accounts	8,240	8,864
	70,017	81,429
2) Other:		
Government departments and agencies	10,895	1,080
Employees	15	128
Other	644	502
	11,554	1,710

**b. Marketable securities and Long term investments:**

1) Held to maturity bond securities – the amortized cost basis, aggregate fair value and the gross unrealized holding gains and losses are as follows:

	Amortized Cost	Unrealized gains	Unrealized Losses	Aggregate fair value
	U. S. \$ in thousands			
	At December 31:			
2008	1,052	17	(43)	1,026
2007	1,227	235	(57)	1,405

The bonds mature as follows:

	U.S. \$ in thousands
2009	490
2010	183
2011	197
2020	182
	1,052

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 12 – SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):**

- 2) ARS – See note 1d
- 3) The marketable securities are presented in the balance sheets as follows:

	December 31	
	2008	2007
	U.S. \$ in thousands	
Among current assets:		
Trading	2,749	3,085
Held to maturity corporate bond securities	490	370
	3,239	3,455
As a non-current asset:		
Available for sale security	300	800
Held to maturity corporate bond securities	562	857
	4,101	5,112

**c. Long-term receivables:**

- 1) Long-term receivables are composed as follows:

	December 31	
	2008	2007
	U.S. \$ in thousands	
Long-term loans to employees *	14	50
Long-term trade receivables	3,660	5,991
Less - Unamortized discount**	(292)	(360)
	3,382	5,681

\* Long-term loans to employees granted by the Company are linked to the Israeli CPI and bear interest at an annual rate of 4%. Repayment dates are up to four years from the date of grant.

\*\* The discount is based on imputed interest of 4%.

**NOTE 13 – DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS:**

**a. Fair value of financial instruments:**

The fair value of the financial instruments included in the working capital of the Group is usually identical or close to their carrying value. The fair value of long-term receivables, long-term loans and other long-term liabilities also approximates the carrying value, since they bear interest at rates close to the prevailing market rates. The amounts funded in respect of employee rights are stated at surrender value which is close to its fair value.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

- 1) The carrying amount of cash and cash equivalents, trade receivables and trade payables approximates their fair values due to the short-term maturities of these instruments.
- 2) The fair value of short and long-term marketable securities and bank deposits with quoted market prices is based on quoted market prices.
- 3) The fair value of derivative instruments is estimated by obtaining quotes from brokers.

As to the fair value of derivatives, see b. below. As to the fair value of marketable debt securities, see note 12b.

**b. Derivative financial instruments:**

The Company has only limited involvement with derivative financial instruments. The Company carries out transactions involving foreign exchange derivative financial instruments (forward exchange contracts). These transactions do not qualify for hedge accounting under FAS 133.

During 2008, the Company entered into several foreign currencies forward and cylinder contracts for conversion of Pounds Sterling, Euro and Israeli currency into a notional amount in dollars. Most of these contracts were rolled over a few times since their original closure in recent years.

As of December 31, 2008, the Company had nineteen open contracts of this nature for the conversion of such foreign currencies into a total of approximately \$9.9 million, the fair value of which as of December 31, 2008 is \$103,000, which reflects the estimated amounts that the Group would pay to terminate the contracts at the reporting date and which was charged to financial expenses. As of December 31, 2007, the Company had nine open contracts of this nature for the conversion of such foreign currencies into a total of approximately \$15.2 million, the fair value of which as of December 31, 2007 was \$(147,000).

**NOTE 14 – SEGMENT INFORMATION:**

- a.** The Company conducts business globally and is managed geographically. The Company and its subsidiaries reportable segments are strategic business units, which are distinguished by the geographical areas in which they generate revenues, based on the location of customers.

The Company evaluates performance based on the revenues presented for each geographical segment. Segment assets information is not given, since the Company does not evaluate performance based on such assets. Based on the criteria above, the Company has the following reportable segments: Israel, U.S. and International.



**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 14 – SEGMENT INFORMATION (continued):**

**Geographic segments:**

Summarized financial information by geographic segment, for 2008, 2007 and 2006 is as follows:

	Year ended December 31		
	2008	2007	2006
U.S. \$ in thousands			
Revenues:			
U.S	126,114	123,266	119,821
Israel	22,243	18,738	17,083
International*	73,270	79,407	66,840
<b>Total revenues</b>	<b>221,627</b>	<b>221,411</b>	<b>203,744</b>
*The international segment includes revenues from customers in Europe	59,077	46,838	41,961

**b. Enterprise-wide disclosure:**

The composition of the Group's property, plant and equipment according to the physical location of the assets is as follows:

	Depreciated balance at December 31	
	2008	2007
U.S. \$ in thousands		
Israel	13,148	10,230
U.S.	1,259	1,906
International	327	432
	14,734	12,568

As for location of goodwill, see note 4a.

**c. Revenues from customer exceeding 10% of total revenues:**

In the years ended December 31, 2008, 2007 and 2006, no customer generated revenues in excess of 10% of the Group's total revenues.

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 15 – SELECTED INCOME STATEMENT DATA:**

**a. General and administrative expenses – allowance for doubtful accounts:**

	Year ended December 31		
	2008	2007	2006
	U.S. \$ in thousands		
The changes in allowance for doubtful accounts are composed as follows:			
Balance at beginning of year	8,864	4,975	4,404
Increase during the year	3,663	5,278	2,676
Bad debt written off	(4,287)	(1,389)	(2,431)
Adjustments resulting from the adoption of SAB 108	-	-	326
Balance at end of year	8,240	8,864	4,975

	Year ended December 31		
	2008	2007	2006
	U.S. \$ in thousands		
<b>b. Financial income (expenses):</b>			
Gains (losses) on marketable securities - net	(141)	95	111
Non-dollar currency gains (losses) - net	(1,883)	1,227	(209)
Impairment of auction rate security	(700)	-	-
Interest income	879	1,950	2,163
Interest and bank commissions expense	(133)	(2,240)	(1,986)
	(1,978)	1,032	79

<b>c. Other (income) expenses - net:</b>			
Loss (gain) on sale of property and equipment	(46)	(57)	22
Gains on sale of product line	(210)	-	-
Debt remittal	(43)	-	-
Due Diligence Costs	-	700	-
Other non-recurring income	(77)	-	-
	(376)	643	22

**RETALIX LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 15 – SELECTED INCOME STATEMENT DATA (continued):**

**d. Earnings per share (“EPS”):**

Following are data relating to the nominal value of shares – basic and diluted used in the purpose of computation of EPS:

	Year ended December 31		
	2008	2007	2006
	Number of shares in thousands		
Weighted average number of shares issued and outstanding- used in computation of basic earnings per share	20,265	19,851	19,491
Add incremental shares from assumed exercise of options	-	-	636
Weighted average number of shares used in computation of diluted earnings per share	20,265	19,851	20,127

For the years ended December 31, 2008, 2007 and 2006 options and RSUs in the total amount of 1,799,924, 3,279,338 and 1,953,063 respectively, were not taken into account in computation of diluted earnings (loss) per share, because of their anti dilutive effect.

Filename: exhibit\_1-2.htm

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**Exhibit 1.2**

Effective 7/10/08

**THE COMPANIES LAW, 5759 – 1999**

**A COMPANY LIMITED BY SHARES**

AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

**Retalix Ltd**

**GENERAL PROVISIONS**

1. Definitions: Interpretation

(a) “**Companies Law**” – the Israeli Companies Law, 5759-1999 as the same shall be amended from time to time, or any other law which shall replace that Law, together with any amendments thereto, and regulations thereunder.

(b) “**Companies Ordinance**” – those sections of the Israeli Companies Ordinance [New Version] 5743-1983, that shall remain in force after the date of the coming into effect of the Companies Law, as the same shall be amended from time to time.

(c) Unless the subject or the context otherwise requires: words and expressions defined in the Companies Law and in the Companies Ordinance, as the case may be, shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(d) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

2. Object and Purpose of the Company

The object and purpose of the Company shall be as set forth in the Company's Memorandum of Association, as the same shall be amended from time to time in accordance with applicable law. The Company shall be authorized to donate reasonable sums to charity, subject to approval by the Board of Directors.

3. Limitation of Liability

The liability of the shareholders of the Company is limited to the payment of the nominal value of the shares in the Company allotted to them and which remains unpaid, and only that amount.

If the Company's share capital shall include, at any time, shares without a nominal value the shareholders' liability in respect of such shares shall be limited to the payment of up to 1.00 NIS for each such share allotted to them and which remains unpaid, and only to that amount.

## SHARE CAPITAL

### 4. Share Capital

The share capital of the Company is 30,000,000 New Israeli Shekels (NIS thirty million) divided into 30,000,000 (thirty million) Ordinary Shares of a nominal value of NIS 1.00 each (“**Ordinary Shares**”).

### 5. Increase of Share Capital

(a) The Company may, by resolution of the shareholders approved by the holders of a simple majority of the voting power represented at a General Meeting in person or by proxy and voting thereon, whether or not all the shares then authorized have been issued, resolve to increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares of the original share capital.

### 6. The Rights of Ordinary Shares

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, as provided in these Articles, including, *inter alia*, the right to receive notices of (in the manner proscribed in Articles 20 and 50 of these Articles), and to attend, shareholder meetings of the shareholders; for each share held – the right to one vote at all shareholders’ meetings for all purposes, and to share equally, on a per share basis, in such dividends as may be declared by the Board of Directors in accordance with the terms of these Articles and the Companies Law, and upon liquidation or dissolution – in the assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company, in accordance with the terms of these Articles and applicable law. All Ordinary Shares rank *pari passu* in all respects with each other.

### 7. Special Rights; Modifications of Rights

(a) The Company may, by resolution of the shareholders approved by the holders of a simple majority of the voting power represented at a General Meeting in person or by proxy and voting thereon, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Shareholders Resolution, subject to the sanction of a resolution passed by the holders of a simple majority of the shares of such class present and voting at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 7(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

8. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

(a) The Company may (subject, however, to the provisions of Article 7(b) hereof and to applicable law), by resolution of the Company's shareholders:

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles, and the resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

(iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled, or

(iv) reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, *inter alia*, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 8(b)(iv).

(c) The notice of a General Meeting with respect to the adoption of a resolution under Article 8(a) above, shall specify the actions to be adopted by the Board of Directors under Article 8(b) above.

## SHARES

### 9. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates of issued shares shall, if issued, be issued under the seal of the rubber stamp of the Company and shall bear the signatures of 1 Director, or of any other person or persons authorized thereto by the Board of Directors.

(b) Each shareholder shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if reasonably requested by such shareholder, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Register of Shareholders in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity or security, as the Board of Directors may think fit.

### 10. Allotment of Shares

The unissued shares shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to grant to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit.

10a. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

11. Calls on Shares; Forfeiture and Surrender; Lien

(a) The Board of Directors may, from time to time, make such calls as it may think fit upon a shareholder in respect of any sum unpaid in respect of shares held by such shareholder which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the shareholder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such shareholder(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

(g) If any shareholder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, *inter alia*, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.



(h) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be *ipso facto* forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall stop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(i) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(j) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(k) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(l) Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 11(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(m) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall stop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 11.

(n) Except to the extent the same may be waived or subordinated in writing, to the extent permitted by applicable law, the Company shall have a first and paramount lien upon all the shares registered in the name of each shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts or other liabilities to the Company in respect of any unpaid or partly paid share, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(o) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such shareholder, his executors or administrators.

(p) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such shareholder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the shareholder, his executors, administrators or assigns.

11a. The Company may, subject to applicable law, issue redeemable shares and redeem the same.

#### **TRANSFER OF SHARES**

#### 12. Effectiveness and Registration

No transfer of shares shall be registered in the Register of Shareholders unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company, together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Shareholders in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

#### **TRANSMISSION OF SHARES**

#### 13. Decedents' Shares

(a) In case of a share registered in the names of two or more holders established by law, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 13(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

14. Receivers and Liquidators

(a) The Company may recognize the receiver, liquidator or similar official of any corporate shareholder in winding-up or dissolution, or the receiver, trustee or similar official in bankruptcy or in connection with the reorganization of any shareholder, as being entitled to the shares registered in the name of such shareholder.

(b) The receiver, liquidator or similar official of a corporate shareholder in winding-up or dissolution, or the receiver, trustee or similar official in bankruptcy or in connection with the reorganization of any shareholder, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares in the Register of Shareholders, or may, subject to the regulations as to transfer herein contained, transfer such shares.

**RECORD DATE WITH RESPECT TO OWNERSHIP OF SHARES**

15. Record Date for General Meetings

The shareholders entitled to receive notice of, to participate in and to vote thereon at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, provided that, such date shall not be earlier than twenty-one (21) days prior to the date of the General Meeting and not later than four (4) days prior to the date of such General Meeting, or different periods as shall be permitted by law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting.

16. Record Date for Distribution of Dividends

The shareholders entitled to receive dividends shall be the shareholders on the date upon which it was resolved to distribute the dividend or at such later date as shall be provided in the resolution in question.

**GENERAL MEETINGS**

17. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

18. Special General Meeting

All General Meetings other than Annual General Meetings shall be called "**Special General Meetings**." The Board of Directors may, whenever it thinks fit, convene a Special General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon requisition in writing in accordance with the Companies Law.

19. Powers of the General Meeting

Subject to the provisions of the Companies Law and of these Articles, the resolutions in respect to the following matters shall be adopted by the shareholders in a General Meeting:

- (a) Amendments to the Articles, as set forth in Section 20 of the Companies Law.
- (b) Exercise of the authorities of the Board of Directors in accordance with the provisions of Section 52(a) of the Companies Law.
- (c) Appointment of the outside auditor(s) of the Company, the determination of its/their terms of engagement with the Company and termination of its/their engagement with the Company, all in accordance with the provisions of Sections 154-167 of the Companies Law.
- (d) Appointment of independent (“external”) Directors in accordance with the provisions of Section 239 of the Companies Law (“**Independent Directors**”).
- (e) Approval of actions and transactions that require the approval of the shareholders in a General Meeting pursuant to Sections 255 and 268-275 of the Companies Law.
- (f) An increase and a decrease of the authorized share capital of the Company, pursuant to Sections 286 and 287 of the Companies Law.
- (g) A merger, as set forth in Section 320(a) of the Companies Law.

20. Notice of General Meetings

(a) Not less than twenty-one (21) days’ prior notice shall be given of every General Meeting, provided, however, if the Companies Law or regulations promulgated thereunder permit a shorter time period, then such shorter notice period shall be sufficient for purposes of this Article. Notice shall be deemed given, upon sending the relevant notice to the shareholders. Each such notice shall specify the place, the date and hour of the meeting and the general nature of each item to be acted upon thereat. Notice shall be given to all shareholders who would be entitled to attend and vote at such meeting, if it were held on the date when such notice is issued. Anything herein to the contrary notwithstanding, with the consent of all shareholders entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

(b) The accidental omission to give notice of a meeting to any shareholder, or the non-receipt of notice sent to such shareholder, shall not invalidate the proceedings at such meeting.

(c) Notwithstanding anything to the contrary in this Article 20, and subject to any applicable stock exchange rules or regulations, notice by the Company of a General Meeting which is published in two daily newspapers in Israel, if at all, shall be deemed to have been duly given on the date of such publication to any shareholder whose address as listed in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel, and notice by the Company of a General Meeting which is published in one daily newspaper in New York, New York, U.S.A. or in one international wire service shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located outside Israel.

**PROCEEDINGS AT GENERAL MEETINGS**

21. Quorum

(a) Two or more shareholders present in person or by proxy and holding shares conferring in the aggregate twenty five percent (25%) or more of the voting power of the Company (or any higher percentage which may be required under applicable rules or regulations), shall constitute a quorum at General Meetings.

(b) If within half an hour from the time appointed for the meeting a quorum is not present, if convened upon requisition under Sections 63, 64 or 65 of the Companies Law, the meeting shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as specified in the notice of such meeting or as the Chairman may determine with the consent of the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. At such adjourned meeting, any two (2) shareholders (not in default as aforesaid) present in person or by proxy, shall constitute a quorum.

(c) No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

22. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the shareholders present shall choose someone among themselves to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

23. Adoption of Resolutions at General Meetings

(a) Unless otherwise specifically provided in these Articles or under applicable law, all resolutions submitted to the shareholders shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be *prima facie* evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

24. Power to Adjourn

- (a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a simple majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.
- (b) It shall not be necessary to give any notice of an adjournment under Article 24(a), unless the meeting is adjourned for more than twenty-one (21) days in which event notice thereof shall be given in the manner required for the meeting as originally called.

25. Voting Power

Subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every shareholder shall have one vote for each share held by him of record, on every resolution.

26. Voting Rights

- (a) The shareholders entitled to vote at a General Meeting shall be the shareholders listed in the Company's Register of Shareholders on the record date, as specified in Article 15.
- (b) A company or other corporate body being a shareholder of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.
- (c) Any shareholder entitled to vote may vote either personally or by proxy (who need not be a shareholder of the Company), or, if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 26(b).
- (d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Shareholders.
- (e) No shareholders shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid.

**PROXIES**

27. Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointor or, if such appointor is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its transfer agent or at such other place as the Board of Directors may specify) not less than forty-eight (48) hours (or such shorter period as may be determined by the Board of Directors) before the time fixed for the meeting at which the person named in the instrument proposes to vote.

(c) For as long as any of the Company's securities are publicly traded on a U.S. market or exchange, all proxy solicitations by persons other than the Board of Directors shall be undertaken pursuant to the U.S. Proxy Rules, whether or not applicable to the Company under U.S. law.

28. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written notification of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast, and provided, further, that the appointing shareholder, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

**BOARD OF DIRECTORS**

29. Powers of Board of Directors

(a) In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in a General Meeting. The authority conferred on the Board of Directors by this Article 29 shall be subject to the provisions of the Companies Law, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in a General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

30. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board of Directors, whether in person or by any other means by which the Directors may hear each other simultaneously.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a simple majority of the Directors then in office who are lawfully entitled to participate in the meeting and vote thereon and present when such resolution is put to a vote and voting thereon. In the event of a tie-vote the Chairman of the Board shall not have casting vote on such matter.

(c) A resolution may be adopted by the Board of Directors without convening a meeting if all Directors then in office and lawfully entitled to participate in the meeting and vote thereon (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination – by the Chairman of the Board of Directors) have given their consent (in any manner whatsoever) not to convene a meeting. Such a resolution shall be deemed adopted if approved by a simple majority of the Directors then in office who are lawfully entitled to participate in the meeting and vote thereon (as determined as aforesaid). The Chairman of the Board shall sign any resolutions so adopted, including the decision to adopt said resolutions without a meeting.



31. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees, each consisting of two or more persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any committee so formed (in these Articles referred to as a “**Committee of the Board of Directors**”), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, *mutatis mutandis*, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee of the Board of Directors shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 42, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

32. Number of Directors

Until otherwise determined by resolution of the Company’s shareholders, the Board of Directors shall consist of not less than three (3) nor more than ten (10) Directors, including two (2) Independent Directors.

33. Election and Removal of Directors

Directors shall be elected at the Annual General Meeting by the vote of the holders of a simple majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, and each director shall serve, subject to Article 35 hereof, and with respect to a Director appointed pursuant to Article 34 hereof, subject to such Article, until the next Annual General Meeting following the Annual General Meeting at which such Director was appointed, or his earlier removal pursuant to this Article 33. The holders of a simple majority of the voting power represented at a General Meeting and voting thereon shall be entitled to remove any Director(s) from office, to elect director(s) in place of the Director(s) so removed or to fill any vacancy, however created, on the Board of Directors, by resolution passed at a General Meeting.

34. Continuing Directors in the Event of Vacancies

(a) Notwithstanding the provisions of Article 33, any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the board, may be filled by a vote of a simple majority of the directors then in office, even if less than quorum. A Director elected to fill a vacancy shall be elected to hold office until the next Annual General Meeting.

(b) If the position of one or more Directors is vacated, the continuing Directors shall be entitled to act in every matter so long as their number is not less than the statutory minimum number required at the time. If, at any time, their number decreases below said statutory minimum number, they will not be entitled to act except in an emergency, and they may fill vacant positions on the Board of Directors pursuant to Article 34(a) herein or call a General Meeting of the Company for the purpose of electing Directors to fill any vacancies.

35. Vacation of Office

(a) The office of a Director shall be vacated, *ipso facto*, upon the occurrence of any of the following: (i) such Director's death, (ii) such Director is convicted of a crime as described in Section 232 of the Companies Law, (iii) such Director is removed by a court or law in accordance with Section 233 or 247 of the Companies Law, (iv) such Director becomes legally incompetent, (v) if such Director is an individual, such Director is declared bankrupt, (vi) if such Director is a corporate entity, upon its winding-up, liquidation, whether voluntary or involuntary, or (vii) upon a resolution of the Company's shareholders, pursuant to Article 33 above.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

36. Remuneration of Directors

Each Director shall be paid remuneration by the Company for his services as Director as such remuneration shall have been approved pursuant to the provisions of the Companies Law.

37. Alternate Directors

(a) A Director may, by written notice to the Company, appoint an alternate for himself (in these Articles referred to as "**Alternate Director**"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, and for all purposes.

(b) Any notice given to the Company pursuant to Article 37(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself, and provided further, that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) Any person that meets the qualifications of a director under the Companies Law may act as an Alternate Director. One person may not act as an Alternate Director for more than one Director, and except as otherwise specifically permitted by the Companies Law, a person serving as a director of the Company may not act as an Alternate Director.

(e) An Alternate Director shall have the duties and responsibility of a Director. The appointment of an Alternate Director shall not negate the responsibility of the Director who appointed him.

(f) The office of an Alternate Director shall be vacated under the circumstances, *mutatis mutandis*, set forth in Article 35(a), and such office shall *ipso facto* be vacated if the Director who appointed such Alternate Director ceases to be a Director.

(g) Notwithstanding Article 37(a), except as otherwise specifically permitted by the Companies Law, no External Director (as such term is defined in the Companies Law) may appoint an Alternate Director.

#### **PROCEEDINGS OF THE BOARD OF DIRECTORS**

##### 38. Meetings

(a) The Board of Directors may meet and adjourn its meetings according to the Company's needs but at least once in every three (3) months, and otherwise regulate such meetings and proceedings as the Directors think fit. Meetings of the Board of Directors may be held telephonically or by any other means of communication provided that each Director participating in such meeting can hear and be heard by all other Directors participating in such meeting.

(b) Any two (2) Directors may at any time convene a meeting of the Board of Directors, but not less than seventy-two (72) hours' notice (oral or written) shall be given of any meeting so convened. The failure to give notice to a Director in the manner required hereby may be waived by such Director. Upon the unanimous approval of the Directors, a meeting of the Board of Directors can be convened without any prior notice. The notice of a meeting shall include the agenda of the meeting.

(c) A resolution in writing signed by all of the Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination by the Chairman of the Board of Directors) or to which all of such Directors have given their consent (by letter, telegram, telex, facsimile, telecopier or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

39. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence, in person or by any other means of communication by which the Directors may hear each other simultaneously, of at least three (3) of the Directors then in office who are lawfully entitled to participate in the meeting and vote thereon (as conclusively determined by the Chairman of the Audit Committee and in the absence of such determination by the Chairman of the Board of Directors). No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present as aforesaid when the meeting proceeds to business.

40. Chairman of the Board of Directors

The Board of Directors shall from time to time elect one of its members to be the Chairman of the Board of Directors, and it may from time to time remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any meeting of the Board of Directors nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a Director of the Company).

41. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

**GENERAL MANAGER**

42. General Manager

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

## MINUTES

### 43. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute *prima facie* evidence of the matters recorded therein.

## DIVIDENDS

### 44. Declaration of Dividends

Subject to the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be justified by the profits of the Company. Subject to the Companies Law, the Board of Directors shall determine the time for payment of such dividends and the record date for determining the shareholders entitled thereto.

### 45. Amount Payable by Way of Dividends

(a) Subject to the rights of the holders of shares with special rights as to dividends, if any, any dividend paid by the Company shall be allocated among the shareholders entitled thereto in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid.

(b) Shares which are fully paid up or which are credited as fully or partly paid within any period which in respect thereof dividends are paid shall entitle the holders thereof to a dividend in proportion to the amount paid up or credited as paid up in respect of the nominal value of such shares and to the date of payment thereof (pro rata temporis).

### 46. Interest

No dividend shall carry interest as against the Company.

### 47. Unclaimed Dividends

All unclaimed dividends payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

## ACCOUNTS

### 48. Auditors

(a) The outside auditor(s) of the Company shall be appointed by resolution of the Company's shareholders in a General Meeting and shall serve until its/their re-election, removal or replacement by subsequent resolution, provided that such term of service shall not extend beyond the third Annual Meeting after the Annual Meeting at which such auditor was appointed. The authorities, rights and duties of the outside auditor(s) of the Company, shall be regulated by applicable law, provided, however, the Board of Directors shall have the power and authority to fix the remuneration of the auditor(s).

(b) The Internal Auditor appointed by the Board of Directors, upon the recommendation of the Audit Committee, in accordance with the Companies Law, shall report to and be under the organizational supervision of the Chairman of the Board of Directors. The Internal Auditor shall present a proposed work program to the Audit Committee for approval, subject to requirements under the Companies Law.

## BRANCH REGISTERS

### 48a. Branch Registers

Subject to and in accordance with the provisions of the Companies Law and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

## RIGHTS OF SIGNATURE

### 49. Rights of Signature

The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

## NOTICES

### 50. Notices

Without derogating from the provisions of Article 20:

(a) In the event the Company elects to send any written notice or other document to any of its shareholders such notice may be served either personally or by sending it by prepaid registered mail (airmail if sent to a place outside Israel) addressed to such shareholder at his address as described in the Register of Shareholders or such other address as he may have designated in writing for the receipt of notices and other documents. In the event a shareholder elects to send the Company any written notice or other document such notice may be served by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its registered address. Any such notice or other document shall be deemed to have been served forty-eight (48) hours after it has been posted (seven (7) business days if sent internationally), or when actually received by the addressee if sooner than two days or seven days, as the case may be, after it has been posted, or when actually tendered in person, to such shareholder (or to the Secretary or the General Manager), provided, however, that notice may be sent by cablegram, telex, telecopier (facsimile) or other electronic means (to an address provided to the Company by any shareholder) and confirmed by registered mail as aforesaid, and such notice shall be deemed to have been given twenty-four (24) hours after such cablegram, telex, telecopy or other electronic communication has been sent (provided, that electronic confirmation of the successful sending of such notice was received) or when actually received by such shareholder (or by the Company), whichever is earlier. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 50(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Shareholders, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any shareholder whose address is not described in the Register of Shareholders, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(d) The Company shall comply with any publication or notice requirements of any stock exchange on which the Company's shares are listed.

## EXEMPTION, INSURANCE AND INDEMNITY

### 51. Exemption, Indemnity and Insurance

(a) [RESERVED]

(b) Indemnification

(i) Subject to the provisions of the Companies Law, including the receipt of all approvals as required therein or under any applicable law, the Company may indemnify an Office Holder with respect to the following liabilities and expenses, provided that such liabilities or expenses were imposed on or expended by such Office Holder in such Office Holder's capacity as an Office Holder of the Company:

(1) a monetary liability imposed on an Office Holder pursuant to a judgment in favor of another person, including a judgment imposed on such Office Holder in a settlement or in an arbitration decision that was approved by a court of law;

(2) reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and

(3) reasonable legal expenses, including attorney's fees, which the Office Holder incurred or with which the Office Holder was charged by a court of law, in a proceeding brought against the Office Holder, by the Company, on its behalf or by another person, or in a criminal prosecution in which the Office Holder was acquitted, or in a criminal prosecution in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

(ii) The foregoing indemnification may be provided by the Company (a) retroactively and (b) as a commitment in advance to indemnify an Office Holder, provided that, in respect of Article 51(b)(i)(1), such commitment shall be limited to (i) such events that in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations at the time the undertaking to indemnify is provided, (ii) to the amounts or criteria that the Board of Directors deems reasonable under the circumstances, and (iii) that such events and amounts or criteria are set forth in the undertaking to indemnify, and which in no event shall exceed, in the aggregate, a total amount of indemnification (for all persons the Company has resolved to indemnify for the matters and in the circumstances described herein), one quarter (25%) of the Company's total shareholders equity at the time of the actual indemnification.

(c) Insurance

(i) Subject to the provisions of the Companies Law, including the receipt of all approvals as required therein or under any applicable law, the Company may enter into an agreement to insure an Office Holder for any responsibility or liability that may be imposed on such Office Holder in connection with an act performed by such Office Holder in such Office Holder's capacity as an Office Holder of the Company, with respect to each of the following:

- (1) violation of the duty of care of the Office Holder towards the Company or towards another person;
- (2) breach of the duty of loyalty towards the Company, provided that the Office Holder acted in good faith and with reasonable grounds to assume that the such action would not prejudice the benefit of the Company; and
- (3) a financial obligation imposed on the Office Holder for the benefit of another person.



(ii) Articles 51(b) and 51(c) shall not apply under any of the following circumstances:

- (1) a breach of an Office Holder's duty of loyalty, except as specified in Article 51(c)(i)(2);
- (2) a reckless or intentional violation of an Office Holder's duty of care;
- (3) an action intended to reap a personal gain illegally; and
- (4) a fine or ransom levied on an Office Holder.

(iii) The Company may procure insurance for or indemnify any person who is not an Office Holder, including without limitation, any employee, agent, consultant or contractor, provided, however, that any such insurance or indemnification is in accordance with the provisions of these Articles and the Companies Law.

#### **MERGER**

52. Merger

A merger (as defined in the Companies Law) of the Company shall require the approval of the holders of a simple majority of the voting power represented in a General Meeting in person or by proxy and voting thereon in accordance with the provisions of the Companies Law.

#### **WINDING UP**

53. Winding Up

If the Company be wound up, then, subject to applicable law, after satisfaction of the Company's liabilities to creditors, the Company's liquidation proceeds shall be distributed to the shareholders of the Company in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made. A voluntary winding up of the Company shall require the approval of the holders of a majority of at least seventy five percent (75%) of the voting power represented at a General Meeting in person or by proxy and voting thereon.

#### **AMENDMENT OF THESE ARTICLES**

54. (a) Subject to Article 54(b), any amendment of these Articles shall require the approval of the holders of a simple majority of the voting power represented in a General Meeting in person or by proxy and voting thereon.

(b) Notwithstanding Article 54(a), any amendment of any of Articles 5, 7 or 53 above shall require the approval of the shareholders in a General Meeting by at least the majority vote set forth in each of the aforementioned Articles, as the case may be.

Filename: exhibit\_12-1.htm

Type: EX-12.1

Comment/Description:

(this header is not part of the document)

**Exhibit 12.1**

Certification

I, Barry Shaked, certify that:

1. I have reviewed this annual report on Form 20-F of Retalix Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 22, 2009

By: /s/ Barry Shaked

\_\_\_\_\_  
Barry Shaked  
Chief Executive Officer

Filename: exhibit\_12-2.htm

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**Exhibit 12.2**

Certification

I, Hugo Goldman, certify that:

1. I have reviewed this annual report on Form 20-F of Retalix Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 22, 2009

By: /s/ Hugo Goldman

\_\_\_\_\_  
Hugo Goldman  
Chief Financial Officer

Filename: exhibit\_13.htm

Type: EX-13

Comment/Description:

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**Exhibit 13**

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Retalix Ltd. (the "Company") for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certifies, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: June 22, 2009

By: /s/ Barry Shaked

\_\_\_\_\_  
Barry Shaked  
Chief Executive Officer

Date: June 22, 2009

By: /s/ Hugo Goldman

\_\_\_\_\_  
Hugo Goldman  
Chief Financial Officer

Filename: exhibit\_15-1.htm

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Exhibit 15.1



**Kesselman & Kesselman**  
Certified Public Accountants  
Trade Tower, 25 Hamered Street  
Tel Aviv 68125 Israel  
P.O Box 452 Tel Aviv 61003  
Telephone +972-3-7954555  
Facsimile +972-3-7954556

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-09840, 333-12146, 333-14238, 333-109874, 333-118930 and 333-157094) of Retalix Ltd. of our report dated June 22, 2009, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ Kesselman & Kesselman  
A member of PricewaterhouseCoopers International Limited  
Tel-Aviv, Israel  
June 22, 2009