

MIND CTI LTD  
Form 20-F  
April 11, 2016

**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**

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

**For the fiscal year ended December 31, 2015**

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**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 number 000-31215

MIND C.T.I. LTD.

(Exact name of Registrant as specified in its charter  
and translation of Registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

Industrial Park, Building #7, Yoqneam, 2069202, Israel

(Address of principal executive offices)

Aviram Cohen  
c/o MIND C.T.I. Ltd.  
Industrial Park, Building #7  
Yoqneam, 2069202, Israel  
Tel: +972-4-9936666  
[investor@mindcti.com](mailto:investor@mindcti.com)

(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                                                | Name of each exchange on which registered |
|--------------------------------------------------------------------|-------------------------------------------|
| <b>Ordinary Shares,</b><br><b>nominal value NIS 0.01 per share</b> | <b>Nasdaq Global Market</b>               |



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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

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.

As of December 31, 2015, the Registrant had outstanding 19,202,418 Ordinary Shares, nominal value NIS 0.01 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 check mark 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 check mark 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 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 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

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(§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

Unless the context requires otherwise, “MIND”, “us”, “we” and “our” refer to MIND C.T.I. Ltd. and its subsidiaries.

## **FORWARD LOOKING STATEMENTS**

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 United States Federal Securities Laws. Forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those stated in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under “Risk Factors” in this Annual Report as well as those discussed elsewhere in this Annual Report and in our other filings with the Securities and Exchange Commission.

## **PART I**

### **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**

Except as otherwise indicated, all financial statements and other financial information included in this Annual Report are presented solely under U.S. GAAP.

The following table presents selected consolidated financial data as of and for each of the five years in the period ended December 31, 2015. The selected consolidated financial data presented below are derived from our audited consolidated financial statements for these periods, and should be read in conjunction with these financial statements and the related notes thereto. Our audited consolidated balance sheets as of December 31, 2014 and 2015 and our audited consolidated statements of operations and cash flows for each of the three years ended December 31, 2015 and the related notes thereto are included elsewhere in this annual report. You should read the selected financial data in conjunction with Item 5 “Operating and Financial Review and Prospects.”

Years ended December 31,  
2011 2012 2013 2014 2015  
(\$ in thousands, except share and per share data)

## Consolidated Statements of Operations Data:

|                                                                                                               |          |          |          |          |          |
|---------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
| Total revenues                                                                                                | \$18,913 | \$20,209 | \$18,480 | \$25,020 | \$20,928 |
| Gross profit                                                                                                  | 12,437   | 12,357   | 10,609   | 15,070   | 12,298   |
| Operating income                                                                                              | 3,935    | 4,372    | 2,159    | 7,457    | 6,416    |
| Other Financial income (expenses) - net                                                                       | 171      | 298      | 163      | (306 )   | (114 )   |
| Net income                                                                                                    | 4,291    | 4,278    | 2,185    | 5,483    | 5,018    |
| Earnings per ordinary share:                                                                                  |          |          |          |          |          |
| Basic                                                                                                         | \$0.23   | \$0.23   | \$0.12   | \$0.29   | \$0.26   |
| Diluted                                                                                                       | \$0.23   | \$0.23   | \$0.12   | \$0.29   | \$0.26   |
| Weighted average number of ordinary shares used in computation of earnings per ordinary share – in thousands: |          |          |          |          |          |
| Basic                                                                                                         | 18,679   | 18,767   | 18,869   | 18,949   | 19,183   |
| Diluted                                                                                                       | 18,803   | 18,846   | 18,890   | 19,032   | 19,283   |

As of December 31,  
2011 2012 2013 2014 2015  
(\$ in thousands)

## Consolidated Balance Sheet Data:

|                                              |          |          |          |          |          |
|----------------------------------------------|----------|----------|----------|----------|----------|
| Cash and cash equivalents                    | \$13,866 | \$13,310 | \$8,212  | \$8,100  | \$11,475 |
| Working capital                              | 16,999   | 17,179   | 14,796   | 14,993   | 14,921   |
| Total assets                                 | 30,021   | 28,731   | 29,624   | 30,347   | 30,225   |
| Share capital and additional paid-in capital | 30,112   | 30,192   | 30,250   | 25,778   | 25,916   |
| Treasury Shares                              | (2,401 ) | (2,360 ) | (2,287 ) | (1,863 ) | (1,692 ) |
| Total shareholders' equity                   | 23,019   | 23,106   | 20,989   | 22,411   | 21,848   |

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We believe that the occurrence of any one or some combination of the following factors would have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Business

If we are unable to compete effectively in the marketplace, we may suffer a decrease in market share, revenues and profitability.

Competition in our industry is intense and we expect competition to increase. We compete both with established global billing companies such as Amdocs and Oracle as well as with local billing companies. Some of our competitors have greater financial, technical, sales, marketing and other resources and greater name recognition than we do. Some of our competitors, mainly the ones that focus on specific markets, have a lower cost structure and compete with us on pricing. New competitors may emerge and rapidly acquire significant market share. We cannot guarantee that we will be able to compete effectively against current or future competitors or that competitive pressure will not harm our financial results.

Our backlog, revenues and operating results may vary significantly from quarter to quarter.

Our backlog, revenues and operating results may vary significantly from quarter to quarter due to a number of factors, including the following:

the timing of orders and/or deliveries for our software may be delayed as customers typically order and/or implement our billing and customer care software only after other vendors have provided the network infrastructure, a process that is subject to delay. It is therefore difficult for us to predict the timing of orders and/or revenue recognition;

the ability of our customers to expand their operations and increase their subscriber base, including their ability to obtain financing;

potential termination of contracts by our customer due to lack of financing, internal changes or any other reason; and

changes in our pricing policies or competitive pricing by our competitors.

Due to all of the foregoing, we cannot predict revenues for any future quarter with any significant degree of accuracy. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely upon them as indications of future performance. In future quarters, our operating results may be below the expectations of public market analysts and investors, and as a result, the price of our ordinary shares may fall.

The customer base for our wireline and wireless billing and customer care products is characterized by small to medium size telephony carriers. If this market segment fails to grow, the demand for our billing and customer care software would diminish substantially.

Our traditional wireline and wireless billing and customer care products target small to medium size telephony carriers. Our growth in this field depends on continued growth of these traditional telephony carriers. We cannot be certain that small to medium size telephony carriers will be able to successfully compete with large telephony carriers in existing markets or will successfully develop in new and emerging markets. If this market segment fails to grow, the demand for our billing and customer care software would diminish substantially and our business would suffer. In addition, there may never be significant demand for new billing and customer care software by providers of telecom services.

If we fail to attract and retain qualified personnel we will not be able to implement our business strategy or operate our business effectively.

Our products require sophisticated software development, sales, professional services and technical customer support. Our success depends on our ability to attract, train, motivate and especially retain highly skilled personnel within each of these areas of expertise. Qualified personnel in these areas are in great demand worldwide and are likely to remain a limited resource. We cannot assure you that we will be able to retain the skilled employees we require. In addition, the resources required to retain such personnel may adversely affect our operating margins. The failure to retain qualified personnel may harm our business. In particular, we maintain a large engineering and support center in Iasi, Romania and have encountered many successful attempts from other technology companies to recruit our employees after we have trained them. If this phenomenon continues and increases, we may not be able to retain the highly skilled personnel and may be forced to significantly raise the salaries of our Romanian employees and our results of operations will be consequently harmed.

Because our revenues are generated in numerous countries, our results of operations could suffer if we are unable to manage international operations effectively.

Our sales are made in many countries, with different legislation and complex taxation rules and in many states in the United States. Managing our existing international operations and additional international markets requires significant management attention and financial resources. Our ability to penetrate some international markets may be limited due to different technical standards, protocols and requirements for our products in different markets. In addition, conducting our business internationally subjects us to a number of risks, including:

- the burden of compliance with a wide variety of foreign laws and regulations;
- staffing and managing foreign operations;
- increased risk of collection;
- potentially adverse tax consequences;
- burdens that may be imposed by tariffs and other trade barriers; and
- adverse effects of political and economic instability.

We currently benefit from local tax benefits that may be discontinued or reduced.

We derive and expect to continue to derive benefits from various programs including Israeli tax benefits relating to our “Approved and Preferred Enterprise” programs.

To be eligible for tax benefits as an “Approved and Preferred Enterprise,” we must continue to meet certain conditions. While we believe that we meet the statutory conditions to entitle us to Israeli tax benefits, there can be no assurance that the tax authorities in Israel will concur. Should it be determined that our Approved or Preferred Enterprise programs have not met, or do not meet, the statutory conditions, our income taxes will increase materially.

Additional tax liabilities could materially adversely affect our results of operations and financial condition.

As a global corporation, we are subject to income and other taxes both in Israel and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid or accrued is subject to our interpretation of applicable laws in the jurisdictions in which we do business. From time to time, we are subject to income and other tax audits in various jurisdictions, the timings of which are unpredictable. While we believe we comply with applicable tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed additional taxes, there could be a material adverse effect on our results of operations and financial condition.

If we experience loss of one or more existing customers, we may suffer a decrease in revenues, reputation and profitability.

A significant part of our revenues is derived from maintenance agreements and managed services agreements. We have through the years sold niche solutions to large customers that may decide to unify the various solutions they have into one platform and dismantle niche solutions in the process, ours included, as occurred with respect to a few of our customers in 2011 and 2012. Small service providers may be acquired by larger carriers and replace our solutions with the buyer’s existing billing platform or cease operations due to lack of funding, as occurred with customers of ours over the years. If one or more customers cease using our solutions or services due to replacements or any other reason, our profitability would be seriously harmed and our business and results of operations would suffer.

Because some of our customers require highly complex implementations and we sell fixed price projects, we may underestimate the effort and time required to implement such projects, resulting in a lower or negative profit margin for such projects and the incurrence of contractual penalties for late performance. This could materially harm our results of operations.

In 2015, we derived 79% of our revenues from the sale of software and related services to telecommunications service providers. As the deal size increases, our projects become more complex and the risk of on-time and on-budget implementation increases. Each such contract includes penalties and potential liability for damages arising from our

late performance. These customers conduct a lengthy and complex approval and purchasing process, and the pricing for each project needs to be competitive in order to win. Our cost of sales increases as the length of the approval process increases because we need to support each opportunity during the time required for the customer to determine their specifications and the time required for the customer to receive internal approval to commit significant resources towards acquisition of the billing solution. The project implementation may be delayed due to delays in the build-up of the customer's network infrastructure. Our estimate for the cost includes the effort required to release new versions comprising enhanced functionality specifically requested by the customer.

All the delays, either by us or by a third party, increase the cost of supplying the project and expose us to potential claims from customers and may decrease our revenues and could materially harm our profitability, business and results of operations.

Our business may be negatively affected by exchange rate fluctuations.

Although the majority of our revenues are denominated in U.S. dollars, approximately 38% of our expenses are incurred in New Israeli Shekel, or NIS, and approximately 46% of our expenses are incurred in Euro. As a result, we may be negatively affected by fluctuations in the exchange rates between the Euro or the NIS and the U.S. dollar. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS or of the Euro against the U.S. dollar. If the U.S. dollar cost of our operations in Israel and/or Romania increases, our U.S. dollar-measured results of operations will be adversely affected. In addition, some of our revenues are denominated in Euro, some are denominated in Canadian dollar, or CAD and some are denominated in Great Britain Pound, or GBP. As a result, our U.S. dollar-measured results of operations will be adversely affected by devaluation in the GBP, CAD or Euro relative to the U.S. dollar. We may choose to limit these exposures by entering into hedging transactions. However, hedging transactions may not enable us to avoid exchange-related losses, and our business may be harmed by exchange rate fluctuations.

From time to time, our software and the systems into which it is integrated contain undetected errors. This may cause us to experience a significant decrease in market acceptance and use of our software products and we may be subject to warranty and other liability claims.

From time to time, our software, as well as the systems into which it is integrated, contains undetected errors. Because of this integration, it can be difficult to determine the source of the errors. Also, from time to time, hardware systems we resell contain certain defects or errors. As a result, and regardless of the source of the errors, we could experience one or more of the following adverse results:

· diversion of our resources and the attention of our personnel from our research and development efforts to address these errors;

· negative publicity and injury to our reputation that may result in loss of existing or future customers; and

· loss of or delay in revenue and loss of market share.

In addition, we may be subject to claims based on errors in our software or mistakes in performing our services. Our licenses and agreements generally contain provisions such as disclaimers of warranties and limitations on liability for special, consequential and incidental damages, designed to limit our exposure to potential claims. However, not all of our contracts contain these provisions and we cannot assure you that the provisions that exist will be enforceable. In addition, while we maintain product liability and professional indemnity insurance, we cannot assure you that this insurance will provide sufficient, or any, coverage for these claims. A product liability or professional indemnity claim, whether or not successful, could adversely affect our business by damaging our reputation, increasing our costs, and diverting the attention of our management team.

We may expand our business through acquisitions that could result in diversion of resources and extra expenses, and which may involve other risks that could disrupt our business and harm our financial condition.

We may pursue acquisitions of business, products and technologies, or the establishment of joint venture arrangements, that could expand our business. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, technology or product could cause diversion of management's attention from the day-to-day operation of our business. This could impair our relationships with our employees, customers, distributors, resellers and marketing allies. Future acquisitions could result in:

- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- amortization of intangible assets;
- changes in our business model and margins;
- research and development write-offs; and
- other acquisition-related expenses.

In addition, we have limited experience with respect to negotiating an acquisition and operating an acquired business. If future acquisitions disrupt our operations, our business may suffer.

We depend on a limited number of key personnel who would be difficult to replace. If we lose the services of these individuals, our business will be harmed.

Because our markets are constantly changing, the success of our business depends in large part upon the continuing contributions of our senior management. Specifically, continued growth and success largely depend on the managerial and technical skills of our founder and CEO, Monica Iancu, and other members of senior management. Because the demand for highly qualified senior personnel exceeds the supply of this type of personnel, it will be difficult to replace members of our management if one or more of them were to leave us. If either Mrs. Iancu or other members of the senior management team are unable or unwilling to continue their employment with us, our business will be harmed.

Our success depends on our ability to continually develop and market new and more technologically advanced products and enhancements.

The market for our products and the services they are used to support is characterized by:

- rapid technological advances like the development of new standards for communications protocols;
- frequent new service offerings and enhancements by our customers, such as value-added IP-based services and new rating plans; and
- changing customer needs.

We believe that our future success will largely depend upon our ability to continue to enhance our existing products and successfully develop and market new products on a cost-effective and timely basis. We cannot assure you that we will be successful in developing and marketing new products that respond adequately to technological change. Our failure to do so would have a material adverse effect on our ability to market our own products.

If we are unable to adequately protect our intellectual property or become subject to a claim of infringement, our business may be materially adversely affected.

Our success and ability to compete depend substantially upon our internally developed or acquired technology. Any misappropriation of our technology could seriously harm our business. In order to protect our technology and products, we rely on a combination of trade secret, copyright and trademark law. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise obtain and use our software or technology or to develop software with the same functionality. Policing unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent misappropriation, particularly in foreign countries where the laws may not protect our intellectual property rights as fully as in the United States.

If anyone asserts a claim against us relating to proprietary technology or information, we might seek to license his intellectual property or to develop non-infringing technology. We might not be able to obtain a license on commercially reasonable terms or on any terms. Alternatively, our efforts to develop non-infringing technology could be unsuccessful. Our failure to obtain the necessary licenses or other right or to develop non-infringing technology could prevent us from selling our software and could therefore seriously harm our business.

Breaches in the security of the data collected by our systems could adversely affect our reputation and hurt our business.

Customers rely on third-party security features to protect privacy and integrity of customer data. Our products may be vulnerable to breaches in security due to failures in the security mechanisms, the operating system, the hardware platform or the networks linked to the platform. All our solutions provide web access to information, presenting additional security issues for our customers. Security vulnerabilities could jeopardize the security of information stored in and transmitted through the computer systems of our customers. A party that is able to circumvent our security mechanisms could misappropriate proprietary information or cause interruptions in the operations of our customers. Security breaches could damage our reputation and product acceptance would be significantly harmed, which would cause our business to suffer.

**We are subject to ongoing costs and risks associated with complying with extensive corporate governance and disclosure requirements.**

As an Israeli company subject to U.S. federal securities laws, we spend a significant amount of management time and resources to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, SEC regulations, Nasdaq listing rules and the Israeli Companies Law. In

connection with our compliance with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time, and we may need to hire additional accounting and financial staff, to assure that we continue to comply with these requirements. There is no guarantee that these efforts will result in management assurance that our internal control over financial reporting is adequate in future periods. If our internal controls are found to be ineffective in future periods, it could harm our operations, financial reporting or financial results.

Risks Relating to the Market of our Ordinary Shares

Our share price has fluctuated and could continue to fluctuate significantly.

The market for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. The price of our ordinary shares has fluctuated significantly since our initial public offering in August 2000. A number of factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly, such as:

- sales of a substantial number of our ordinary shares;
- fluctuations in our quarterly revenues and earnings and those of our publicly held competitors;
- public announcements concerning us or our competitors;
- changes in pricing policies by us or our competitors;
- market conditions in our industry; and
- the general state of the securities market (particularly the technology sector).

We do not control these matters and any of them may adversely affect our share price. In addition, trading in shares of companies listed on the Nasdaq Global Market in general and trading in shares of technology companies in particular has been subjected to extreme price and volume fluctuations that have been unrelated or disproportionate to operating performance. These broad market and industry factors may depress our share price, regardless of our actual operating results. Given the likely volatility that exists for our ordinary shares, sales of a substantial number of our ordinary shares could cause the market price of our ordinary shares to decline.

If we are characterized as a passive foreign investment company, our U.S. shareholders will be subject to adverse tax consequences.

If, for any taxable year, either, (1) 75% or more of our gross income is passive income or (2) 50% or more of our assets, averaged over the year and generally determined based upon value, including cash (even if held as working capital), produce or are held to produce passive income, we may be characterized as a "passive foreign investment company", or PFIC for United States federal income tax purposes. As a result of our cash position and the value of our assets, we may be deemed to be a PFIC for U.S. federal income tax purposes.

If we are characterized as a PFIC, our shareholders who are residents of the United States will be subject to adverse U.S. tax consequences. Our treatment as a PFIC could result in a reduction in the after-tax return to shareholders resident in the United States and may cause a reduction in the value of our shares. If we were to be treated as a PFIC, our shareholders will be required, absent certain elections, to pay an interest charge together with tax calculated at the then prevailing highest tax rates on ordinary income on certain "excess distributions" including any gain on the sale of Ordinary Shares. The consequences of holding shares in a PFIC are described below under "Additional Information - United States Federal Income Tax Consequences - Passive Foreign Investment Companies." Prospective investors should consult with their own tax advisors with respect to the tax consequences applicable to them of investing in our Ordinary Shares.

Risks Relating to Our Location in Israel

Potential political, economic and military instability in Israel may harm our operating results.

We are organized under the laws of the State of Israel and most of our senior management is located in Israel. Accordingly, our operating results are directly influenced by economic, political and military conditions in and relating to Israel. Since the establishment of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, Hamas (an Islamist militia and political group in the Gaza Strip) and Hezbollah (an Islamist militia and political group in Lebanon). Recent political uprisings, social unrest and violence in various countries in the Middle East and North Africa, including Israel's neighbor Syria, are affecting the political stability of those countries and have enabled the development of extremist groups. This instability may lead to deterioration of the political relationships that exist between Israel and these countries and has raised concerns regarding security in the region and the potential for armed conflict. In addition, Iran has threatened to attack Israel and is believed to be developing nuclear weapons. Iran is also believed to have a strong influence among parties hostile to Israel in areas that neighbor Israel, such as the Syrian government, Hamas in Gaza and Hezbollah in Lebanon. Any armed conflicts or political instability in the region could negatively affect business conditions and harm our results of operations. We cannot predict the effect on the region of the increase in the degree of violence between Israel and the Palestinians. Furthermore, several countries and trade groups restrict business with Israel and Israeli companies, and additional countries and trade groups may restrict doing business with Israel and Israeli companies for political reasons. These restrictive laws and policies may seriously harm our operating results, financial condition or the expansion of our business. In addition, the current situation in Israel could adversely affect our operations if our customers and/or strategic allies believe that instability in the region could affect our ability to fulfill our commitments.

It may be difficult to enforce a U.S. judgment against us, our officers and directors or to assert U.S. securities laws claims in Israel.

We are incorporated in the State of Israel. Substantially most of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for a shareholder, or any other person or entity, to collect a judgment obtained in the United States against us or any of these persons, or to effect service of process upon these persons in the United States.

We have been informed by our legal counsel in Israel that it may be difficult to bring original actions in Israel to enforce civil liabilities under the Securities Act and the Exchange Act. 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.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. judgment in a civil matter, including judgments based upon the civil liability provisions of the U.S. securities laws and including a monetary or compensatory judgment in a non-civil matter, provided that the following key conditions are met:

· subject to limited exceptions, the judgment is final and non-appealable;

· the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;

· the judgment was rendered by a court competent under the rules of private international law applicable in Israel;

· the laws of the state in which the judgment was given provide for the enforcement of judgments of Israeli courts;

· adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;

· the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;

· the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and

· an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

Provisions of Israeli law and our articles of association may delay, prevent or make difficult a change of control and therefore may depress the price of our stock.

Some of the provisions of our articles of association and Israeli law could, together or separately:

· discourage potential acquisition proposals;

· delay or prevent a change in control; and

· limit the price that investors might be willing to pay in the future for our ordinary shares.

In particular, our articles of association provide that our board of directors will be divided into three classes that serve staggered three-year terms and authorize our board of directors to adopt protective measures to prevent or delay a coercive takeover, including without limitation the adoption of a “Shareholder Rights Plan.” In addition, Israeli corporate law regulates mergers and acquisitions of shares through tender offers, requires approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. See Item 10.B “Memorandum and Articles of Associations - Mergers and Acquisitions under Israeli Law.” Furthermore, Israeli tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may 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.

Item 4. Information on the Company

A. History and Development of the Company.

General

Our name is MIND C.T.I. Ltd. for both legal as well as commercial purposes. We were incorporated under the laws of the State of Israel on April 6, 1995 as a company with limited liability, and we are subject to the Israeli Companies Law, 1999 and the regulations promulgated thereunder. Our principal executive offices are located at Industrial Park, Building 7, Yoqneam 2069202, Israel. Our telephone number is +972 4 993 6666. Our agent in the United States is MIND Software Inc. and its principal offices are located at 12520 Prosperity Drive, Suite 220, Silver Spring, MD 20904, USA.

Principal Capital Expenditures

During 2013, 2014 and 2015, the aggregate cash amount of our capital expenditures were \$240,000, \$201,000 and \$146,000, respectively. These expenditures were mainly for the purchase of equipment and licenses for software tools to be used by our engineering teams. We currently have no material commitments for capital expenditures.

B. Business Overview

Overview

We develop, manufacture, market and implement real-time and off-line convergent billing and customer care software solutions for various types of communication providers, including traditional wireline and wireless, voice over IP, or VoIP, and broadband IP network operators, LTE operators, cable operators and mobile virtual network operators, or MVNOs.

Our convergent billing and customer care solution supports multiple services, including voice, data and content services as well as prepaid, postpaid and pay-in-advance payment models in a single platform. Prepaid subscribers can

enjoy the full range of services offered by the provider, with their special bundles, rating plans and limits. The prepaid solution authorizes each service and controls each session in real time, taking care that the balance is not exceeded. Postpaid subscribers, including credit-limited and non-limited, retail or business customers, represent the loyal and the higher average revenue per user, or ARPU, market. All services used by a postpaid subscriber appear in a single bill, which includes all charges, including one-time, recurring and usage-related charges. Our billing solution (MINDBill) is unique as it is truly convergent and it includes our own integrated real-time mediation product that provides interfaces with IP, Intelligent Networks, or IN, and traditional telecommunication equipment, as well as our own point-of-sale solution.

Our billing and customer care solution includes a powerful workflow engine to support the implementation of business processes such as subscriber registration, order management, trouble ticket and debt collection. It also includes an integral point of sale (POS) solution that covers all dealer, store and cashier management and sales processes. We base our solution on a multi-layered architecture supporting real-time distributed processing, achieving performance, scalability and high availability. It uses an open architecture, including Service Oriented Architecture (SOA) and robust Application Programming Interfaces (API's) thus enabling fast and seamless integration with other systems and third party applications. The MIND solution is built using standardized best-of-breed object-oriented technologies such as Java and XML, and it is J2EE compatible as it is powered by a commercial application server.

We also provide professional services, primarily to our billing and customer care customers, consisting of installation, turnkey project implementation services, customer support, training and maintenance services, software and process customization and project management. Our professional services also include enhanced support options, known as managed services, which are mainly offered to customers in the United States and Europe and are performed from our offices. These managed services include performing day to day billing operational tasks.

In addition to our billing and customer care solutions, we offer unified communications solutions call management systems used by organizations for call accounting, telecom expense management, traffic analysis and fraud detection. Our enterprise software product has been installed on about 20,000 switches around the world, for traditional telephony, for IP switches and hybrid networks. Our latest product, PhonEX-ONE, delivers one unified solution for all voice communication expenses including traditional, IP and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites, it provides full functionality through a web browser, based on Microsoft SQL database and the advanced ASP.NET technology.

## Our Market Opportunity

### Billing and Customer Care Industry

Billing and customer care are critical to telecommunications service providers as they enable them to manage customer relations, track and bill for usage, and launch, deploy and charge new services, marketing programs and rate plans. The need for comprehensive billing solutions is driven by the market trend that requires service providers to introduce new services, to be innovative in creating new product offerings and to optimize business processes for maximum efficiency. We provide tier 2 and tier 3 service providers with flexible, easy to deploy, truly convergent and scalable billing solutions.

From time to time, telecommunications service providers initiate searches for billing solutions to replace existing ones in order to offer additional services, reduce costs and improve service. In addition, our existing customers occasionally consider adding new modules that we developed to their existing platform, replacing other vendors or migrating to a newer version with up-to-date technology and enhanced functionality.

Also, from time to time, new providers surface and introduce new offering to the market or try to attract a specific targeted customer base. They build new infrastructure or resell traffic and initiate searches for billing solutions.

An additional market opportunity is the trend towards all-IP networks, offering multiple next generation services. New billing solutions are required to enable the new services, and we are well positioned to support this need. As a pioneer in VoIP billing since 1997, we have the experience and the solution portfolio that is proven to be capable of delivering these technically demanding projects for all-IP networks.

#### Convergence

Implementation of convergent solutions has become a common demand and we encounter opportunities as carriers seek to replace multiple existing solutions with one convergent platform.

The convergent billing solution in the telecommunications industry enables operators to manage efficiently, on one platform, all subscribers and all services. It includes convergence of payment methods like prepaid and postpaid, as well as services like fixed telephony, mobile telephony, broadband, cable and IPTV.

#### Mobile Market and IP Services Industry

The two niches in the mobile market in which we see opportunities are the rural mobile carriers market in the United States and the new generation operators that offer high-speed mobile internet services over 4G LTE networks. We have a number of such carriers as customers and we are focused on delivering solutions that address these particular markets.

Providers of multiple services typically require billing and customer care products that can handle authentication, authorization and accounting needs in real-time in order to determine the types of services to which the subscriber is entitled, as well as any applicable limits to the availability of the services. This real-time functionality is particularly important for prepaid billing plans. Our proven solutions cover all these needs, as described below.

#### Our Billing and Customer Care Solution

We develop, market and support real-time and off-line, scalable billing and customer care software, including mediation and rating, for providers of voice, data and content services that are designed to meet their complex, mission-critical provisioning, authentication, authorization, accounting and reporting needs. Our billing and customer care software provides our customers with the following benefits:

*Real-Time Solution.* Service providers require a system that enables authentication, authorization and accounting and, if needed, cut-off, all in real-time. We believe that the MIND solution is one of the few billing and customer care products that offers real-time functionality for both prepaid and postpaid billing plans, and that has a real-time rating engine able to support rating of voice, data and content services simultaneously;

*Mediation and Service Fulfillment.* IP and traditional networks that can offer voice, data, video and content services are based on various network elements each of which generates billable information. We believe that the MIND solution is one of the few billing and customer care products that provide real-time collection and correlation of various events from multiple sources that relate to the same session and convert them into billable records. In addition, the MIND solution enables end-to-end automated flow for service creation and activation, meaning that from the order for service handled by the customer care representative until the service activation, the activities that

need to be completed are automatically fulfilled by MIND;

*Scalability.* Our billing solution (MINDBill) is designed to support millions of subscribers and at the same they enable service providers to grow from accommodating a small number of subscribers to a large number of subscribers, primarily through the addition of hardware and licenses. Our solutions' design allows a service provider to expand its infrastructure, business model and subscriber base without the need to replace its billing and customer care software; and

*Improved Time to Market.* MINDBill is modular, extensible software products, based on software architecture designed for easy adaptability and implementation. These features allow each of our customers to tailor our products to meet their individual needs in terms of the number of subscribers serviced and the variety of services provided. In addition our products can be customized relatively quickly, enabling our customers to improve their time to market as they initially implement their networks and, later, as they add and modify the services they provide.

## Our Strategy

Our objective is to be a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers and to maintain and increase profitability.

As we increase our focus on end-to-end billing solutions for tier 2 and tier 3 service providers, projects are now generally more complex in nature, with revenue recognized over longer periods. These factors typically extend the recognition period of both license and service revenue streams and have some balance sheet impacts. We consider this a normal and expected development for our business as it grows and matures. We continue to build the professional services team required to support the growth in services offered to customers. Our long-term business model contemplates that licenses, maintenance and services will each represent approximately 30-40% of revenues and gross margins will be around 60%. The key elements of our strategy to become a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers include:

*Leverage our brand name recognition and technical expertise.* We introduced our billing and customer care software in 1997. We believe that our early position in the market and our reputation for offering high quality, reliable billing and customer care software has provided us with brand name recognition. We intend to leverage our reputation, brand name and recognition in the wireline and wireless markets;

*Maintain and expand our technological expertise.* We believe that our reputation in the market is due in large part to our technological expertise. We make significant investments in research and development to continually enhance our products to meet the changing needs in the telecom industry. We intend to continue our commitment to technology, both to enhance our existing products and to develop new products for growing markets; and

*Expand professional services opportunities.* As our projects are of larger scale and as convergent service offerings become more complex, our customers require more consulting services, especially for customization, as well as for project management, installation and training, technical support and maintenance. This provides us with the opportunity to increase our revenue base from existing customers. We have begun to capitalize on this opportunity and, as a result, fees from professional services have increased.

## Our Products and Services

### Billing and Customer Care Solutions

The key functionalities of our billing and customer care solutions are as follows:

*Mediation.* Providing real-time and batch event collection, interfacing with the voice, content, data, service delivery and routing network elements;

*Provisioning.* Setting up the ability of a subscriber to use services, enabling features and quantitative limits on network elements and legacy billing solutions;

*Authentication & Authorization.* Authenticate subscribers who connect to the network to use voice or data services, and authorize a particular usage by reviewing the type of service, the account balance, pre-rating the service and calculating the resulting cut-off parameters;

*Accounting.* When each session is completed, the rating engine calculates the amount to be charged to the subscriber and updates the balance of the account in real-time. In addition, the usage detail records are stored for invoicing and reporting;

*Interconnect Billing.* MINDBill generates reports that enable providers to bill for traffic and services that are being transported across their networks by other providers;

*Roaming.* MINDBill provides the ability to define and manage the required roaming contract terms and the applicable tariff plan (IOT) for each roaming partner;

*Virtual Providers.* MINDBill allows carriers to have resellers of traffic under different brand names and manage them as Virtual Providers;

*Multiple Services and Products Support.* MINDBill allows operators to provide advanced voice, data, content and video services. Our product catalog allows bundling of groups of services into tailor-made packages with special rates, discounts and promotions;

*Rating.* MINDBill includes a flexible real-time rating engine that facilitates a wide variety of billing plans and tariff parameters. Our rating engine includes support for content based rates, rates based on the day of the week, time of the day, call origin and destination and multi-currency rates for international services. It supports an unlimited number of free-unit and money-bundle, voucher based payment models and much more;

*Invoicing.* MINDBill supports all stages of invoice generation, multiple billing cycles and invoice on demand. Invoices include usage details, monthly recurring charges, discounts and taxes. Invoices can be printed locally or exported to printing service bureaus, using a customizable invoice layout;

*Account Receivables (A/R).* MINDBill manages all A/R activities, monitors the A/R status online and ensures a continuous cash flow. It supports multiple payment methods: cash, check, credit and debit cards, vouchers and more.

It offers a flexible open API for payments interfaces to banks and credit card clearing houses and has pre-integrated interfaces with major financial institutions, banks, clearinghouses and credit bureaus. The A/R module supports deposits life cycle management, including payments and refunds, dispute management and resolution, resulting in the appropriate adjustments. MINDBill identifies the ageing debt for every open invoice according to the company classification policy (30-60-90 days) and initiates the built-in debt collection process;

*Collection procedures.* The MINDBill flexible collection facility defines the collection policy using different collection paths. The solution provides full monitoring and control of the collection treatment (dunning process). It identifies customers with past due debts and ensures that they are handled in accordance with the company policy;

*Subscriber Self-Care Web Interface.* MINDBill includes a user-friendly subscriber web interface that allows subscribers to obtain real time information about their account, including invoice information, call details and payment history. Our solution also offers a set of APIs to facilitate seamless integration of an existing customer self-care application with our billing solution;

*Customer Support Representative Web Interface.* MINDBill includes a powerful and user-friendly customer support representative web interface that allows operators to perform customer care from any location;

*Point of Sale (POS).* Our POS enables operators to offer their products and services in retail stores, selling services, equipment and accessories to new and existing customers and even to non-subscribers. POS integrates with external systems, such as credit card clearinghouses, external taxation engines and address validation systems. POS main modules:

*Sales Module* – a cashier station that facilitates services, equipment and accessories sales, returns and repairs, through an easy to use interface on a single receipt. It enables cash, check and credit card payments and supports cash drawer, credit card swipe, barcode reader and ribbon printer;

*Resource Management Module* – an inventory system that supports the operator's warehouses and stores, automating the management and tracking of goods sold. It manages the equipment by serial number, status, and location, supporting the full goods life-cycle.

*Subscriber On-Line Store.* Our billing solutions include a user-friendly subscriber web e-commerce interface that allows subscribers to purchase services, equipment and accessories on-line. Our solution also offers a set of APIs to facilitate seamless integration of an existing customer e-commerce application with our billing solution;

*Business Processes Workflow Environment.* MINDBill includes an automated business processes workflow engine to implement our customers' unique business rules, creating tailored business processes such as managing subscriptions, order management, trouble tickets and debt collection. For example, a tailored account creation process may include account registration, package selection, provisioning and activation steps, it may involve different users from various departments, integration with external legacy systems and third party services and more;



*Call Management and Traffic Analysis Reports (CMS).* This module allows service providers to generate reports and graphic analysis of usage activity. Information such as peak hours, usage loads or duration of sessions enables operators to analyze subscriber behavior and improve their marketing and business development strategies. In addition, the traffic analysis reports assist service providers in planning the growth and development of their networks; and

*Fraud Detection.* MINDBill includes a customizable fraud detection tool that enables detection of “stolen” calls and telephone misuse. It detects, locates and warns of any suspicious activity by activating alarms.

## Enterprise Software

Our enterprise products, known as PhonEX, MEIPS, PhonEX-Ten and PhonEX-ONE, are used by corporations for telecom expense management, call accounting, traffic analysis and fraud detection. PhonEX and MEIPS are call management systems that collect, record and store all call information in a customized database. The systems:

- allow customers to generate near real-time reports on the enterprise's telephone use;
- produce sophisticated reports and graphics for easy and effective analysis of call activity; and
- allow customers to allocate telephone expenses to specific departments, individual clients or projects.

These functions allow organizations to more effectively manage their telecommunications resources. The systems are easy to install and configure, user-friendly and compatible with any switchboard system, traditional or IP. The systems perform call management and traffic analysis as well as fraud management in the same manner as our billing solutions. In addition, the systems are multi-lingual and multi-currency, which means that reports can be generated in any currency defined in the system, or in two currencies simultaneously.

PhonEX-ONE, delivers one unified solution for management of all telecom expenses, including traditional voice, IP voice and data, and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites. PhonEX-ONE provides tools to monitor, budget and manage voice traffic in order to achieve maximum control over telecommunication expenses. Some of its major advantages are:

*Fully web-based solution.* The PhonEX-ONE fully web-based solution enables managers and users to conveniently access their telecom expenses management system anytime and from anywhere, using a web browser without decreasing their control over the traffic;

*User centric.* The PhonEX-ONE user-centric architecture provides a consolidated solution for the collection, analysis, reporting, and managing of all the telecommunication and data traffic expenses;

*Dashboard.* A visual representation of the most significant information regarding calls, a useful tool that helps administrators to get a quick and relevant image of the general system activity. The Dashboard can quickly provide - through its graphical and non-graphical monitors - a snapshot over the outgoing and incoming calls, traffic and exceptions as well as several top requested reports;

*Multi-site solution.* The PhonEX-ONE scales to support large multi-site organizations using voice and data equipment from multiple vendors. PhonEX-ONE supports complex hierarchies on which any employee can be associated to any branch of the organization and under a separate matrix to any corporate department;

*ASP.NET and MS-SQL database.* PhonEX-ONE is designed using the Microsoft .Net technology and has extensive configuration capabilities using XML files with server – client interaction;

*Certification by IP switch vendors.* PhonEX-ONE is interoperable and certified on a timely manner with new releases of IP switch vendors, including Cisco and Microsoft;

*Enhanced security.* PhonEX-ONE security management includes user authentication, security group restrictions, event log monitoring and encryption methodology of data base entries. This management tool enables a secure and easy control over the system;

*Modular architecture supporting high scalability.* The PhonEX-ONE's scalable system architecture supports an unlimited number of sites and extensions;

*Guard and Alerter.* The PhonEX-ONE Guard and Alerter provide sophisticated tools for fraud prevention, alerting on phone misuse, budget surpass, possible toll fraud or other abnormal behaviors within the organization; and

*Multilingual and multicurrency.* The built-in support of multiple languages and multiple currencies enables telecom expense management for multinational organizations.

We intend to further develop and market these products as the market for Voice over IP systems for enterprises grows.

## Professional Services

We provide professional services to our customers, consisting primarily of project management, customization, installations, customer support, training and maintenance services. As our projects become more complex, more customers require customization services to add specialized features to their systems. We also offer enhanced support

options, called managed services, which are mainly offered to customers in the United States and are performed from our offices. The managed services include performing day to day billing operational tasks. The managed services contracts are usually for a term of three to five years and are paid on a monthly basis. We also have the ability to implement Software-as-a-Service (SaaS) models in a similar way.

## Technology

Our software products are based on an open architecture, which was developed using industry standard application server programming interfaces (API) that enables it to readily integrate with other software applications. These application program interfaces create an object-oriented, multi-layered architecture that support a distributed environment. Our object-oriented technology enables the design and implementation of software utilizing reusable business objects rather than complex procedural codes. Our layered architecture organizes these business objects to optimize the interface between the user and the application. We implement our software in a distributed configuration. This allows various modules to be installed on different servers to support the system's scalability and security. We believe that our technology allows us to offer products with the following benefits:

fast integration and interoperability with telecommunications equipment of major manufacturers, legacy systems and external software;

modular architecture that allows our products to be easily scalable and enables us to customize our software relatively quickly;

reliable products that support high availability of the service for mission-critical applications. Our automatic fail-over mechanism ensures minimal loss of service in case of a component failure; and

security at all levels of the architecture. Each user of the system may be assigned to different security groups. Service providers are therefore able to determine and audit access to the system. In addition, firewalls can be installed to prevent unauthorized access to the system.

Our software products are based on multiple-tier architecture, consisting of the following tiers:

**Client Application Tier:** This is the top tier graphic user interface between the user and the application. It includes client applications for customer registration, customer care and billing administration. In addition, it includes Web service interfaces that enable external applications to interact with the business tier;

**Business Object Tier:** This tier includes the business logic and rules of the system. This tier manages accounts, services, events and tariffs. It includes an object request broker that facilitates the transfer of information requested by the client application tier from the database tier; and

**Database Tier:** This tier includes the Oracle database server and management software where the actual billing and customer care information is stored.

Sales and Marketing

Sales

Billing and Customer Care Solutions

We conduct our sales and marketing activities primarily directly as well as through our marketing alliances with network equipment vendors and systems integrators. These marketing allies and resellers provide us with a global extension of our direct sales force. We also engage in joint marketing activities with our allies, including joint responses to requests for proposals. We believe that these relationships also help validate our technology and facilitate broad market acceptance of our software.

Our agreements with our marketing allies, distributors and resellers are non-exclusive, do not contain minimum sales or marketing performance requirements and may be terminated at any time with notice.

## Enterprise Software

We conduct our sales and marketing activities primarily directly, by our sales force located in the MIND offices in the United States and Israel, as well as through appointed distributors and resellers throughout the world. We engage with our system integrators and equipment vendors for global marketing activities and responses to tenders.

## Marketing

Our marketing programs are focused on creating awareness, interest and preference for our products and services. We engage in a variety of marketing activities, including:

- participating in industry trade shows and special events;
- conducting ongoing public and press relations programs; and
- conducting training seminars for vendors and system integrators.

## Principal Markets

The following table shows our revenues for each of the past three years classified by activity and geographic region.

|                                 | Years ended December 31,<br>(\$ in thousands) |          |          |
|---------------------------------|-----------------------------------------------|----------|----------|
|                                 | 2013                                          | 2014     | 2015     |
| The Americas (total)            | \$11,809                                      | \$14,411 | \$11,292 |
| Sale of Licenses                | 1,921                                         | 2,625    | 1,396    |
| Services                        | 9,888                                         | 11,786   | 9,896    |
| Asia Pacific and Africa (total) | 1,145                                         | 1,188    | 1,522    |
| Sale of Licenses                | 442                                           | 387      | 458      |
| Services                        | 703                                           | 801      | 1,064    |
| Europe (total)                  | 3,758                                         | 7,165    | 6,697    |
| Sale of Licenses                | 1,696                                         | 1,832    | 1,806    |

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|                  |        |        |        |
|------------------|--------|--------|--------|
| Services         | 2,062  | 5,333  | 4,891  |
| Israel (total)   | 1,768  | 2,256  | 1,417  |
| Sale of Licenses | 554    | 553    | 282    |
| Services         | 1,214  | 1,703  | 1,135  |
| Total            | 18,480 | 25,020 | 20,928 |
| Sale of Licenses | 4,613  | 5,397  | 3,942  |
| Services         | 13,867 | 19,623 | 16,986 |

## Customers

### Billing and Customer Care Solutions

Our billing and customer care solutions have been installed for a large base of customers worldwide, including:

- traditional telephony providers that evolved into quad-play providers, offering wireless, wireline, cable, content and internet services, such as Moldtelecom and Docomo Pacific;
- wireless telephony providers and MVNO's, such as KDDI America, Inc., Chat Mobility and SI Wireless;
- LTE operators, such as MaxTelecom Bulgaria;
- cable providers that also offer voice services, such as Megacable and EastLink; and
- Mobile Virtual Network Enablers (MVNEs), such as Pelephone Telecommunications Ltd.

### Enterprise Software

Our enterprise software has been installed on about 20,000 switches around the world, for customers that include international banking firms, global technology leaders, government agencies and other small to very large organizations.

### Competition

### Billing and Customer Care Solutions

Competition in the market for billing and customer care software is intense and we expect competition to continue to be strong. We compete with many local companies and worldwide companies such as Amdocs, Redknee and Oracle.

We believe that our competitive advantage is based on:

- our ability to rapidly deploy a complete turn-key product based solution;
- our truly convergent platform using one database and one product catalog for both prepaid and postpaid subscribers;
- our solutions' functionality, which includes billing, customer care, point-of-sale, mediation, provisioning, online charging for multiple services and interconnect reporting;
- our proven platform and our many years of wireless and IP experience to satisfy customer requirements; and
- our flexibility to meet customer requirements in a short time frame.

Some of our competitors have greater financial, technical, sales, marketing and other resources and greater name recognition than we do. Some of our competitors have lower cost structure and compete with us on pricing. Current and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to increase their ability to address the needs of prospective customers. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share and their solutions could achieve greater market acceptance than our solutions.

## Enterprise Software

Our competitors in the market for enterprise software products are mainly local companies. To compete effectively, companies must be able to offer adequate technical support and ongoing product development and customization services. In addition, multinational companies prefer call accounting systems that can be installed at their various offices throughout the world, and therefore require call accounting products that are multilingual and support the local telecommunication requirements. The principal factors upon which we compete are scalability, ease of use, being certified by major IP switch vendors and the multi-lingual and multi-currency nature of our system.

### C. Organizational Structure

Set forth below is a list of our significant subsidiaries:

- MIND Software Limited, a wholly owned subsidiary, incorporated in the United Kingdom;
- MIND Software Inc. (formerly Sentori Inc.), a wholly owned subsidiary, incorporated in the State of Delaware;
- MIND Software SRL., a wholly owned subsidiary of MIND Software Limited, incorporated in Romania; and
- Dirot Comp SRL., a wholly owned subsidiary, incorporated in Romania.

### D. Property, Plant and Equipment

Our headquarters are located in Yoqneam, Israel, approximately 50 miles north of Tel Aviv. We lease approximately 10,000 square feet at our Yoqneam headquarters. We also lease approximately 2,100 square feet of office space in Silver Spring, Maryland, approximately 32,000 square feet in Iasi, Romania and approximately 7,400 square feet in Suceava, Romania. The office in Maryland is used primarily for supporting our customers in the United States, while the offices in Iasi and Suceava are used primarily for software development and for customer support. The office in Maryland is the group's headquarters in the Americas.

## Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion of our results of operations should be read together with our audited consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Overview

We were incorporated in Israel in 1995 and started providing our enterprise software products in that year. In 1997, we introduced our billing and customer care software for Voice over IP. We have enhanced our billing solutions since then to support multiple IP services, wireless and wireline carriers and triple play (voice, data and content) service providers. In 2015, 79% of our revenues were derived from providing our billing and customer care software and 21% were derived from providing our enterprise software. In 2015, license fees represented 19% of our revenues and services represented 81%. In 2015, two customers accounted for approximately 10% and 13% of total revenues. In 2014, two customers accounted for approximately 11% and 13% of total revenues. In 2013 no customer accounted for 10% or more of our total revenues. We expect to continue to derive sizeable revenues from a small number of changing customers.

While the markets appear to be very active, showing ongoing demand for our products and services, extensive pre-sales efforts are required and many processes are extended or constantly delayed. Consolidation in the telecom markets was not favorable to us in the last two years, and we closed fewer deals than in previous years. Accordingly, we expect lower revenues in the near term. We plan to continue investing in technology and seeking to enter new markets, as we continue to focus on our profitability targets.

In August 2005, we acquired Sentori Inc., a leading provider of billing and customer care solutions to tier 3 and tier 2 wireless carriers and mobile virtual network operators, or MVNO's, mainly in the United States and the Caribbean. In October 2007, we acquired the U.K.-based Omni Consulting Company Limited, which provides billing and customer care software solutions in a service bureau mode, mainly to European carriers.

In July 2003, we adopted a dividend policy, according to which we declare, subject to specific board approval and applicable law, a dividend distribution once per year, in the amount of our net income from the previous year. In October 2010, our board of directors updated this policy slightly. The new policy changes only the amount to be distributed, the new amount being equal to our EBITDA plus financial income (expenses) minus taxes on income.

Additionally, the board approved dividend distributions in 2003, 2007, 2008, 2009, 2010, 2011 and 2014 that were subject to approvals from an Israeli Court in accordance with Section 303 of the Israeli Companies Law due to the fact that we did not have sufficient retained earnings, which court approvals were received. Since 2003, we have distributed aggregate cash dividends of approximately \$3.66 per share to our shareholders. The amount per share that we distributed in 2013, 2014, and 2015 was \$0.24, \$0.24 and \$0.30, respectively, and \$0.27 per share in March 2016. The board decision to approve the annual distribution is based, among other factors, on our cash position at that time, potential acquisitions and future cash needs. The board may decide to discontinue the dividend distribution in whole or in part at any time.

*Revenues.* We are paid license fees by our customers for the right to use our products, based on (1) traffic volume, which is measured by factors such as number of subscribers, and (2) the functionality of the system based on application modules that are added to the software. In relation to our professional services, other than maintenance services and managed services, we mainly quote a fixed price based on the type of service offered, estimated direct labor costs and the expenses that we will incur to provide these services. Fees for maintenance services are based on a percentage of the solution fee and are paid annually, quarterly or monthly. Fees for managed services are primarily based on the number of subscribers or customers business volume and are paid monthly.

We primarily use two business models when we sell our solutions, the license model and the managed services model. In the license model, the customer pays a one-time implementation fee, a one-time license fee for a perpetual license limited by the traffic metrics chosen by the customer, and additional fees to expand the chosen traffic metrics limitation. In addition, we are paid maintenance fees to renew periodically the maintenance agreement at the customer discretion. In the managed services model, the customer pays a one-time implementation fee, a monthly fee that includes a periodic license (right to use), maintenance and services fees, calculated by the metrics chosen by the customer (mainly, number of subscribers).

We provide a revenue breakdown for our billing and customer care software and our enterprise call management software. We believe that this information provides a better understanding of our performance and allows investors to make a more informed judgment about our business.

*Cost of Revenues.* The cost of revenues consists primarily of direct labor costs and overhead expenses related to software installation and maintenance. Cost of revenues also includes, among other things, software license fees to third parties, primarily Oracle, hardware, travel expenses, packaging and shipping costs.

*Research and Development Expenses.* Our research and development expenses consist primarily of compensation, overhead and related costs for research and development personnel and depreciation of testing and other equipment. Research and development costs related to software products are expensed as incurred until the “technological feasibility” of the product has been established. Because of the relatively short time period between “technological feasibility” and product release, no software development costs have been capitalized. We expect to continue to make investments in research and development.

*Selling and Marketing Expenses.* Our selling and marketing expenses consist primarily of compensation, overhead and related costs for sales and marketing personnel, the operation of international sales offices, sales commissions, marketing programs, public relations, promotional materials, travel expenses, trade shows and exhibition expenses.

*General and Administrative Expenses.* Our general and administrative expenses consist primarily of compensation, overhead and related costs for executives and administrative personnel, professional fees, insurance, provisions for doubtful accounts and other general corporate expenses.

*Financial Income (Expenses), Net.* Our financial income (expenses), net consists mainly of interest earned on bank deposits and short-term investments, gains and losses from the conversion of monetary balance sheet items denominated in non-dollar currencies into U.S. dollars, net of financing costs, and bank charges.

*Taxes on Income.* See "—Corporate Tax Rate" below.

## A. Operating Results

The following discussion of our results of operations for 2013, 2014 and 2015 including the percentage data in the following table, is based upon our statements of operations contained in our financial statements for those periods, and the related notes thereto, contained in Item 18:

|                                               | Years ended December 31, |        |        |
|-----------------------------------------------|--------------------------|--------|--------|
|                                               | 2013                     | 2014   | 2015   |
|                                               | (% of revenues)          |        |        |
| Revenues                                      | 100.0%                   | 100.0% | 100.0% |
| Cost of revenues                              | 42.6                     | 39.8   | 41.2   |
| Gross profit                                  | 57.4                     | 60.2   | 58.8   |
| Research and development expenses             | 27.2                     | 18.1   | 14.1   |
| Selling, general and administrative expenses: |                          |        |        |
| Selling and marketing expenses                | 9.2                      | 4.6    | 5.6    |
| General and administrative expenses           | 9.3                      | 7.7    | 8.4    |
| Operating income                              | 11.7                     | 29.8   | 30.7   |
| Financial income (expenses) – net             | 0.9                      | (1.2 ) | (0.6 ) |
| Income before taxes on income                 | 12.6                     | 28.6   | 30.1   |
| Income tax expense                            | 0.7                      | 6.7    | 6.1    |
| Net income                                    | 11.9                     | 21.9   | 24.0   |

### Comparison of 2013, 2014 and 2015

#### *Revenues*

|                       | Years ended December 31, |      |      | % Change      |               |
|-----------------------|--------------------------|------|------|---------------|---------------|
|                       | 2013                     | 2014 | 2015 | 2014 vs. 2013 | 2015 vs. 2014 |
|                       | (\$ in millions)         |      |      |               |               |
| License sales         | 4.6                      | 5.4  | 3.9  | 17.4          | (27.8)        |
| Professional services | 13.9                     | 19.6 | 17.0 | 41.0          | (13.3)        |

|                |      |      |      |      |        |
|----------------|------|------|------|------|--------|
| Total revenues | 18.5 | 25.0 | 20.9 | 35.1 | (16.4) |
|----------------|------|------|------|------|--------|

Revenues in 2014 increased in comparison to 2013 by 35.1%. The increase was primarily attributed to three new large deals signed in 2013 for which the revenues were recognized mainly in 2014. Revenues in 2015 decreased in comparison to 2014 by 16.4%. The decrease was primarily attributed to the decrease in both the number of the new deals and the size of new deals we signed, in comparison to the three new large deals in 2013, as well as to a significant decrease in our volume of sales in North America. Revenues from our billing and customer care product solutions for service providers increased from \$14.2 million in 2013 to \$21.0 million in 2014 and decreased to \$16.6 million in 2015 for reasons similar to those for the changes in total revenues.

Revenues from our enterprise products decreased from \$4.3 million in 2013 to \$4.0 million in 2014. The decrease was primarily attributed to the decline in interest we encountered in the United States and the Israeli markets for call accounting solutions, slightly offset by stronger sales in Europe. Revenues from our enterprise products increased from \$4.0 million in 2014 to \$4.4 million in 2015. The increase was primarily attributed to continuing stronger sales in Europe.

Revenues from professional services increased from \$13.9 million in 2013 to \$19.6 in 2014 and decreased to \$17.0 in 2015. The increase in 2014 was due to the large multiple milestone deployments completed in 2014 and increased revenue from our managed services agreements. The decrease in 2015 was due to the aforementioned significant decrease in our volume of sales in North America.

The following table presents the geographic distribution of our revenues:

|                         | Years ended December 31, |        |        |
|-------------------------|--------------------------|--------|--------|
|                         | 2013                     | 2014   | 2015   |
|                         | (% of revenues)          |        |        |
| The Americas            | 63.9                     | 57.6   | 54.0   |
| Asia Pacific and Africa | 6.2                      | 4.8    | 7.3    |
| Europe                  | 20.3                     | 28.6   | 32.0   |
| Israel                  | 9.6                      | 9.0    | 6.7    |
| Total                   | 100.0%                   | 100.0% | 100.0% |

Our revenues in the Americas increased from \$11.8 million in 2013 to \$14.4 million in 2014 but as a percentage of total revenues decreased from 63.9% in 2013 to 57.6% in 2014, mainly due to the aforementioned large deals signed in the United States and Europe. Our revenues in the Americas decreased from \$14.4 million in 2014 to \$11.3 million in 2015 and as a percentage of total revenues decreased from 57.6% in 2014 to 54.0% in 2015. Our revenues in Europe as a percentage of total revenues increased from 20.3% in 2013 to 28.6% in 2014 and to 32.0% in 2015, mainly due to the large deal we signed in Europe in December 2013. Our revenues in Israel increased from \$1.8 million in 2013 to \$2.3 million in 2014, mainly due to a large win for a billing solution in Israel, offset by the decrease in call accounting revenues, but as a percentage of total revenues decreased from 9.6% in 2013 to 9.0% in 2014, due to significantly higher overall revenues. Our revenues in Israel decreased from \$2.3 million in 2014 to \$1.4 million in 2015 and as a percentage of total revenues decreased from 9.0% in 2014 to 6.7% in 2015, mainly due to completion of the aforementioned large billing project in Israel during the second quarter of 2015.

### *Cost of Revenues*

|                           | Years ended December 31, |      |      | % Change      |               |
|---------------------------|--------------------------|------|------|---------------|---------------|
|                           | 2013                     | 2014 | 2015 | 2014 vs. 2013 | 2015 vs. 2014 |
|                           | (\$ in millions)         |      |      |               |               |
| Cost of sales of licenses | 0.4                      | 0.5  | 0.4  | 25.0          | (20.0)        |
| Cost of services          | 7.5                      | 9.5  | 8.2  | 26.7          | (13.7)        |
| Total cost of revenues    | 7.9                      | 10.0 | 8.6  | 26.6          | (14.0)        |

The total cost of revenues in 2014 increased by \$2.1 million compared with 2013 due to an increase in labor-related costs of \$1.6 million and increases in sub-contracting costs, purchases of equipment and licenses of \$0.4 million in the aggregate. The decrease in total cost of revenues in 2015 by \$1.4 million compared with 2014 was mainly due to a decrease in purchases of equipment and licenses and deferred charges of \$0.9 million, a decrease in labor-related costs

of \$0.3 million and a decrease in travel expenses of \$0.2 million.

Gross profit as a percentage of revenues increased from 57.4% in 2013 to 60.2% in 2014 mainly due to increased efficiency in project implementation and managed services operations in 2014. Gross profit as a percentage of revenues decreased from 60.2% in 2014 to 58.8% in 2015 mainly due to a decrease in sales of licenses. We expect gross margins to decrease even further as we perform significantly more professional services for our existing customer base.

## Operating Expenses

|                            | Years ended<br>December<br>31, |      |      | % Change            |                     |
|----------------------------|--------------------------------|------|------|---------------------|---------------------|
|                            | 2013                           | 2014 | 2015 | 2014<br>vs.<br>2013 | 2015<br>vs.<br>2014 |
|                            | (\$ in millions)               |      |      |                     |                     |
| Research and development   | 5.0                            | 4.5  | 2.9  | (10.0)              | (35.6)              |
| Selling and marketing      | 1.7                            | 1.1  | 1.2  | (35.3)              | 9.1                 |
| General and administrative | 1.7                            | 1.9  | 1.8  | 11.8                | (5.3)               |
| Total operating expenses   | 8.4                            | 7.5  | 5.9  | (10.7)              | (21.3)              |

*Research and Development.* We have made substantial investment in research and development to maintain our advanced technology and add functionality to our products. The decrease in our research and development expenses by 10% in 2014, compared to 2013, was primarily due to the decrease in research and development related payroll expenses as a result of the appreciation of the U.S. dollar in relation to the Euro that fully offset the increased average salary that is nominated in Euro. The decrease in our research and development expenses by 35.6% in 2015, compared to 2014, was primarily due to a decrease in research and development related payroll expenses as a result of a decrease in the total number of employees engaged in research and development and the appreciation of the U.S. dollar in relation to the Euro and to the NIS. Research and development expenses as a percentage of revenues decreased from 27.2% in 2013 to 18.1% in 2014 primarily due to the increased revenues and the decrease in research and development related payroll expenses as mentioned above. Research and development expenses as a percentage of revenues decreased from 18.1% in 2014 to 14.1% in 2015 primarily due to the decrease in research and development related payroll expenses mentioned above. We expect cost of employment per employee to be significantly higher in the future, as the global need for software engineers constantly grows and more European companies adopt near-shore outsourcing. The cost of employment may also be negatively affected by fluctuations in the exchange rates between the Euro or the NIS and the U.S. dollar.

*Selling and Marketing Expenses.* Selling and marketing expenses decreased from \$1.7 million in 2013 to \$1.1 million in 2014 mainly due to a decrease in sales commission expenses, a decrease in the total number of employees engaged in selling and marketing and the appreciation of the U.S. dollar in relation to the NIS. Selling and marketing expenses increased from \$1.1 million in 2014 to \$1.2 million in 2015 mainly due to an increase in travel expenses and an increase in participating in conventions. Selling and marketing expenses as a percentage of revenues decreased from 9.2% in 2013 to 4.6% in 2014 for similar reasons, due to increased overall revenues and due to a decrease in the total number of employees engaged in selling and marketing. Selling and marketing expenses as a percentage of revenues increased from 4.6% in 2014 to 5.6% in 2015 mainly due to the decrease in total revenues.

*General and Administrative Expenses.* General and administrative expenses increased from \$1.7 million in 2013 to \$1.9 million in 2014 mainly due to an increase in bonuses derived from our stronger results in 2014. General and administrative expenses decreased from \$1.9 million in 2014 to \$1.8 million in 2015 mainly due to a decrease in general and administrative related payroll expenses as a result of the appreciation of the U.S. dollar in relation to the NIS, partially offset by an increase in doubtful accounts. General and administrative expenses as a percentage of revenues increased from 7.7% in 2014 to 8.4% in 2015, due to the decrease in total revenues.

*Impairment of Goodwill.* No impairment of goodwill was required following the impairment test performed during the years 2013, 2014 and 2015.

*Financial Income (Expenses).* In 2013, financial income consisted of interest income incurred mainly on short-term bank deposits, marketable and available for sale securities and positive currency exchange rate fluctuations in the aggregate amount of approximately \$182,000, offset by bank charges in the amount of approximately \$19,000. In 2014, financial expenses consisted of negative currency exchange rate fluctuations and bank charges in the aggregate amount of approximately \$676,000, offset by interest income incurred mainly on short-term bank deposits, marketable and available for sale securities and a realized gain from sale of available for sale securities in the aggregate amount of approximately \$370,000. In 2015, financial expenses consisted of negative currency exchange rate fluctuations and bank charges in the aggregate amount of approximately \$329,000, offset by interest income incurred mainly on short-term bank deposits and marketable and available for sale securities in the aggregate amount of approximately \$215,000.

*Income Tax Expense.* Income tax expenses are comprised of current tax expenses and deferred tax expenses/income. On a regular basis, we estimate our actual current tax exposures and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred taxes, which are included on our consolidated balance sheet. In 2013, our income tax expenses in the amount of \$137,000 were comprised of current tax expenses in the amount of \$187,000 and taxes in respect of previous years in the amount of \$107,000, offset by an increase in deferred taxes in the amount of \$157,000. In 2014, our income tax expenses in the amount of \$1.7 million included mainly taxes on income in Israel in the amount of \$1.5 million. The significant increase in tax expenses in Israel was mainly caused by the devaluation of the NIS in relation to the U.S. dollar that caused an increase of the NIS valuation of our U.S. dollar nominated bank deposits, which was taxed by the Israeli

Tax Authority, and by the increased profitability. In 2015, our income tax expenses in the amount of \$1.3 million were comprised of current tax expenses in the amount of \$1.4 million, offset by taxes in respect of previous years in the amount of \$52,000 and an increase in deferred taxes in the amount of \$46,000.

### *Critical Accounting Policies*

To improve understanding of our financial statements, it is important to obtain some degree of familiarity with our critical or principal accounting policies. These policies are described in Note 1 to the consolidated financial statements contained in Item 18. We review our accounting policies annually to ensure that the financial statements developed, in part, on the basis of these accounting policies provide complete, accurate and transparent information concerning the financial condition of our company. As part of this process, we reviewed the selection and application of our critical accounting policies and financial disclosures as of December 31, 2015, and we believe that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of our company as of that date.

In preparing our financial statements in accordance with generally accepted accounting policies in the United States of America, our management must often make estimates and assumptions which may affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures as of the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and consequently actual results may differ from those estimates. For any given individual estimate or assumption made by our management, there may be alternative estimates or assumptions which are also reasonable. However, we believe that given the facts and circumstances before our management at the time of making the relevant judgments, estimates or assumptions, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on the consolidated results of operations, financial position or liquidity for the periods presented in the consolidated financial statements.

We are also subject to risks and uncertainties that may cause actual results to differ from estimates and assumptions, such as changes in the economic environment, competition, customer claims, foreign exchange, taxation and governmental programs. Certain of these risks, uncertainties and assumptions are discussed under the heading "Forward-Looking Statements" and in Item 3.D "Risk Factors."

We consider our most significant accounting policies to be those discussed below:

*Revenue Recognition.* We apply the provisions of Statement of ASC 985-605, "Revenue Recognition" (formerly SOP No. 97-2) and ASC 605-35, "Construction-Type and Production-Type Contracts" (formerly SOP No. 81-1), as follows:

i) *Sales of licenses:* Revenue from sale of products is recognized when delivery has occurred, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection is probable. If collection is not considered probable, revenue is recognized when the fee is collected. We generally do not grant a right of return on products sold to customers.

*ii) Services:* The services we provide consist of implementation, training, hardware installation, maintenance, support and project management. All services are priced on a fixed price basis and are recognized ratably over the period in which the services are provided except services which are recognized under the percentage-of-completion method as described below.

Products are mainly supplied with maintenance for a period of one year from delivery. When revenue on sale of the products is recognized, we defer a portion of the sales price and recognize it as maintenance revenue ratably over the above period. The portion of the sales price that is deferred is determined based on the fair value of the service as priced in transactions in which we render maintenance solely. Where vendor specific objective evidence for fair value cannot be determined, the entire sale is being recognized over the maintenance period. Where the services are considered essential to the functionality of the software products, both the software product revenue and the revenue related to the integration and implementation services are recognized under the percentage-of-completion method in accordance with ASC 605-35. We generally determine the percentage-of-completion by comparing the labor performed to date to the estimated total labor required to complete the project. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results.

iii) *Managed Services*: Revenues from managed services include a monthly fee for services and for right of use and are recorded as service revenues and license revenues, respectively. The monthly fee is based mainly on number of subscribers or customer's business volume and the agreements include a minimum monthly charge. These revenues are recognized on a monthly basis. Where installation services are sold together with a managed services contract, the installation services are recognized over the entire contract term, commencing with the deployment finalization.

*Provision for Doubtful Accounts*. The provision for doubtful accounts is for estimated losses resulting from the inability of our customers to make required payments. We regularly evaluate the adequacy of this provision by taking into account variables such as past experience, age of the receivable balance, and current economic conditions that may affect a customer's ability to pay. The use of different estimates or assumptions could produce different provision balances. If collection is not probable at the time the transaction is consummated, we do not recognize revenue until cash collection. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for doubtful accounts may be required.

*Impairment of Goodwill and Other Intangible Assets*. We test our goodwill for impairment using a fair value approach at the reporting unit level, on an annual basis, or more frequently if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The goodwill impairment test is a two-step test. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, we must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. The activities in the second step include valuing the tangible and intangible assets and liabilities of the impaired reporting unit based on their fair value and determining the fair value of the impaired reporting unit's goodwill based upon the residual of the summed identified tangible and intangible assets and liabilities.

In performing our impairment tests related to goodwill, we determine the fair value of our reporting units using the discounted cash flow approach. The discounted cash flow approach uses a reporting unit's projections of estimated operating results and cash flows and applies a weighted-average cost of capital that reflects current market conditions. The evaluation of goodwill requires us to use significant judgments and estimates, including but not limited to projected future revenues and expenses, changes in operating margins, cash flows, and estimates of future capital expenditures. Our estimates may differ from actual results due to, among other things, economic conditions, changes to our business model, or changes in operating performance. Significant differences between these estimates and actual results could result in future impairment charges and could materially affect our future financial results.

We perform annual testing for impairment of the goodwill during the third quarter of each year. As of September 30, 2015, the fair value of the reporting unit Sentori exceeded its carrying value by approximately 28%.

#### *Recently Issued Accounting Pronouncements*

Recently issued accounting pronouncements are described in Note 1 to the consolidated financial statements.

#### *Our Functional Currency*

The currency of the primary economic environment in which we operate is the U.S. dollar. In 2015, the majority of our revenues were denominated in U.S. dollars. In addition, most of our marketing costs are incurred outside Israel, primarily in U.S. dollars. Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Balances in non-dollar currencies are remeasured into U.S. dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items reflected in our income statements, the following exchange rates are used:

· for transactions, exchange rates at the transaction dates or average rates; and

· for other items (derived from non-monetary balance sheet items such as depreciation and amortization or similar items), historical exchange rates.

The resulting currency transaction gains or losses are reported as financial income or expenses as appropriate.

#### *Impact of Foreign Currency Fluctuations on Results of Operations*

The U.S. dollar cost of our operations may be significantly influenced by currency fluctuations.

The weakening of the U.S. dollar in global markets will have a negative effect on our profitability as we receive payment in U.S. dollars for most of our sales while we incur a significant portion of our expenses, principally salaries

and related personnel expenses, in NIS and Euro.

A devaluation of the NIS in relation to the U.S. dollar has the effect of reducing the U.S. dollar amount of any of our expenses or liabilities which are payable in NIS, unless these expenses or payables are linked to the U.S. dollar. This devaluation also has the effect of decreasing the U.S. dollar value of any asset, which consists of NIS or receivables payable in NIS, unless the receivables are linked to the U.S. dollar.

Any increase in the value of the NIS and/or Euro in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of our expenses. Because exchange rates between the NIS and Euro to the U.S. dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

B. Liquidity and Capital Resources

Since our inception, we have financed our operations mainly through cash generated by operations. We supplemented this source by two private rounds of equity financing, the first in 1997 (with a follow-on in 1999) and the second in 2000 and our initial public offering in 2000, which raised total net proceeds in the amount of \$44.3 million.

As of December 31, 2015, we had approximately \$11.5 million in cash and cash equivalents, and our working capital was \$14.9 million. In our opinion, our working capital is sufficient for our requirements for the foreseeable future.

The majority of our cash and cash equivalents and our deposits are nominated in U.S. dollars.

*Net Cash Provided by/Used in Operating Activities.* Net cash provided by operating activities in 2013 was \$5.2 million, attributable to our net income of \$2.2 million, non-cash related items, net, in the amount of \$0.2 million, and a net increase in operating assets and liabilities items in the amount of \$2.8 million. Net cash provided by operating activities in 2014 was \$3.8 million, attributable to our net income of \$5.5 million, non-cash related items, net, in the amount of \$0.4 million, a net increase in operating assets items in the amount of \$1.5 million and a net decrease in operating liabilities items in the amount of \$0.6 million. Net cash provided by operating activities in 2015 was \$6.3 million, attributable to our net income of \$5.0 million, non-cash related items, net, in the amount of \$0.5 million, a net decrease in operating assets items in the amount of \$0.5 million and a net increase in operating liabilities items in the amount of \$0.3 million.

The decrease in net cash provided by operating activities of \$1.4 million from 2013 to 2014 reflects mainly an increase in our net income of \$3.3 million, an increase in accounts receivable of \$1.4 million in 2014, compared with an increase of \$0.4 million in 2013, and a decrease of \$1.3 million in deferred revenues in 2014, compared with an increase of \$2.4 million in 2013. The increase in net cash provided by operating activities of \$2.5 million from 2014 to 2015 reflects mainly an decrease in our net income of \$0.5 million, a decrease in accounts receivable of \$0.4 million in 2015, compared with an increase of \$1.4 million in 2014, an increase of \$0.1 million in accounts payable and accruals in 2015, compared with an increase of \$0.8 million in 2014, and an increase of \$0.3 million in deferred revenues in 2015, compared with a decrease of \$1.3 million in 2014.

*Net Operating Working Capital*

As of December 31, 2014, net operating working capital was \$15.0 million, compared with \$14.8 million as of December 31, 2013. The increase of \$0.2 million is comprised of a decrease in cash and cash equivalents and other

short term investments in the amount of \$1.6 million and an increase of \$1.4 million in accounts receivables, while accounts payables increased by \$0.8 million and deferred revenues decreased by \$1.1 million. As of December 31, 2015, net operating working capital was \$14.9 million, compared with \$15.0 million as of December 31, 2014. The decrease of \$0.1 million is due to an increase in accounts payables in the amount of \$0.1 million, while total current assets were \$21.1 million on both dates.

### *Cash Deposits*

As of December 31, 2015, we had approximately \$1.5 million in bank deposits with maturities of between three and twelve months.

### *Marketable Securities*

As of December 31, 2015, we held marketable securities of approximately \$5.2 million (consisting mainly of municipal bonds which are held for trading).

*Net Cash Provided by/Used in Investing Activities.* In 2013, we increased our investments in short-term bank deposits by \$2.6 million, invested in marketable securities in the amount of \$2.8 million and used \$0.2 million for capital expenditures. In 2014, we decreased our investments in short-term bank deposits by \$3.7 million, we used \$0.2 million for capital expenditures, we invested in available for sale securities in net amount of \$1.1 million and we increased our investments in marketable securities by \$2.2 million. In 2015, we decreased our investments in short-term bank deposits by \$3.1 million, we used \$0.1 million for capital expenditures and we increased our investments in marketable securities by \$0.2 million.

*Net Cash Provided by/Used in Financing Activities.* In 2013, our financing activities used \$4.5 million due to a cash dividend of \$4.5 million. In 2014, our financing activities used \$4.1 million due to a cash dividend of \$4.5 million, offset by \$0.4 million in proceeds from the exercise of employee stock options. In 2015, our financing activities used \$5.6 million due to a cash dividend of \$5.8 million, offset by \$0.2 million in proceeds from the exercise of employee stock options.

*Capital Expenditures.* The aggregate cash amount of our capital expenditures was \$240,000, \$201,000 and \$146,000 in 2013, 2014 and 2015, respectively. These expenditures were principally for the purchase of equipment, mainly for our engineering teams. Although we have no material commitments for capital expenditures, we anticipate an increase in capital expenditures if we decide to construct a building for our office in Romania or if we purchase or merge with companies or purchase assets in order to obtain complementary technology and to expand our product offerings, customer base and geographical presence.

*Cash Dividends.* Since 2003, we distributed aggregate cash dividends of approximately \$3.66 per share to our shareholders, including \$0.24 per share in each of 2013 and 2014, \$0.30 per share in 2015, and \$0.27 per share in

March 2016. For information about our dividend policy, please see Item 8 “Financial Information - Dividend Policy.”

C. Research and Development, Patents and Licenses, etc.

We believe that investment in research and development is essential for maintaining and expanding our technological expertise in the market for billing and customer care software and to our strategy of being a leading provider of new and innovative convergent billing products. Our customers provide significant feedback for product development and innovation.

We have invested significant time and resources to create a structured process for undertaking research and product development. We believe that the method that we use for our product development and testing is well suited for identifying market needs, addressing the activities required to release new products, and bringing development projects to market successfully. Our product development activities also include the release of new versions of our products. Although we expect to develop new products internally, we may, based upon timing and cost considerations, acquire or license technologies or products from third parties.

We invested in research and development \$5.0 million (or 27.2% of revenues) in 2013, \$4.5 million (or 18.1% of revenues) in 2014, and \$2.9 million (or 14.1% of revenues) in 2015. The significant decrease in 2015 was mainly the result of beneficiary exchange rates. Our engineering department comprised approximately 224 employees at the end of 2015.

D.

Trend Information

Our billing and customer care solutions target tier 2 and tier 3 service providers. The trend that we believe is currently driving the market is eliminating niche solutions and replacing multiple platforms with one convergent real time billing solution. The need for comprehensive billing solutions is also driven by the market trend that requires service providers to introduce new services more rapidly, to be innovative in creating new product offers and to optimize business processes for maximum efficiency.

Another trend that we expect will have an impact on our business is the build-up and launch of commercially operating 4G LTE networks. The carriers that implement LTE technologies require new real time billing systems that will enable them to introduce new products including 4G data sharing within families and companies, prepaid 4G services, high definition voice (VoLTE), and the range of mobile broadband services.

Another trend that we expect will have an impact on our business is the growing acceptance of Software as a Service (SaaS) model, as both carriers and enterprises are looking at different options of leveraging cloud solutions to fulfill their business needs.

Unified communications (UC) is an increasingly important investment for organizations looking to improve productivity and responsiveness while reducing their IT costs. The convergence of voice, video, and data communications around a shared IP-based infrastructure - allowing users to easily make a call, send a message, or join an audio or video conference - is bringing benefits to businesses of various sizes, industries and geography.

The new business models include Unified Communications as a Service (UCaaS) or Billing as a Service (BaaS) along the Managed Services model we support already.

Our goal is to develop marketing and sales relationships with the vendors of UCaaS under which our UC solutions (enterprise software) will be sold as part of these vendors' offering. This requires us to develop new sales channels, and this process is time consuming and requires the investment of some resources to conclude the necessary agreements and to certify and train these new channel partners.

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

## F. Tabular Disclosure of Contractual Obligations

| Contractual Obligations     | Payment due by period<br>(\$ in thousands) |                     |           |           |                      |
|-----------------------------|--------------------------------------------|---------------------|-----------|-----------|----------------------|
|                             | Total                                      | Less than 1<br>year | 1-3 years | 3-5 years | More than<br>5 years |
| Long-Term Debt Obligations  | 0                                          | 0                   | 0         | 0         | 0                    |
| Operating Lease Obligations | \$1,379                                    | \$ 548              | \$ 785    | \$ 46     | 0                    |
| Purchase Obligations        | 0                                          | 0                   | 0         | 0         | 0                    |
| Total                       | \$1,379                                    | \$ 548              | \$ 785    | \$ 46     | 0                    |

## Item 6. Directors, Senior Management and Employees

## A. Directors and Senior Management

The following table sets forth certain information regarding our directors and executive officers as of the date of filing of this Annual Report:

| Name                | Age | Position                                          |
|---------------------|-----|---------------------------------------------------|
| Monica Iancu        | 58  | President and Chief Executive Officer, Director   |
| Aviram Cohen        | 39  | Chief Financial Officer                           |
| Doron Segal         | 51  | Vice President and Chief Technology Officer       |
| Tal Shain           | 48  | Vice President Marketing and Business Development |
| Giyora Ran          | 48  | Vice President Delivery                           |
| Shoval Cohen Nissan | 41  | IT Director                                       |
| Gilad Parness       | 47  | Vice President Enterprise Solutions               |
| Liviu Serea         | 61  | General Manager, MIND Romania                     |
| Danny Engle         | 47  | Vice President Sales for North America            |
| Mihail Rotenberg    | 64  | Chairman of the Board                             |
| Meir Nissensohn     | 72  | Director                                          |
| Rimon Ben-Shaoul    | 71  | Director                                          |
| Joseph Tenne        | 60  | Director                                          |

The background of each of our directors and executive officers is as follows:

*Monica Iancu.* Mrs. Iancu founded MIND and has been President and Chief Executive Officer of our company since inception and, until April 6, 2012, also served as the Chairperson. Mrs. Iancu holds a B.Sc. degree in Computer

Science and a Masters Degree in Telecommunications (with expertise in Voice and Data Integration over the Ethernet) from the Technion, Israel Institute of Technology.

*Aviram Cohen.* Mr. Cohen joined MIND as Controller in June 2006 and was promoted to Chief Financial Officer in 2010. Before joining us, he served as an auditor and accountant at Ernst & Young (Haifa, Israel) from 2002. Mr. Cohen is a Certified Public Accountant and holds a B.A. degree in Accounting and Economics and an M.B.A. degree, both from Haifa University.

*Doron Segal.* Mr. Segal has served as our Chief Technology Officer since October 2004 and as our Vice President of Engineering since July 2007. Prior thereto, he worked for eight years at Comverse, at which he held a number of positions including Assistant Vice President with responsibility for product requirement definition and product level design. Mr. Segal holds a M.Sc. degree in Computer Science from Bar Ilan University and a B.Sc. degree in Physics, Mathematics & Computer Science from the Hebrew University.

*Tal Shain.* Mr. Shain joined us in June 1999 and has served as our Vice President of Marketing and Business Development since March 2016. Prior thereto, Mr. Shain served as our V.P. Professional Services since February 2006, R&D Manager in Romania and Chief Architect. Mr. Shain holds a B.Sc. degree in Computer Engineering from the Technion, Israel Institute of Technology and an M.B.A. degree from Haifa University.

*Shoval Cohen Nissan.* Mr. Cohen Nissan has served as our IT Manager since December 1998. Mr. Cohen Nissan leads the planning and management of the supporting infrastructure company-wide and the implementation of network security at the corporate level. He also acts as Purchasing Manager for our internal needs and customer solutions. Mr. Cohen Nissan holds a Practical Engineering degree from Braude College.

*Gilad Parness.* Mr. Parness joined MIND in 2004 as a team leader in the MINDBill Support. He was promoted to Support Manager and later to Director Professional Services leading the Sentori support team in 2007, and in 2009 joined our Sales and Account Management. In February 2014 Mr. Parness was promoted to VP Enterprise Solutions and now leads both the engineering and the sales teams. Mr. Parness holds a Practical Engineer degree from Tel Chai College.

*Liviu Serea.* Mr. Serea has served as General Manager of our Romania office since January 2001. Before joining MIND, for over five years Mr. Serea managed a local company involved in hardware assembly, distribution and support. Mr. Serea holds a M.Sc. Degree in Electronics and Telecommunications from the Politechnic Institute, Iasi, Romania.

*Danny Engle.* Mr. Engle is Vice President of North American Sales for MIND Software Inc. (formerly Sentori Inc.). Mr. Engle joined Sentori in 2003 as Director of Sales, and in 2005 was promoted to Sentori's Vice President of North American Sales. Mr. Engle is responsible for Sales, Customer Account Management and Partner Relationship

Management. Prior to joining Sentori, Mr. Engle was District Manager at Siebel Systems, a leading CRM solutions provider. Mr. Engle holds a B.S. degree in Business Administration from the University of Texas.

*Giyora Ran.* Mr. Ran joined MIND in December 2015 to serve as VP Delivery. From 2005 to 2015, he served at FTS, a provider of billing and customer care, as part of their Professional Services group, holding various positions and for the last three years he was VP Operations, leading the R&D, Professional Services and Projects Delivery groups. From 1997 to 2005, he served at Amdocs as part of their Professional Services group, holding various project management positions for large North American operators. Mr. Ran holds an M.B.A. degree and a B.Sc. degree, both from Ben Gurion University.

*Mihail Rotenberg.* Mr. Rotenberg has served as a director of our company since May 2008 and as our Chairman since May 2012. He is the founder of BreezeCOM Ltd., which merged to become Alvarion Ltd. Mr. Rotenberg served as the Chief Executive Officer of BreezeCOM from 1993 to 2000. From 2000 to 2005, Mr. Rotenberg served as President and CEO of Accessnet SA, a wireless internet service provider in Romania, which was sold in 2005 to Clearwire Inc. Mr. Rotenberg holds a Ph.D. degree from Polytechnic University, Bucharest, Romania.

*Rimon Ben-Shaoul.* Mr. Ben-Shaoul has served as an external director of our company since 2010 and as one of our directors from 2002 to 2008. From 2008 to 2015, Mr. Ben-Shaoul served as the CEO of Polar Communications Ltd. and from 2014 to 2015, he served as the Chairman of T.A.T. Technologies Ltd. Mr. Ben-Shaoul also serves as the Chairman of Grand Automotive Ltd., as a director of NICE Systems Ltd. and as a director on the boards of several privately held companies. Mr. Ben-Shaoul holds an M.B.A. degree and a B.A. degree in Economics, both from Tel Aviv University.

*Meir Nissensohn.* Mr. Nissensohn has served as an external director of our company since August 2014. Mr. Nissensohn served as the Chairman of the Board of Directors and Chief Executive Officer of IBM Israel Ltd. from 1996 to 2012, having joined IBM Israel as a computer programmer in 1969. Since his retirement from IBM, he is involved in various business initiatives with venture capital funds. Mr. Nissensohn holds a B.Sc. in Industrial Engineering from the Technion – Israeli Institute of Technology, and a post graduate degree in Business Administration (Finance) and an M.B.A., both from Tel Aviv University.

*Joseph Tenne.* Mr. Tenne has served as an external director of our company since August 2014. Since August 1, 2014, Mr. Tenne has served as the Vice President of Finance of Itamar Medical Ltd., a company listed on the Tel Aviv Stock Exchange. Mr. Tenne serves as a director at AudioCodes Ltd., at Enzymotec Ltd., at Orbotech Ltd. and at Ratio Oil Explorations (Finance) Ltd. From 2005 to 2013, Mr. Tenne served as the CFO of Ormat Technologies, Inc., a company listed on the New York Stock Exchange. From 1997 until 2003, Mr. Tenne was a partner in Kesselman & Kesselman, Certified Public Accountants in Israel and a member of PricewaterhouseCoopers International Limited. Mr. Tenne holds a B.A. degree in Accounting and Economics and an M.B.A. degree from Tel Aviv University. Mr. Tenne is also a Certified Public Accountant in Israel.

To the best of our knowledge, there are no family relationships between any of the directors or members of senior management named above. To the best of our knowledge, there is no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management.

B.

Compensation of Directors and Executive Officers

The aggregate direct remuneration paid to all persons who served in the capacity of director or executive officer during 2015 was approximately \$1.9 million, including approximately \$128,000 that was set aside for pension and retirement benefits. This does not include amounts expensed by us for automobiles made available to our officers or expenses, including business, travel, professional and business association dues and expenses, reimbursed to officers, and do not include equity based compensation expenses.

During 2015, we granted to our executive officers under our option plans options to purchase 44,800 ordinary shares, at an exercise price of the par value of \$0.003, which expire in 2020.

The table below outlines the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2015. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

*Summary Compensation Table*

| Name of Officer | Position of Officer                   | Salary (\$) | Cash Bonus / Commissions (\$) <sup>(1)</sup> | Equity-Based Compensation (\$) <sup>(2)</sup> | All Other Compensation (\$) <sup>(3)</sup> | Total (\$) |
|-----------------|---------------------------------------|-------------|----------------------------------------------|-----------------------------------------------|--------------------------------------------|------------|
| Monica Iancu    | CEO                                   | \$240,000   | \$ 180,000                                   | -                                             | \$ 46,746                                  | \$466,746  |
| Doron Segal     | VP CTO                                | \$101,427   | -                                            | \$ 18,488                                     | \$ 33,737                                  | \$153,652  |
| Tal Shain       | VP Marketing and Business Development | \$111,135   | \$ 9,324                                     | \$ 18,488                                     | \$ 34,883                                  | \$173,830  |
| Danny Engle     | VP of Sales, North America            | \$130,050   | \$ 304,417                                   | -                                             | \$ 4,800                                   | \$439,267  |
| Gilad Parness   | VP Enterprise Solutions               | \$86,963    | \$ 22,693                                    | \$ 18,488                                     | \$ 31,437                                  | \$159,581  |

(1) Amounts reported in this column represent annual incentive bonuses granted to the Covered Executives or commissions based on performance-metric formulas set forth in their respective employment agreements.

(2) Amounts reported in this column represent the grant date fair value computed in accordance with accounting guidance for stock-based compensation.

Amounts reported in this column include personal benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the respective Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers Life Insurance Policy), education funds (referred to in Hebrew as “*keren hishtalmut*”), pension, severance, vacation, car or car allowance, medical insurance and benefits, risk insurance (e.g., life insurance or disability insurance), convalescence or recreation pay, payments for social security, and other personal benefits and perquisites consistent with the Company’s guidelines. All amounts reported in this column represent incremental cost of the Company.

On May 15, 2011, our board of directors resolved that each of our external directors will be entitled to receive an annual fee of NIS 53,500 (approximately \$13,700) and a participation fee of NIS 2,820 (approximately \$720) per meeting. On September 27, 2011, the same payment to each non-executive director was approved by our shareholders, and in addition our shareholders approved that the remuneration of those external directors who will be classified by the board as expert external directors will be 20% more than the remuneration of the ordinary external directors.

On June 24, 2013, at our 2013 annual general meeting of shareholders, our shareholders approved a new compensation policy for directors and officers.

C.

Board Practices

**Corporate Governance**

We are incorporated in Israel and therefore are subject to various corporate governance requirements under the Companies Law relating to such matters as external directors, the audit committee, the compensation committee, the internal auditor and approvals of interested party transactions. These matters are in addition to the ongoing listing conditions of Nasdaq 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. For further information, see “Item 16.G – Corporate Governance.”

Regulations under the Companies Law are expected to come into effect shortly that will permit Nasdaq-listed companies without controlling shareholders, like us, to opt out of the requirements of the Companies Law regarding external directors described below, provided that they comply with the Nasdaq rules regarding the constitution of the board of directors, the audit committee and the compensation committee, as such rules apply to U.S. companies.

**Board of Directors**

Our board is divided into three classes of directors, denominated Class I, Class II and Class III. The term of Class I will expire in 2016, Class II in 2017 and Class III in 2018. Monica Iancu is a member of Class I, Mihail Rotenberg is a member of Class II and currently there is no director who is a member of Class III. At each annual general meeting of shareholders, directors will be elected by a simple majority of the votes cast for a three-year term to succeed the directors whose terms then expire. There is no legal limit on the number of terms that may be served by directors who are not external directors. Our external directors are not members of any class.

The initial term of an external director is three years and may be extended for up to two additional terms of three years. Thereafter, an external director may be reelected by our shareholders for additional periods of up to three years each in certain circumstances described below. Mr. Rimon Ben-Shaoul was elected to a second term as an external

director on June 24, 2013. Mr. Joseph Tenne and Mr. Meir Nissensohn were elected as external directors on August 4, 2014. Mr. Mihail Rotenberg was re-elected as a member of Class II on August 4, 2014.

Under the Nasdaq rules, a majority of our directors are required to be “independent directors” as defined in the Nasdaq rules. Four out of the five members of our board of directors, Mihail Rotenberg, Meir Nissensohn, Rimon Ben-Shaoul and Joseph Tenne, are independent directors under the Nasdaq rules.

#### External Directors

Under the Companies Law, companies incorporated under the laws of Israel whose shares are listed for trading on a stock exchange or have been offered to the public in or outside of Israel are required to appoint two external directors. External directors are required to possess professional qualifications or financial and accounting expertise as set out in regulations promulgated under the Companies Law. The Companies Law provides that a person may not be appointed as an external director (i) if the person or the person’s relative or affiliate has, as of the date of the person’s appointment to serve as an external director, or had, during the two years preceding that date, any affiliation with the company, a controlling shareholder thereof or their respective affiliates or (ii) in a company that does not have a 25% shareholder, if such person has an affiliation with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company.

The term affiliation includes:

· an employment relationship;

· a business or professional relationship;

control; and

service as an office holder.

The Companies Law defines the term “office holder” of a company to include a director, the chief executive officer, the chief business manager, a vice president and any officer that reports directly to the chief executive officer.

No person can serve as an external director if the person's position or other business creates, or may create conflict of interests with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director.

Until the lapse of two years from termination of office, a company or its controlling shareholder may not give any direct or indirect benefit to the former external director.

As mentioned above, the initial term of an external director is three years and may be extended for up to two additional terms of three years. Thereafter, an external director may be reelected by our shareholders for additional periods of up to three years each only if our audit committee and our 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.

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

- at least a majority of the shares of non-controlling shareholders voted at the meeting vote in favor of the election; or

- the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed two percent of the aggregate voting rights in the company.

Reelection of an external director may be effected through one of the following mechanisms:

- the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint external directors for their initial term; or

a shareholder holding 1% or more of the voting rights or the nominee proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

External directors may be removed from office only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company's board of directors that exercises a power of the board of directors is required to include at least one external director, except for the audit committee and the compensation committee, each of which is required to include all the external directors.

## Audit Committee

Under the Companies Law, our board of directors is required to appoint an audit committee, comprised of at least three directors, including all of the external directors. The members of the audit committee must satisfy certain independence standards under the Companies Law, and the chairman of the audit committee is required to be an external director. Our audit committee consists of all our external directors.

Under the Companies Law, the roles of the audit committee include examining flaws in the management of the company's business, in consultation with the internal auditor and the company's independent accountants, suggesting remedial measures, approving specified related party transactions, establishing whistleblower procedures and assessing the company's internal audit system and the performance of its internal auditor.

The approval of the audit committee is required to effect specified actions and transactions with office holders, controlling shareholders and entities in which they have a personal interest. An audit committee may not approve an action or a transaction with related parties or with its office holders unless at the time of approval at least two external directors are serving as members of the audit committee and at least one of who was present at the meeting in which any approval was granted.

Under the Nasdaq rules, our audit committee assists the board 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 auditors. 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. We have adopted an audit committee charter, which sets forth the qualifications, powers and responsibilities of our audit committee.

Our audit committee also serves as (i) our compensation committee, as described below, and (ii) our nominations committee, authorized to recommend all director nominees for the selection of the board of directors, provided that no such recommendation is required in cases, if any, where the right to nominate a director legally belongs to a third party. In its capacity as our compensation committee, the audit committee is authorized to, among other things, review, approve and recommend to our board of directors base salaries, incentive bonuses, including the specific goals and amounts, stock option grants, employment agreements, and any other benefits, compensation or arrangements of our office holders.

Under the Companies Law, at least once every three years our compensation committee is required to propose for shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria, to review, from time to time, modifications to the compensation policy and examine its implementation and to approve the actual compensation terms of office holders prior to approval thereof by the board of directors.

All the members of our audit committee are “independent directors” under the Nasdaq rules and meet the additional qualifications for membership on an audit committee and a compensation committee under applicable law.

#### Internal Auditor

Under the Companies Law, the board of directors must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, inter alia, whether the company's actions comply with the law and orderly business procedure. The internal auditor must satisfy certain independence standards. Doron Cohen C.P.A., of the accounting firm of Fahn – Kanne & Co. Grant Thornton Israel, serves as our internal auditor.

#### 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 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.

#### Disclosure of Personal Interest of an Office Holder

The Companies Law requires that an office holder of a company disclose to the company 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. The disclosure is required to be made promptly and in any event no later than the board of directors meeting in which the transaction is first discussed. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by:

the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of these people; or

any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he has the right to appoint at least one director or the general manager.

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.

#### Approval of Related Party Transactions

Once an office holder complies with the above disclosure requirement, 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. Under specific circumstances, shareholder approval may also be required.

#### Office Holder Compensation

In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder generally must be approved separately by the compensation committee, the board of directors and the shareholders of the company, in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

#### Disclosure of Personal Interests of a Controlling Shareholder

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 owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest (other than compensation matters, which are discussed above under "Office Holder Compensation"), require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. Except under specific circumstances, such a transaction needs to be re-approved in accordance with the foregoing procedure once in every three years. The shareholder approval must be by a majority of the shares voted on the matter, provided that either:

at least a majority of the shares of shareholders who have no personal interest in the transaction and who vote on the matter vote in favor thereof; or

the shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than two percent of the voting rights in the company.

Shareholders generally have the right to examine any document in the company's possession pertaining to any matter that requires shareholder approval. If this information is made public in Israel or elsewhere, we will file the information with the Securities and Exchange Commission in the United States.

For information concerning the direct and indirect personal interests of an office holder and principal shareholders in specified transactions with us, see Item 7.B "Related Party Transactions."

## Executive Officers

Our executive officers are appointed by our board of directors and serve at the discretion of our board of directors. We maintain written employment agreements with our executive officers. Each agreement terminates upon 30 days' written notice and provides for standard terms and conditions of employment. All of our executive officers have agreed not to compete with us for 12 months (or 24 months in the case of Monica Iancu) following the termination of their employment with us. Monica Iancu is entitled to severance pay upon termination of her employment by either her or us (other than by us for cause) and to receive, during each month of the six-month period following termination of her employment by us, or by her for cause, an amount of salary and benefits equal to her former monthly salary and other benefits. Under recent Israeli case law, the non-competition undertakings of employees may not be enforceable.

### D.

### Employees

The numbers and breakdowns of our employees as of the end of the past three years are set forth in the following table:

|                                                         | As of December<br>31, |      |      |
|---------------------------------------------------------|-----------------------|------|------|
|                                                         | 2013                  | 2014 | 2015 |
| Approximate numbers of employees by geographic location |                       |      |      |
| Israel                                                  | 53                    | 54   | 47   |

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|                                                          |     |     |     |
|----------------------------------------------------------|-----|-----|-----|
| Romania                                                  | 296 | 295 | 287 |
| United States                                            | 3   | 3   | 3   |
| Total workforce                                          | 352 | 352 | 337 |
| Approximate numbers of employees by category of activity |     |     |     |
| General and administration                               | 13  | 17  | 16  |
| Research and development                                 | 243 | 242 | 224 |
| Professional services and customer support               | 86  | 86  | 88  |
| Sales and marketing                                      | 10  | 7   | 9   |
| Total workforce                                          | 339 | 352 | 337 |

We are subject to Israeli labor laws and regulations with respect to our Israeli employees. These laws principally concern matters such as paid annual vacation, paid sick days, length of the work day and work week, minimum wages, pay for overtime, insurance for work-related accidents, pension plans and severance payments upon the retirement or death of an employee or termination of employment under specified circumstances. The severance payments may be funded, in whole or in part, through Managers' Insurance or a Pension Fund, as described below. The payments to the Managers' Insurance fund or Pension Fund toward severance amount to 8.33% of base salaries. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Since January 1, 1995, these amounts also include payments for health insurance. The payments to the National Insurance Institute equal up to approximately 18.5% of base salaries, of which the employee contributes approximately two-thirds and the employer contributes approximately one-third. Our general practice in Israel is to contribute funds on behalf of all of our employees to Managers' Insurance or a Pension Fund. Each employee who agrees to participate in the Managers' Insurance plan contributes 5.0% of his or her base salary and we contribute 13.3% or 13.8% (and such contributions include contributions towards the severance component). Each employee who agrees to participate in the Pension Fund contributes 5.0% or 7.0% of his or her base salary and we contribute 13.3% or 15.8% (and such contributions include contributions towards the severance component). Another savings plan we offer some of our employees, although not legally required, is known as the Advanced Studies Fund. Each employee who agrees to participate in the Advanced Studies fund contributes up to 2.5% of base salary and we contribute up to 7.5%.

Furthermore, by order of the Israeli Ministry of Industry, Trade and Labor, all employers and employees are subject to provisions of collective bargaining agreements between the Histadrut, Federation of Labor, and the Coordination Bureau of Economic Organizations in Israel. These provisions principally concern cost of living increases, recreation pay, commuting expenses and other conditions of employment. We provide our employees with benefits and working conditions above the required minimums. Our employees are not represented by a labor union. To date, we have not experienced any work stoppages and our relationships with our employees are good.

#### E. Share Ownership

As of April 1, 2016, Monica Iancu beneficially owned 3,316,265, or 17.25%, of our ordinary shares. None of our other directors or members of senior management beneficially owns 1% or more of our ordinary shares.

We have established stock option plans to provide for the issuance of options to our directors, officers and employees. As these plans expired on December 31, 2010, a new share incentive plan was adopted by our shareholders at our 2011 annual general meeting (the "2011 Share Incentive Plan"). Under the 2011 Share Incentive Plan, our ordinary shares and/or options to purchase our ordinary shares may be issued from time to time to our directors, officers, employees, consultants and contractors at exercise prices and on other terms and conditions as determined by our board of directors. Our board of directors determines the exercise price and the vesting period of options granted. Unless otherwise is determined by our Board, any award granted under the 2011 Share Incentive Plan will have a four-year vesting schedule, such that 50% of the award will vest on the second anniversary of the commencement date and 25% of the award will vest on each of the third and fourth anniversaries of the commencement date, and the

exercise price will be equal to the average closing price per share of our ordinary shares on the stock market during the 30 trading day period immediately preceding the date of grant of such award. The total pool of shares reserved for the 2011 Share Incentive Plan permits the issuance of shares and/or options to acquire up to 1,800,000 ordinary shares.

As of April 1, 2016, options to purchase 647,300 ordinary shares were outstanding and options for 1,784,290 ordinary shares had been exercised. The options vest over three to five years, primarily commencing on the date of grant. Generally, options not previously exercised will expire approximately five to seven years after they are granted. Our board of directors elected the capital gains treatment afforded under Section 102 of the Israeli Income Tax Ordinance [New Version], 1961, or the Tax Ordinance, in respect of options and ordinary shares awarded to our Israeli employees under our option or share incentive plans after January 1, 2003. Accordingly, gains derived from options awarded to our Israeli employees after January 1, 2003, and held by a trustee for at least two years from the end of the tax year in which they were awarded (or in some cases for 30 months from the date of grant), will generally be taxed as capital gains at a rate of 25%, and we will generally not be entitled to recognize an expense for the award of such options. For grants of options made on or after January 1, 2006, the aforesaid minimum holding period by the trustee is two years from the date of grant of the options.

On February 22, 2011, Monica Iancu adopted a Rule 10b5-1 Sales Plan and following the plan's expiration, on September 15, 2014, Ms. Iancu adopted a Rule 10b5-1 Sales Plan in order to establish a systematic program by which Oppenheimer & Co. Inc. is instructed to sell on Nasdaq up to 2,600,000 ordinary shares held by her pursuant to the guidelines set forth therein. As of April 1, 2016, Ms. Iancu had sold 537,735 ordinary shares under the new plan.

## Item 7. Major Shareholders and Related Party Transactions

### A.

### Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of April 1, 2016, unless otherwise specified, by each person who is known to own beneficially more than 5% of the outstanding ordinary shares.

| Name of<br>Beneficial Owners | Total Shares<br>Beneficially Owned | Percentage of<br>Ordinary Shares <sup>(1)</sup> |
|------------------------------|------------------------------------|-------------------------------------------------|
| Monica Iancu                 | 3,316,265 <sup>(2)</sup>           | 17.25 %                                         |

(1) Based on 19,233,418 ordinary shares outstanding on April 1, 2016.

(2) Based on a Schedule 13G/A filed with the SEC on March 5, 2015.

On February 12, 2013, Renaissance Technologies LLC reported that it beneficially owned 6.4% of our outstanding shares. On February 12, 2015, it reported that it beneficially owned 7.3% of our outstanding shares. On February 11, 2016, it reported that it beneficially owned less than 1% of our outstanding shares.

As of April 1, 2016, there were seven holders of record of our ordinary shares in the United States who collectively held less than 1% of our outstanding ordinary shares. In addition to this amount, there were also 16,289,512 shares held by the Depositary Trust Company in the United States. 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

None.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Financial Statements

See Item 18.

**Export Sales**

We conduct our sales activities primarily directly, by our sales force located in the MIND offices in the United States and Israel. For information regarding our revenues by geographic market, see Item 5 — “Operating and Financial Review and Prospects.”

**Legal Proceedings**

We are, or may be, from time to time named as a defendant in certain routine litigation incidental to our business. However, we are currently not a party to any legal proceedings which may have or have had in the recent past significant effects on our financial position or profitability.

## Dividend Policy

Our dividend policy was adopted in 2003, and in October 2010 our board of directors updated this policy slightly. The original policy called for us to distribute a cash dividend once in each calendar year, in the amount of our net income from the previous year. This policy commenced in 2004 with respect to our net income for 2003. The new policy changes only the amount to be distributed, the new amount being equal to our EBITDA plus financial income (expenses) minus taxes on income. Each dividend under the policy is subject to board approval and the requirements of applicable law. Our board of directors plans to declare the annual dividend when it approves the applicable year-end financial statements.

### B. Significant Changes

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2015.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

Our ordinary shares have been listed on the Nasdaq Global Market under the symbol MNDO since August 8, 2000. They were also listed on the Tel Aviv Stock Exchange, under the symbol MIND, from July 11, 2002 until February 7, 2010, when they were delisted at our request.

The following table sets forth, for the periods indicated, the high and low closing prices of our ordinary shares as reported on the Nasdaq Global Market. The table contains actual prices in U.S. dollars, without adjustment for dividends paid on our ordinary shares.

| Period              | High | Low  |
|---------------------|------|------|
| Last six months:    |      |      |
| March 2016          | 2.47 | 2.02 |
| February 2016       | 2.50 | 2.23 |
| January 2016        | 2.53 | 2.33 |
| December 2015       | 2.74 | 2.37 |
| November 2015       | 2.76 | 2.61 |
| October 2015        | 2.84 | 2.57 |
| Last nine quarters: |      |      |
| Q1 2016             | 2.53 | 2.02 |
| Q4 2015             | 2.84 | 2.37 |
| Q3 2015             | 2.96 | 2.58 |
| Q2 2015             | 3.22 | 2.36 |
| Q1 2015             | 3.99 | 3.12 |
| Q4 2014             | 4.20 | 2.75 |
| Q3 2014             | 3.25 | 2.35 |
| Q2 2014             | 2.45 | 1.87 |
| Q1 2014             | 2.32 | 1.90 |
| Last five years:    |      |      |
| 2015                | 3.99 | 2.36 |
| 2014                | 4.20 | 1.87 |
| 2013                | 2.26 | 1.65 |
| 2012                | 2.76 | 1.64 |
| 2011                | 3.50 | 1.66 |

## B.

## Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are quoted on the Nasdaq Global Market under the symbol MNDO.

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 Associations

Objects and Purposes

We were first registered under Israeli law on April 6, 1995 as a private company, and on August 8, 2000 became a public company. Our registration number with the Israeli registrar of companies is 51-213448-7. The full details of our objects and purposes can be found in Section 2 of our Memorandum of Association filed with the Israeli registrar of companies. Among the objects and purposes stipulated are the following: “to engage in any kind of commercial and/or productive business and to engage in any action or endeavor which the company’s managers consider to be beneficial to the company.”

Transfer of Shares and Notices

Fully paid ordinary shares are issued in registered form and may be freely transferred pursuant to our articles of association unless such transfer is restricted or prohibited by another instrument. Unless otherwise prescribed by law, we will provide at least 21 calendar days' prior notice of any general shareholders meeting.

## Election of Directors

The ordinary shares do not have cumulative voting rights in the election of directors. Thus, the holders of ordinary shares conferring more than 50% of the voting power have the power to elect all the directors, to the exclusion of the remaining shareholders. Our board is divided into three classes of directors serving staggered three-year terms, in addition to our external directors, who are not members of any class.

## Dividend and Liquidation Rights

Dividends on our ordinary shares may be paid only out of profits and other surplus, as defined in the Companies Law, as of our most recent financial statements or as accrued over a period of two years, whichever is higher, unless otherwise approved by a court order. 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. 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. Dividend or liquidation right 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.

## Voting, Shareholders' Meetings and Resolutions

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders.

These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

We have two types of general shareholders meetings: the annual general meetings and extraordinary general meetings. These meetings may be held either in Israel or in any other place the board of directors determines. An annual general meeting must be held in each calendar year, but not more than 15 months after the last annual general meeting. Our board of directors may convene an extraordinary meeting, from time to time, at its discretion and is required to do so upon the request of shareholders holding at least 5% of our ordinary shares.

The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least 25% of the outstanding voting shares, unless otherwise required by applicable rules. Nasdaq generally requires a quorum of 33-1/3%, but we have an exemption from that requirement and instead follow the generally accepted business practice for companies in Israel. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the Chairman may designate with the consent of the shareholders voting on the matter adjourned. At such reconvened meeting, the required quorum consists of any two members present in person or by proxy, unless otherwise required by applicable rules.

Under the Companies Law, unless otherwise provided in the articles of association or applicable law, all resolutions of the shareholders require a simple majority of the shares present, in person or by proxy, and voting on the matter. However, our articles of association require approval of 75% of the shares present and voting to remove directors or change the structure of our staggered board of directors.

We file annual reports on Form 20-F electronically with the SEC and post a copy on our website.

## Duties of Shareholders

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Under the Companies Law, each and every shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations towards the company and other shareholders and to refrain from abusing his power in the company, such as in voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of certain actions and transactions which require shareholder approval.

In addition, each and every shareholder has the general duty to refrain from depriving rights of other shareholders. Furthermore, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder in the company or any other power toward the company is under a duty to act in fairness towards the company. The Companies Law does not describe the substance of this duty of fairness. These various shareholder duties, which typically do not apply to shareholders of U.S. companies, may restrict the ability of a shareholder to act in what the shareholder perceives to be its own best interests.

#### Restrictions on Non-Israeli Residents

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.

#### Mergers and Acquisitions under Israeli Law

The Companies Law includes provisions that allow a merger transaction and requires that each company that is party to a merger approve the transaction by its board of directors and a vote of the majority of its shares, voting on the proposed merger at a shareholders' meeting. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares held by parties other than the other party to the merger, 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, vote against the merger. Upon the request of a creditor of either party of 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 any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that a proposal of the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that an acquisition of shares of public company must be made by means of tender offer if as a result of the acquisition the purchaser would become a 25% or more shareholder of the company and there is no 25% or more shareholder in the company. In addition, an acquisition of shares of 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% or more shareholder of the company and there is no 45% or more shareholder in the company. These requirements do not apply if the acquisition (i) is made in a private placement 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 offer or 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 offer 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 Companies Law requires that the acquisition be made by means of a tender offer for all of the outstanding shares. If as a result of a full tender offer the acquirer would own more than 95% of the outstanding shares, then 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 six months following the consummation of a full tender offer, although the acquirer may stipulate that any tendering shareholders forfeit their appraisal rights. If as a result of a full tender offer the acquirer would own 95% or less of the outstanding shares, then the acquirer may not acquire shares that will cause his shareholding to exceed 90% of the outstanding shares.

Finally, Israeli tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law subjects 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.

#### Modification of Class Rights

Our articles of association provide that the rights attached to any class (unless otherwise provided by the terms of such class), such as voting, rights to dividends and the like, may be varied by a shareholders resolution, subject to the approval of the holders of a majority of the issued shares of that class.

#### Board of Directors

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 such powers and may take all such actions that are not specifically granted to our shareholders. As part of its powers, our board of directors may cause the company to borrow or secure payment of any sum or sums of money, at such times and upon such terms and conditions as it thinks fit, including the grants of security interests on all or any part of the property of the company.

A resolution proposed at any meeting of the board of directors shall be deemed adopted if approved by a majority of the directors present and voting on the matter. For additional information, please see Item 6.C “Board Practices.”

#### Exculpation of Office Holders

Under the Companies Law, an Israeli company may not exempt an office holder from liability for 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, for a breach of his duty of care (except in connection with distributions) provided the articles of association of the company allow it to do so. Our articles allow us to exempt our office holders to the fullest extent permitted by law.

#### 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 the 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 against the following obligations and expenses imposed on or incurred by the office holder with respect to an act performed in the capacity of an office holder:

a financial obligation imposed on him in favor of another person by a court judgment, including a settlement or an arbitrator's award approved by the court; such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that our undertaking to indemnify is limited to events that our board of directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or criterion that our board of directors determines to be reasonable under the circumstances;

reasonable litigation expenses, including attorneys' 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 or in connection with a financial sanction;

reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him by a court in connection with: (A) proceedings we institute against him or instituted on our behalf or by another person; or (B) a criminal charge from which he was acquitted; or (C) a criminal proceeding in which he was convicted of an offense that does not require proof of criminal intent; and

a financial obligation imposed upon an office holder and reasonable litigation expenses, including attorney fees, expended by the office holder as a result of an administrative proceeding instituted against him. Without derogating from the generality of the foregoing, such obligation or expense will include a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968 – 5728 (the "Securities Law") and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

## Limitations on Exculpation, Insurance and Indemnification

The Companies Law provides that a company may not exculpate or indemnify an office holder, or 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;
- 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 our board of directors and, if the beneficiary is a director, by our shareholders.

We have agreed to exempt from liability and indemnify our office holders to the fullest extent permitted under the Companies Law. We have obtained directors and officers liability insurance for the benefit of our office holders.

C. Material Contracts

None.

D. Exchange Controls

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 certain transactions. However, legislation remains in effect, pursuant to which currency controls can be imposed by administrative action at any time.

E. Taxation

Israeli Tax Considerations

The following is a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on us. Note that this tax structure and any resulting benefit may not apply for any income derived by our foreign subsidiaries, which subsidiaries may be taxed according to tax laws applicable to their country of residence. The following also contains a discussion of the material Israeli tax consequences to persons purchasing our ordinary shares. To the extent that the discussion is based on tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or courts will accept the views expressed in the discussion in question.

Prospective purchasers of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

#### General Corporate Tax Structure

The general rate of corporate tax in Israel to which Israeli companies are subject is 26.5% for the 2015 tax year. Commencing January 1, 2016, the corporate tax rate is 25.0%. The general rate of capital gains tax in Israel to which Israeli companies are subject is the corporate tax rate. However, the effective tax rate payable by a company which derives income from a “Preferred Enterprise” (as defined below) may be considerably less, as further discussed below.

## Law for the Encouragement of Capital Investments, 1959

### General

The Law for Encouragement of Capital Investments, 1959, or the Investments Law, as in effect until 2005, provided that upon application to the Investment Center of the Ministry of Industry and Trade of the State of Israel, a proposed capital investment in eligible facilities may be designated as an “Approved Enterprise.” Please see discussion below regarding a reform of the Investments Law that came into effect in 2011.

### *Our Approved and Preferred Enterprises*

Most of our manufacturing facilities in Yoqneam have been granted the status of Approved Enterprise. The period of tax benefits of the first approved enterprise, which commenced operations in 1995, expired at the end of 2004. The period of tax benefits in respect of the second approved enterprise entitled to the said benefits commenced in 2000 and expired at the end of 2009.

During 2011 we decided to implement the new legislation amending the Investment Law, while waiving future benefits provided from the Approved Enterprise program under the Investment Law (see more details hereinafter). The introduction of our Preferred Enterprise program from 2012 lowered our effective tax rate for year 2012 and the withholding tax rate on the dividend distributed in April 2013. The effects on any future tax rates are unpredictable.

Further information with regard to our Approved and Preferred Enterprise programs can be found in Item 3, “Risk Factors” under the caption “We currently benefit from local tax benefits that may be discontinued or reduced” and in Note 8 of our Consolidated Financial Statements under the caption “Taxes on Income.”

### *Dividends Taxation*

When dividends are distributed from the Preferred Enterprise, they are generally considered to be attributable to the entire enterprise and their effective tax rate is a result of a weighted combination of the applicable tax rates. Further information with regard to taxation of dividends can be found in Note 8 of our Consolidated Financial Statements under the caption “Taxes on Income.”

We paid dividends to our shareholders in the amount of \$4.5 million in each of 2013 and 2014, and \$5.8 million in 2015. Since at the time of the 2014 distribution we had insufficient statutory retained earnings, the distribution was done by way of reduction of additional paid-in capital, after due approval by an Israeli court order, in accordance to the Israeli Companies Law. In March 2016, we distributed to our shareholders approximately \$5.2 million and tax was withheld at a rate of 23.80%.

*Reform of the Investments Law - 2011*

On December 29, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which constitutes a reform of the incentives regime under such law. This amendment revises the objectives of the Investments Law to focus on achieving enhanced growth in the business sector, improving the Israeli industry's competitiveness in international markets and creating employment and development opportunities in remote areas of Israel. The amendment allows enterprises meeting certain required criteria to enjoy grants as well as tax benefits. The amendment also introduces certain changes to the map of geographic development areas for purposes of the Investments Law, which will take effect in future years.

The amendment generally abolishes the previous tax benefit routes that were afforded under the Investments Law, specifically the tax-exemption periods previously allowed, and introduces new tax benefits for industrial enterprises meeting the criteria of the law, which include the following:

A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise's entire preferred income so that in the tax years 2011-2012 the reduced tax rate was 10% for preferred income derived from industrial facilities located in development area A and 15% for those located elsewhere in Israel, in the tax year 2013 the reduced tax rate was 7% for development area A and 12.5% for the rest of Israel, and in the tax year 2014 and onwards the reduced tax rate is 9% for development area A and 16% for the rest of Israel.

The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.

A definition of "preferred income" was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a Preferred Enterprise.

A reduced dividend withholding tax rate of 15% will apply to dividends paid from preferred income to both Israeli and non-Israeli investors, with an exemption from such withholding tax applying to dividends paid to an Israeli company. Under a later amendment of the Investments Law, the dividend withholding tax rate of 15% was increased to 20% for dividends paid from preferred income that accrued from the tax year 2014 and onwards.

The amendment will generally apply to preferred income produced or generated by a Preferred Company (as defined in the Investments Law) commencing from January 1, 2011. The amendment contains various transition provisions which allow, under certain circumstances, to apply the new regime to investment programs previously approved or elected under the Investments Law in its previous form. Although this recent amendment took effect on January 1, 2011, the transitional provisions of its adoption also allow the company to defer its adoption to future years.

Following our 2011 request to the Israeli tax authorities for applying the new benefits under the 2011 Amendment, we applied in 2013 for a tax ruling with respect to 2012 and future years. At the beginning of 2014, we obtained the ruling, which provides that the portion of our income attributed to the Preferred Enterprise (and thereby subject to lower tax rates) will be calculated each year based on, among other things, the ratio between the number of our employees in Israel and abroad. According to the ruling, our tax rate on income in Israel in 2014 was approximately 22% and in 2015 was approximately 22%.

Under the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, a company qualifies as an “Industrial Company” if it is resident in Israel and at least 90% of its income in a given tax year, determined in NIS, exclusive of income from capital gains, interest and dividends, is derived from Industrial Enterprises owned by that company. An “Industrial Enterprise” is defined as an enterprise whose major activity in a particular tax year is industrial production activity.

Industrial Companies qualify (based on tax regulations) for accelerated depreciation rates for machinery, equipment and buildings used by an Industrial Enterprise. An Industrial Company owning an Approved Enterprise, as described above, may choose between the above depreciation rates and the depreciation rates available to Approved Enterprises.

Pursuant to the Industry Encouragement Law, an Industrial Company is also entitled to amortize the purchase price of know-how and patents over a period of eight years beginning with the year in which such rights were first used.

In addition, an Industrial Company is entitled to deduct over a three-year period expenses involved with the issuance and listing of shares on a stock exchange and has the right, under certain conditions, to elect to file a consolidated tax return with related Israeli Industrial Companies that satisfy conditions set forth in the law.

Eligibility for the benefits under the law is not subject to receipt of prior approval from any governmental authority. We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. However, the definition may be amended from time to time and the Israeli tax authorities, which reassess our qualifications annually, may determine that we no longer qualify as an Industrial Company. As a result of either of the foregoing, the benefits described above might not be available 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 (the “Transfer Pricing Regulations”). Section 85A of the Tax Ordinance and the Transfer Pricing Regulations generally require that all cross-border transactions carried out between related parties will be conducted on an arm’s length principle basis and will be taxed accordingly.

#### Capital Gains Tax on the Sale of our Ordinary Shares

##### General

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder’s country of

residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset 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.

#### *Israeli Residents*

Generally, as of January 1, 2012, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder 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, the tax rate will be 30%. However, the foregoing tax rates will not apply to individuals: (i) who are dealers in securities; or (ii) who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of listed shares.

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a taxpayer may elect the actual adjusted cost of the shares as the tax basis provided he can provide sufficient proof of such adjusted cost.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year (NIS 810,720 in the 2015 tax year)), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of such threshold. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

#### *Non-Residents of Israel*

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on a recognized stock market outside of Israel, provided that such capital gains are not derived from a permanent establishment in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of more than 25% 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 some 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.

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "U.S.- Israel Tax Treaty"), the sale, exchange or disposition of our ordinary shares by a person who qualifies as a resident of the United States and is entitled to claim the benefits afforded to a resident, or a Treaty U.S. Resident, will not be subject to Israeli capital gains tax unless (i) that Treaty U.S. Resident held, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the sale, exchange or disposition or (ii) the capital gains from such sale can be allocated to a permanent establishment in Israel. A sale, exchange or disposition of our ordinary shares by a Treaty U.S. Resident who held, directly or indirectly, shares representing 10% or more of our voting power at any time during the 12-month period preceding the sale, exchange or disposition will be subject to Israeli capital gains tax, to the extent applicable. However, under the U.S.-Israel Tax Treaty, this Treaty U.S. Resident would be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such 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 state or local taxes.



A non-resident of Israel who receives dividend income or that realizes capital gains derived from the sale of our ordinary shares, from which tax was withheld at the source, is generally exempted from the duty to file tax returns in Israel with respect to such income, provided such income was not derived from a business conducted in Israel by the taxpayer and the taxpayer has no other taxable sources of income in Israel.

### *Dividend Taxation*

#### Income Taxes on Dividends Distributed by the Company to Israeli Residents

As of January 1, 2012, the distribution of dividend income to Israeli residents will generally be subject to income tax at a rate of 25% for individuals and will be exempt from income tax for corporations. The portion of dividends paid out of profits earned under a Preferred Enterprise tax status of the Company to individuals is subject to withholding tax at the rate of 15% (20% for income accrued in the 2014 tax year and onwards).

In addition, if an Individual Israeli shareholder is considered a “significant shareholder” at any time during the 12-month period preceding such distribution, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate on the dividend (not sourced from Preferred Enterprise income) will be 30%.

For information with respect to the applicability of High Income Tax on distribution of dividends, see "Capital Gains Tax on Sales of Our Ordinary Shares - Taxation of Israeli Residents."

#### Income Taxes on Dividends Distributed by the Company to Non-Israeli Residents

Subject to the provisions of applicable tax treaties, dividend distributions from regular profits (non-Preferred Enterprise) by the Company to a non-resident shareholder are generally subject to withholding tax of 25%-30% as of January 1, 2012. The portion of dividends paid out of profits earned under a Preferred Enterprise tax status of the Company is subject to withholding tax at the rate of 15% (20% for income accrued in the 2014 tax year and onwards).

Generally, under the U.S-Israel Tax Treaty the maximum rate of withholding tax on dividends paid to a shareholder who is a resident of the United States (as defined in the U.S. – Israel Tax Treaty) will be 25%. However, when a U.S.

tax resident corporation is the recipient of the dividend, the withholding tax rate on a dividend out of regular (non-Approved/Preferred Enterprise) profits may be reduced to 12.5% under the U.S-Israel Tax Treaty, where the following conditions are met:

- (a) the recipient corporation owns at least 10% of the outstanding voting rights of the Company for all of the period preceding the dividend during the Company's current and prior taxable year; and
- (b) generally not more than 25% of the gross income of the paying corporation for its prior tax year consists of certain interest and dividend income.

Otherwise, the usual rates apply. Dividends paid to such U.S. corporation from income derived during any period for which the Israeli company is entitled to the reduced tax rate applicable to an Approved or Preferred Enterprise will be subject to a 15% tax rate.

## U.S. Federal Income 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 other entity treated as a corporation for U.S. federal income 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 in or 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 subject to U.S. federal income tax 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 or hold 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, or 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. The Company will not seek a ruling from the U.S. Internal Revenue Service, or the 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 addition, 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.

You are encouraged to consult your own tax advisor with respect to the specific U.S. federal and state income tax consequences to you of purchasing, holding or disposing of our Ordinary Shares, including the effects of applicable state, local, foreign or other tax laws and possible changes in the tax laws.

### **Distributions on Ordinary Shares**

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. For noncorporate U.S. Holders, to the extent that their total adjusted income does not exceed applicable thresholds, the maximum federal income tax rate for "qualified dividend income" and long-term capital gains is generally 15%. For those noncorporate U.S. Holders whose total adjusted income exceeds such income thresholds, the maximum federal income tax rate for "qualified dividend income" and long-term capital gains is generally 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 Ordinary 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. A U.S. Holder will not be entitled to the preferential rate: (1) 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 (2) 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 "Israeli Taxation Considerations - Taxation of Our Shareholders - Dividends.") 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 in the sold Ordinary Shares and the amount realized on the disposition of such Ordinary Shares (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 specified 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.

## **Tax on Net Investment Income**

U.S. Holders who are individuals, estates or trusts will generally be required to pay a new 3.8% tax on their net investment income (including dividends on and gains from the sale or other disposition of our Ordinary Shares), or in the case of estates and trusts on their net investment income that is not distributed. In each case, the 3.8% Medicare tax applies only to the extent the U.S. Holder's total adjusted income exceeds applicable thresholds.

## 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 any time during the U.S. Holder's holding period) a PFIC. We would be treated as a PFIC for U.S. federal income tax purposes for any tax year if, in such tax year, 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 production of, or produce, passive income (the "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 specified 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. U.S. Holders should consult with their own tax advisors regarding eligibility,

manner and advisability of making a QEF election if we are treated as a PFIC.

A U.S. Holder of PFIC shares which are traded on qualifying 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 tax 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.

In light of the complexity of PFIC rules, we cannot assure you that we have not been or are not a PFIC or will avoid becoming a PFIC in the future. 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 specified 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 tax return filing requirements and 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 we that qualify as a PFIC.

### **Information Reporting and Withholding**

A U.S. Holder may be subject to backup withholding (at a rate of 28%) 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 specified identification procedures. Backup withholding will not apply with respect to payments made to designated 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.

Under the Hiring Incentives to Restore Employment Act of 2010 (the "HIRE Act"), some payments made to "foreign financial institutions" in respect of accounts of U.S. stockholders at such financial institutions may be subject to withholding at a rate of 30%. U.S. Treasury Regulations provide that such withholding will only apply to distributions paid on or after January 1, 2014, and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our Ordinary Shares) made on or after January 1, 2017. U.S. Holders should consult their tax advisors regarding the effect, if any, of the HIRE Act on their ownership and disposition of our Ordinary Shares. See "Non-U.S. Holders of Ordinary Shares."

### **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: (1) 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 United States; (2) in the case of a disposition of our Ordinary Shares, the individual non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and other specified conditions are met; (3) 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 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.

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.

The HIRE Act may impose withholding taxes on some types of payments made to "foreign financial institutions" and some other non-U.S. entities. Under the HIRE Act, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to U.S. Holders that own Ordinary Shares through foreign accounts or foreign intermediaries and specified non-U.S. Holders. The HIRE Act imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, Ordinary Shares paid from the United States to a foreign financial institution or to a foreign nonfinancial entity, unless (1) the foreign financial institution undertakes specified diligence and reporting obligations or (2) the foreign nonfinancial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. In addition, if the payee is a foreign financial institution, it generally must enter into an agreement with the U.S. Treasury that requires, among other things, that it undertake to identify accounts held by specified U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to other specified account holders. U.S. Treasury Regulations provide that such withholding will only apply to distributions paid on or after January 1, 2014, and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our Ordinary Shares) made on or after January 1, 2017. You should consult your tax advisor regarding the HIRE Act.

F. Dividends and paying agents

Not applicable.

G. Statement by Experts

Not applicable.

We are subject to certain of the information reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act. As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act prescribing the 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, with respect to their purchase and sale of our shares. In addition, we are not required to file reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we are required to file with the SEC, within four months after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We publish unaudited interim financial information after the end of each quarter. We furnish this quarterly financial information to the SEC under cover of a Form 6-K.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the Securities and Exchange Commission, or SEC. You may read and copy any document we file, including any exhibits, 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>, and on our website at <http://www.mindcti.com>.

You may request a copy of our SEC filings, at no cost, by e-mailing to [investor@mindcti.com](mailto:investor@mindcti.com) and upon said request copies will be sent by e-mail. A copy of each report submitted in accordance with applicable U.S. law is available for review at our principal executive offices.

# I. Subsidiary Information

Not applicable.

## Item 11. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of changes in the value of our financial instruments as a result of fluctuations in foreign currency exchange rates.

The following table sets forth our consolidated balance sheet exposure with respect to change in foreign currency exchange rates as of December 31, 2015.

| Currency                    | Current<br>Monetary<br>Assets<br><u>(Liabilities)-net</u><br>(\$ in thousands) |   |
|-----------------------------|--------------------------------------------------------------------------------|---|
| NIS                         | (365                                                                           | ) |
| Euro                        | 1,189                                                                          |   |
| Romanian Ron                | (84                                                                            | ) |
| Other non-dollar currencies | 343                                                                            |   |
|                             | 1,083                                                                          |   |

Our annual expenses paid in NIS are approximately \$6.1 million. Accordingly, we estimate that a hypothetical increase of the value of the NIS against the U.S. dollar by 1% would result in an increase in our operating expenses by approximately \$61,000 for the year ended December 31, 2015.

We are exposed to changes in prices of various securities in which we invest. As of December 31, 2015, we held short term investments (mainly highly-rated municipal bonds) of approximately \$5.2 million, which are held for trading and presented in the balance sheet as marketable securities. These debt securities are exposed to potential loss in market value due to a decline in debt securities prices. The potential loss in fair value resulting from a 10% adverse change in debt securities prices would be approximately \$0.52 million.

As of December 31, 2015, we did not hold any derivative financial instruments for either trading or non-trading purposes.

Item 12. Description of Securities Other Than Equity Securities

None.

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

None.

Item 15. Controls and Procedures

*Disclosure Controls and Procedures*

We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2015. The evaluation was performed with the participation of our senior management and under the supervision and with the participation of our chief executive officer and chief financial officer. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2015.

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

Our management, including our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act. Our internal control system was designed to provide reasonable assurance to our management and our board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. 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 decline.

Our management (with the participation of our chief executive officer and chief financial officer) conducted an evaluation, pursuant to Rule 13a-15(c) under the Securities Exchange Act, of the effectiveness, as of the end of the period covered by this Annual Report, of our internal control over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, management assessed the effectiveness of our internal control over financial reporting as at December 31, 2015 and concluded that our internal control over financial reporting was effective as of December 31, 2015.

*Attestation Report of the Registered Public Accounting Firm*

Not applicable.

*Changes in Financial Control over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during 2015 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 has designated Mr. Joseph Tenne as our “audit committee financial expert”, as defined by the SEC rules.

Item 16B. Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees, including our principal executive and financial officers. The Code of Ethics is publicly available on our website at [www.mindcti.com](http://www.mindcti.com). If we make any substantive amendments to the Code of Ethics or grant any waiver from a provision of this code to our chief executive officer, principal financial officer, principal accounting officer or controller, we will either disclose the nature of such amendment or waiver on our website or in our annual report on Form 20-F.

Item 16C. Principal Accountant Fees and Services

In the annual meeting held on May 26, 2015, our shareholders re-appointed Brightman Almagor Zohar & Co., certified public accountants in Israel and a member of Deloitte Touche Tohmatsu Limited, as our independent auditor until the close of the following year’s annual general meeting. Brightman Almagor Zohar has served as our independent auditor since 2009.

Brightman Almagor Zohar billed the following fees to us for professional services in each of the last two fiscal years:

|                    | Years ended December 31, |           |
|--------------------|--------------------------|-----------|
|                    | 2014                     | 2015      |
| Audit Fees         | \$ 73,697                | \$ 71,941 |
| Audit-Related Fees | -                        | -         |
| Tax Fees           | -                        | -         |
| Total              | \$ 73,697                | \$ 71,941 |

Our audit committee's policy is to approve each audit and non-audit service to be performed by our independent accountant before the accountant is engaged.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**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 requirement relating to the quorum for shareholder meetings, as described in Item 10.B "Additional Information – Memorandum and Articles of Association – Voting, Shareholders' Meetings and Resolutions", and rather than comply with the Nasdaq requirement relating to compensation committees, our audit committee serves as our compensation committee in accordance with the Companies Law, as described in Item 6 "Directors, Senior Management and Employees - Board Practices." In addition, we are exempt from Nasdaq's requirement to send an annual report to shareholders prior to our annual general meetings. Instead, we file annual reports on Form 20-F electronically with the SEC and post a copy on our website.

**Item 16H. Mine Safety Disclosure**

Not Applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

See pages F-1 through F-25 of this annual report attached hereto.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

| Exhibit No. | Exhibit                                                                                                                                                                                  |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1*        | Memorandum of Association, as amended                                                                                                                                                    |
| 1.2***      | Articles of Association, as amended                                                                                                                                                      |
| 4.1**       | MIND 1998 Share Option Plan                                                                                                                                                              |
| 4.2**       | MIND 2000 Share Option Plan                                                                                                                                                              |
| 4.3***      | MIND 2011 Share Incentive Plan                                                                                                                                                           |
| 4.4****     | Compensation Policy of Directors and Officers, as adopted June 24, 2013                                                                                                                  |
| 8           | List of Subsidiaries                                                                                                                                                                     |
| 11***       | Code of Ethics and Business Conduct                                                                                                                                                      |
| 12.1        | Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act                                                     |
| 12.2        | Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act                                                     |
| 13.1        | Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act                                                        |
| 13.2        | Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act                                                        |
| 15.1        | Consent of Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu Limited                                                                                                   |
| 101         | The following financial information from MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): |

- (i) Consolidated Balance Sheets at December 31, 2015 and 2014;
- (ii) Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013;
- (iii) Consolidated Comprehensive Income for the years ended December 31, 2015, 2014 and 2013;
- (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2015, 2014 and 2013;
- (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013; and
- (vi) Notes to Consolidated Financial Statements, tagged as blocks of text

\* Incorporated by reference to MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2002.

\*\* Incorporated by reference to MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2003.

\*\*\* Incorporated by reference to MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011.

\*\*\*\* Incorporated by reference to MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013.

## 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.

MIND CTI LTD.

*/s/ Monica Iancu*

By: Monica Iancu  
Title: President &  
CEO

Date: April 11,  
2016 \_

**MIND C.T.I. LTD.**

(An Israeli Corporation)

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR 2015**

**MIND C.T.I. LTD.**

(An Israeli Corporation)

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR 2015**

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*To the Shareholders of*

*MIND C.T.I. LTD*

We have audited the accompanying consolidated balance sheets of MIND C.T.I. LTD (the "Company") and its subsidiaries as of December 31, 2015 and 2014 and the consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2015 and 2014 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with generally accepted accounting principles in the United States of America.

/s/ **Brightman Almagor Zohar & Co.**

**Certified Public Accountants**

**A member of Deloitte Touche Tohmatsu Limited**

Tel Aviv, Israel April 11, 2016

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**MIND C.T.I. LTD****CONSOLIDATED BALANCE SHEETS**

|                                                                          |      | December 31,              |           |
|--------------------------------------------------------------------------|------|---------------------------|-----------|
|                                                                          |      | 2015                      | 2014      |
|                                                                          | Note | U.S. dollars in thousands |           |
| ASSETS                                                                   |      |                           |           |
| CURRENT ASSETS:                                                          |      |                           |           |
| Cash and cash equivalents                                                | 9a   | \$ 11,475                 | \$ 8,100  |
| Short-term bank deposits                                                 |      | 1,498                     | 4,551     |
| Marketable securities                                                    | 2a   | 5,151                     | 5,038     |
| Accounts receivable, net:                                                | 9b   |                           |           |
| Trade                                                                    |      | 2,243                     | 2,595     |
| Other                                                                    |      | 213                       | 234       |
| Prepaid expenses                                                         |      | 232                       | 384       |
| Deferred cost of revenues                                                |      | 78                        | 21        |
| Deferred income taxes                                                    | 8d   | 187                       | 175       |
| Inventories                                                              |      | 9                         | 10        |
| Total current assets                                                     |      | 21,086                    | 21,108    |
| INVESTMENTS AND OTHER NON-CURRENT ASSETS:                                |      |                           |           |
| Marketable securities - available-for-sale                               | 2b   | 1,441                     | 1,574     |
| Severance pay fund                                                       | 5    | 1,623                     | 1,597     |
| Deferred income taxes                                                    | 8d   | 54                        | 20        |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization | 3    | 591                       | 618       |
| GOODWILL                                                                 | 4    | 5,430                     | 5,430     |
| Total assets                                                             |      | \$ 30,225                 | \$ 30,347 |
| LIABILITIES AND SHAREHOLDERS' EQUITY                                     |      |                           |           |
| CURRENT LIABILITIES:                                                     |      |                           |           |
| Accounts payable and accruals:                                           |      |                           |           |
| Trade                                                                    |      | \$ 237                    | \$ 138    |
| Other                                                                    | 9c   | 2,264                     | 2,306     |
| Deferred revenues                                                        |      | 3,664                     | 3,671     |
| Total current liabilities                                                |      | 6,165                     | 6,115     |
| LONG-TERM LIABILITIES:                                                   |      |                           |           |
| Deferred revenues                                                        |      | 426                       | 134       |
| Employees' rights upon retirement                                        | 5    | 1,786                     | 1,687     |
| Total liabilities                                                        |      | 8,377                     | 7,936     |
| SHAREHOLDERS' EQUITY:                                                    |      |                           |           |
| Share capital                                                            | 7    | 54                        | 54        |
| Additional paid-in capital                                               |      | 25,862                    | 25,724    |
| Accumulated other comprehensive loss                                     |      | (195 )                    | (63 )     |
|                                                                          |      | (877 )                    | (877 )    |

Differences from translation of foreign currency financial statements  
of a subsidiary

|                            |          |          |
|----------------------------|----------|----------|
| Treasury shares            | (1,692 ) | (1,863 ) |
| Accumulated deficit        | (1,304 ) | (564 )   |
| Total shareholders' equity | 21,848   | 22,411   |

|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Total liabilities and shareholders' equity | \$ 30,225 | \$ 30,347 |
|--------------------------------------------|-----------|-----------|

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

**MIND C.T.I. LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                                    | Years ended December 31,<br>2015      2014      2013 |         |         |
|----------------------------------------------------|------------------------------------------------------|---------|---------|
|                                                    | U.S. dollars in thousands,                           |         |         |
|                                                    | Note except per share data                           |         |         |
| REVENUES:                                          | 10a                                                  |         |         |
| Sales of licenses                                  | \$3,942                                              | \$5,397 | \$4,613 |
| Services                                           | 16,986                                               | 19,623  | 13,867  |
|                                                    | 20,928                                               | 25,020  | 18,480  |
| COST OF REVENUES                                   |                                                      |         |         |
| Cost of sales of licenses                          | 418                                                  | 488     | 421     |
| Cost of services                                   | 8,212                                                | 9,462   | 7,450   |
|                                                    | 8,630                                                | 9,950   | 7,871   |
| GROSS PROFIT                                       | 12,298                                               | 15,070  | 10,609  |
| RESEARCH AND DEVELOPMENT EXPENSES                  | 10b                                                  | 2,943   | 4,539   |
| SELLING AND MARKETING EXPENSES                     | 10c                                                  | 1,173   | 1,140   |
| GENERAL AND ADMINISTRATIVE EXPENSES                | 10d                                                  | 1,766   | 1,934   |
| OPERATING INCOME                                   |                                                      | 6,416   | 7,457   |
| FINANCIAL INCOME (EXPENSES) - net                  | 10e                                                  | (114 )  | (306 )  |
| INCOME BEFORE TAXES ON INCOME                      |                                                      | 6,302   | 7,151   |
| TAXES ON INCOME                                    | 8e                                                   | 1,284   | 1,668   |
| NET INCOME FOR THE YEAR                            |                                                      | \$5,018 | \$5,483 |
| EARNINGS PER ORDINARY SHARE -                      | 10f                                                  |         |         |
| Basic and diluted                                  |                                                      | \$0.26  | \$0.29  |
| WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN |                                                      |         |         |
| COMPUTATION OF EARNINGS PER ORDINARY SHARE - IN    | 10f                                                  |         |         |
| THOUSANDS                                          |                                                      |         |         |
| Basic                                              |                                                      | 19,183  | 18,949  |
| Diluted                                            |                                                      | 19,283  | 19,032  |

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

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**MIND C.T.I. LTD.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|                                                           | Years ended December 31,  |          |          |
|-----------------------------------------------------------|---------------------------|----------|----------|
|                                                           | 2015                      | 2014     | 2013     |
|                                                           | U.S. dollars in thousands |          |          |
| COMPREHENSIVE INCOME                                      |                           |          |          |
| Net Income                                                | \$ 5,018                  | \$ 5,483 | \$ 2,185 |
| OTHER COMPREHENSIVE INCOME (LOSS)                         |                           |          |          |
| Currency translation adjustments                          | -                         | 81       | 85       |
| Unrealized gain (loss) from available-for-sale securities | (132 )                    | (94 )    | 14       |
| Total other comprehensive income (loss)                   | (132 )                    | (13 )    | 99       |
| TOTAL COMPREHENSIVE INCOME                                | \$ 4,886                  | \$ 5,470 | \$ 2,284 |

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**MIND C.T.I. LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

|                                                              | Share capital<br>Number<br>Outstanding<br>of<br>shares<br>In<br>thousands | Amount<br>U.S. dollars | Additional<br>paid-in<br>capital<br>in thousands | Accumulated<br>other<br>comprehensive<br>loss<br>in thousands | Accumulated<br>deficit<br>in thousands | Treasury<br>shares<br>in thousands | Total      |
|--------------------------------------------------------------|---------------------------------------------------------------------------|------------------------|--------------------------------------------------|---------------------------------------------------------------|----------------------------------------|------------------------------------|------------|
| BALANCE AS OF JANUARY 1, 2013                                | 18,781                                                                    | \$54                   | \$ 30,138                                        | \$ (1,026                                                     | ) \$ (3,700                            | ) \$ (2,360                        | ) \$23,106 |
| CHANGES DURING 2013:                                         |                                                                           |                        |                                                  |                                                               |                                        |                                    |            |
| Comprehensive income                                         | -                                                                         | -                      | -                                                | 99                                                            | 2,185                                  | -                                  | 2,284      |
| Dividend paid (Note 7c)                                      | -                                                                         | -                      | -                                                | -                                                             | (4,532                                 | -                                  | (4,532 )   |
| Employees share based compensation expenses                  | -                                                                         | -                      | 58                                               | -                                                             | -                                      | -                                  | 58         |
| Exercise of options issued to employees from treasury shares | 104                                                                       | -                      | -                                                | -                                                             | -                                      | 73                                 | 73         |
| BALANCE AS OF DECEMBER 31, 2013                              | 18,885                                                                    | 54                     | 30,196                                           | (927                                                          | ) (6,047                               | ) (2,287                           | ) 20,989   |
| CHANGES DURING 2014:                                         |                                                                           |                        |                                                  |                                                               |                                        |                                    |            |
| Comprehensive income                                         | -                                                                         | -                      | -                                                | (13                                                           | ) 5,483                                | -                                  | 5,470      |
| Dividend paid (Note 7c)                                      | -                                                                         | -                      | (4,544                                           | -                                                             | -                                      | -                                  | (4,544 )   |
| Employees share based compensation expenses                  | -                                                                         | -                      | 72                                               | -                                                             | -                                      | -                                  | 72         |
| Exercise of options issued to employees from treasury shares | 225                                                                       | -                      | -                                                | -                                                             | -                                      | 424                                | 424        |
| BALANCE AS OF DECEMBER 31, 2014                              | 19,110                                                                    | 54                     | 25,724                                           | (940                                                          | ) (564                                 | ) (1,863                           | ) 22,411   |
| CHANGES DURING 2015:                                         |                                                                           |                        |                                                  |                                                               |                                        |                                    |            |
| Comprehensive income                                         | -                                                                         | -                      | -                                                | (132                                                          | ) 5,018                                | -                                  | 4,886      |
| Dividend paid (Note 7c)                                      | -                                                                         | -                      | -                                                | -                                                             | (5,758                                 | -                                  | (5,758 )   |
| Employees share based compensation expenses                  | -                                                                         | -                      | 138                                              | -                                                             | -                                      | -                                  | 138        |
| Exercise of options issued to employees from treasury shares | 92                                                                        | -                      | -                                                | -                                                             | -                                      | 171                                | 171        |
| BALANCE AS OF DECEMBER 31, 2015                              | 19,202                                                                    | \$54                   | \$ 25,862                                        | \$ (1,072                                                     | ) \$ (1,304                            | ) \$ (1,692                        | ) \$21,848 |

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

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**MIND C.T.I. LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31

2015      2014      2013

U.S. dollars in thousands

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|                                                                                   |         |         |         |
|-----------------------------------------------------------------------------------|---------|---------|---------|
| Net income                                                                        | \$5,018 | \$5,483 | \$2,185 |
| Adjustments to reconcile net income to net cash provided by operating activities: |         |         |         |
| Depreciation and amortization (see Note 3)                                        | 173     | 233     | 250     |
| Deferred income taxes, net                                                        | (46 )   | 101     | (157 )  |
| Accrued severance pay                                                             | 105     | 68      | 77      |
| Unrealized loss (gain) from marketable securities, net                            | 98      | (26 )   | 6       |
| Capital gain on sale of property and equipment, net                               | -       | -       | (5 )    |
| Employees share based compensation                                                | 138     | 72      | 58      |
| Realized loss (gain) on sale of marketable securities – available-for-sale, net   | -       | (9 )    | 1       |
| Changes in operating asset and liability items:                                   |         |         |         |
| Decrease (increase) in accounts receivable:                                       |         |         |         |
| Trade                                                                             | 352     | (1,354) | (390 )  |
| Other                                                                             | 21      | (70 )   | (15 )   |
| Decrease (increase) in prepaid expenses and deferred cost of revenues             | 95      | (77 )   | 351     |
| Decrease in inventories                                                           | 1       | -       | 3       |
| Increase (decrease) in accounts payable and accruals:                             |         |         |         |
| Trade                                                                             | 99      | (387 )  | 412     |
| Other                                                                             | (42 )   | 1,153   | 1       |
| Increase (decrease) in deferred revenues                                          | 285     | (1,346) | 2,413   |
| Net cash provided by operating activities                                         | 6,297   | 3,841   | 5,190   |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|                                                                  |        |         |          |
|------------------------------------------------------------------|--------|---------|----------|
| Investment in marketable securities – available-for-sale         | -      | (1,664) | -        |
| Proceeds from sale of marketable securities – available-for-sale | -      | 522     | -        |
| Purchase of property and equipment                               | (146 ) | (201 )  | (240 )   |
| Severance pay funds                                              | (32 )  | (109 )  | (162 )   |
| Investment in short-term bank deposits                           | -      | -       | (2,559 ) |
| Realization of short-term bank deposits                          | 3,053  | 3,746   | -        |
| Investments in marketable securities                             | (210 ) | (2,176) | (2,842 ) |
| Proceeds from sale of property and equipment                     | -      | -       | 26       |
| Net cash provided by (used in) investing activities              | 2,665  | 118     | (5,777 ) |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

|                                           |          |         |          |
|-------------------------------------------|----------|---------|----------|
| Employee stock options exercised and paid | 171      | 424     | 73       |
| Dividend paid                             | (5,758 ) | (4,544) | (4,532 ) |

|                                                                  |          |          |          |
|------------------------------------------------------------------|----------|----------|----------|
| Net cash used in financing activities                            | (5,587 ) | (4,120 ) | (4,459 ) |
| TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS             | -        | 49       | (52 )    |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                 | 3,375    | (112 )   | (5,098 ) |
| BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR        | 8,100    | 8,212    | 13,310   |
| BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR              | \$11,475 | \$8,100  | \$8,212  |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND NON-CASH<br>ACTIVITIES- |          |          |          |
| Taxes paid                                                       | \$414    | \$1,266  | \$95     |

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

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**a.**

**General:**

**1)**

**Nature of operations**

MIND C.T.I. Ltd. (the "Company") is an Israeli company, which together with its subsidiaries operate in one segment, providing integrated products and services. The Company designs, develops, markets, supports, implements and operates billing and customer care systems, including consulting and managed services, primarily to wireless, wireline, next-generation service providers throughout the world. The Company also provides a call management system used by enterprises for call accounting, traffic analysis, and fraud detection.

The Company has wholly-owned subsidiaries in the United States ("Mind Software Inc." or "Sentori"), Romania ("Mind Software SRL"), and U.K ("Mind Software Limited" or "Omni").

**2)**

**Accounting principles**

The consolidated financial statements were prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

**3)**

**Use of estimates in preparation of financial statements**

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 disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates. The most significant estimates with regard to the Company's consolidated financial statements relate to revenue recognition of products and service sales using the percentage of completion method, the valuation of auction rate securities, and the impairment of goodwill and other intangible asset.

**4)**

**Functional currency**

The currency of the primary economic environment in which the operations of the Company and its subsidiaries are conducted is the U.S. dollar (“dollar” or “\$”). Most of the Company’s revenues are derived from sales outside of Israel, which are denominated primarily in dollars. In addition, the majority of the Company’s cash reserves and financing activities are denominated in dollars. Thus, the functional currency of the Company and its subsidiaries is the dollar.

Transactions and balances originally denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are re-measured into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (detailed below) reflected in the statements of operations, 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, etc.) - historical exchange rates. The resulting currency translation gains or losses are carried to financial income or expenses, as appropriate.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b. Principles of consolidation:**

- 1) The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries.
- 2) Inter-company balances and transactions have been eliminated in consolidation. Profits from inter-company sales, not yet realized outside the Company and its subsidiaries, have also been eliminated.

**c. Reclassifications:**

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

**d. Cash equivalents:**

The Company and its subsidiaries consider all highly liquid investments, which include short-term bank deposits (up to three months from original date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

**e. Short-term bank deposits:**

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits. Such short-term bank deposits are stated at cost.

**f. Marketable securities:**

Marketable securities are classified as "financial assets held at fair value through profit or loss" when held for trading or are designated upon initial recognition as financial assets at fair value through profit or loss.

Financial asset at fair value through profit or loss is shown at fair value. Any gain or loss arising from changes in fair value, including those originating from changes in exchange rates is recognized in profit or loss in the period in which the change occurred. Net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

**g. Available-for-sale financial assets ("AFS financial assets"):**

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The AFS held by the Company are traded in an active market and are stated at fair value at the end of each reporting period. Interest income calculated using the effective interest method. Changes in the fair value of AFS financial assets are recognized in other comprehensive income (loss). Unrealized losses considered to be temporary are reflected in other comprehensive income (loss). Unrealized losses that are considered to be other-than-temporary are charged to income as an impairment charge. See also Note 2.

**h. Inventories:**

Inventories are valued at the lower of cost or market value. Cost is determined by the "first-in, first-out" method. Most of the inventories consist of acquired hardware.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i. Property and equipment:**

1) These assets are stated at cost less accumulated depreciation.

2) The assets are depreciated by the straight-line method, on basis of their estimated useful life. Annual rates of depreciation are as follows:

|                                    |                      |
|------------------------------------|----------------------|
|                                    | %                    |
| Computers and electronic equipment | 15-33<br>(mainly 33) |
| Office furniture and equipment     | 6-7                  |
| Vehicles                           | 15                   |

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.

**j. Goodwill:**

Goodwill reflects the excess of the purchase price of subsidiaries acquired over the fair value of net assets acquired. Under Accounting Standards Codification ("ASC") 350, "Goodwill" is not amortized but rather tested for impairment at least annually. The Company performs annual testing for impairment of the goodwill during the third quarter of each year, see also Note 4.

**k. Income taxes:**

The Company accounts for income taxes, in accordance with the provisions of ASC 740 ("Income Taxes,") under the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities at enacted tax rates in effect in the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts expected to be realized.

Deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting or, if not related to an asset or liability for financial reporting, according to the expected reversal dates of the specific temporary differences.

For uncertain tax positions, the Company follows a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate resolution. The Company's policy is to include interest and penalties related to unrecognized tax benefits within income tax expense.

#### **I. Revenue recognition:**

The Company's revenues consist of revenues generated from software licensing, sales of professional services, including integration and implementation, sales of third-party hardware and software, maintenance services, managed services and training.

The Company applies the provisions of Statement of ASC 985-605, "Revenue Recognition" and ASC 605-35, "Construction-Type and Production-Type Contracts", as follows:

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Revenue recognition: (continued)**

i)

Licenses

Revenue from sale of products is recognized when delivery has occurred, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection is probable. If collection is not considered probable, revenue is recognized when the fee is collected. The Company generally does not grant a right of return on products sold to customers.

ii) Services

The services the Company provides consist of implementation, training, hardware installation, maintenance, support and project management. All services are priced on a fixed price basis and are recognized ratably over the period in which the services are provided except services which are recognized under the percentage-of-completion method as described below.

Products are mainly supplied with maintenance for a period of one year from delivery. When revenue on sale of the products is recognized, the Company defers a portion of the sales price and recognizes it as maintenance revenue ratably over the above period. The portion of the sales price that is deferred is determined based on the fair value of the service as priced in transactions in which the Company renders maintenance solely. Where vendor specific objective evidence for fair value cannot be determined, the entire sale is being recognized over the maintenance period. Where the services are considered essential to the functionality of the software products, both the software product revenue and the revenue related to the integration and implementation services are recognized under the percentage-of-completion method in accordance with ASC 605-35. The Company generally determines the percentage-of-completion by comparing the labor performed to date to the estimated total labor required to complete the project. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results.

(iii) Managed Services

Revenues from managed services include a monthly fee for services and for right of use and are recorded as service revenues and license revenues, respectively. The monthly fee is based mainly on number of subscribers or customer's

business volume and the agreements include a minimum monthly charge. These revenues are recognized on a monthly basis. Where installation services are sold together with a managed services contract, the installation services are being recognized over the entire contract term, commencing the deployment finalization.

Deferred costs of revenues are presented net of related advances from customers.

**m. Research and development expenses:**

Pursuant to ASC 985-20, "Software - Costs of Software to be Sold, Leased, or Marketed", development costs related to software products are expensed as incurred until the "technological feasibility" of the product has been established. Because of the relatively short time period between "technological feasibility" and product release, and the insignificant amount of costs incurred during such period, no software development costs have been capitalized.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n. Allowance for doubtful accounts:**

The allowance is determined for specific debts doubtful of collection.

**o. Share-based compensation:**

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of operations.

The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule using the straight-line method over the requisite service period for the entire award, net of estimated forfeitures.

**p. Earnings per share ("EPS"):**

Basic EPS is computed by dividing net income by the weighted average number of shares outstanding during the year, net of treasury shares.

Diluted EPS reflects the increase in the weighted average number of shares outstanding that would result from the assumed exercise of employee stock options, calculated using the treasury-stock-method.

**q.**

**Treasury shares:**

Treasury shares are presented as a reduction in shareholders' equity, at their cost to the Company, under "Treasury shares".

**r.**

**Concentration of credit risks:**

Most of the Company's and its subsidiaries' cash and cash equivalents as of December 31, 2015 and 2014 were deposited with Israeli, European and U.S. banks. The Company is not aware of any specific credit risks in respect of these banks.

The Company's revenues have been generated from a large number of customers. Consequently, the exposure to credit risks relating to trade receivables is limited. The Company performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts.

**s.**

**Recently issued accounting pronouncements:**

On May 28, 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") issued their final standard on revenue from contracts with customers. The standard, issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**s. Recently issued accounting pronouncements: (continued)**

The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” In applying the revenue model to contracts within its scope, an entity will:

- Identify the contract(s) with a customer (step 1).
- Identify the performance obligations in the contract (step 2).
- Determine the transaction price (step 3).
- Allocate the transaction price to the performance obligations in the contract (step 4).
- Recognize revenue when (or as) the entity satisfies a performance obligation (step 5).

ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU’s provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity’s ordinary activities (e.g., sales of (1) property, plant, and equipment; (2) real estate; or (3) intangible assets). Existing accounting guidance applicable to these transfers (e.g., ASC 360-20) has been amended or superseded.

Compared with current U.S. GAAP, ASU 2014-09 also requires significantly expanded disclosures about revenue recognition.

On August 12, 2015, the FASB issued ASU 2015-14, which defers the effective date of the Board’s revenue standard, ASU 2014-09, by one year for all entities and permits early adoption on a limited basis. Specifically:

- For public business entities, the standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods.

- For non-public entities, the standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Non-public entities can also elect to early adopt the standard as of the following:

- Annual reporting periods beginning after December 15, 2016, including interim periods.

- Annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning one year after the annual reporting period in which the new standard is initially applied.

On November 20, 2015, the FASB issued ASU 2015-17 as part of its simplification initiative (i.e., the Board's effort to reduce the cost and complexity of certain aspects of U.S. GAAP). The ASU requires entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as non-current in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or non-current in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance.

**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)****s. Recently issued accounting pronouncements: (continued)**

For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period.

**NOTE 2 - MARKETABLE SECURITIES**

|                                         | December 31               |         |
|-----------------------------------------|---------------------------|---------|
| Maturity year                           | 2015                      | 2014    |
|                                         | U.S. dollars in thousands |         |
| Short-term (a):                         |                           |         |
| Municipal bond                          | \$4,446                   | \$4,408 |
| Corporate bond                          | 705                       | 630     |
|                                         | \$5,151                   | \$5,038 |
| Long-term - security bond (b) Perpetual | \$1,441                   | \$1,574 |

The Company invests in highly-rated marketable securities, and its policy limits the amount of credit exposure to any one issuer. The Company's investment policy requires investments to be investment grade, rated single-A or better, with the objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio based on quoted prices in active markets.

As of December 31, 2015 the Company held a long-term security bond which is classified as available for sale security and is presented on its fair value. The fair value of the available-for-sale security based on quoted prices in active markets for identical instruments (Level 1 as defined under ASC\_820).

### NOTE 3 - PROPERTY AND EQUIPMENT

**a. Composition of assets, grouped by major classification, is as follows:**

|                                                  | December 31               |         |
|--------------------------------------------------|---------------------------|---------|
|                                                  | 2015                      | 2014    |
|                                                  | U.S. dollars in thousands |         |
| Computers and electronic equipment               | \$1,756                   | \$1,621 |
| Land                                             | 263                       | 263     |
| Office furniture and equipment                   | 166                       | 165     |
| Vehicles                                         | 201                       | 191     |
| Leasehold improvements                           | 8                         | 8       |
|                                                  | 2,394                     | 2,248   |
| Less - accumulated depreciation and amortization | 1,803                     | 1,630   |
|                                                  | \$591                     | \$618   |

**b.** Depreciation and amortization expenses totaled \$173 thousand, \$233 thousand and \$250 thousand in the years ended December 31, 2015, 2014 and 2013, respectively.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The carrying value of goodwill was allocated to MIND's reporting units pursuant to ASC 350.

ASC 350 requires that companies not amortize goodwill, but instead test for impairment at least annually using a two-step approach. The Company evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable.

Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. Under the income approach, the Company determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment. The second step involves determining the implied value of goodwill for the reporting unit. Any excess carrying amount of goodwill over the fair value determined in the second step will be recorded as a goodwill impairment loss.

The Company performed the annual impairment tests during the third quarter of 2015, 2014 and 2013 and did not identify any impairment losses.

**NOTE 5 - EMPLOYEES' RIGHTS UPON RETIREMENT**

Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The severance pay liability of the Company to its Israeli employees, based upon the number of years of service and the latest monthly salary, is partly covered by regular deposits with **a.** severance pay funds and pension funds, and by purchase of insurance policies; under labor agreements, the deposits with recognized pension funds and the insurance policies, as above, are in the employees' names and are, subject to certain limitations, the property of the employees.

The amounts accrued and the portions funded, with severance pay funds and by the insurance policies are reflected in the financial statements as follows:

|                                                                                | December 31               |         |
|--------------------------------------------------------------------------------|---------------------------|---------|
|                                                                                | 2015                      | 2014    |
|                                                                                | U.S. dollars in thousands |         |
| Accrued severance pay                                                          | \$1,786                   | \$1,687 |
| Less - amounts funded (presented in "Investment and other non-current assets") | (1,623)                   | (1,597) |
| Unfunded balance                                                               | \$163                     | \$90    |

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - EMPLOYEES' RIGHTS UPON RETIREMENT (continued)**

The amounts of accrued severance pay as above cover the Company's severance pay liability in accordance with labor agreements in force and based on salary components which, in management's opinion, create entitlement to severance pay. The Company records the obligation as if it was payable at each balance sheet date on an undiscounted basis.

Withdrawals from the funds are generally made for the purpose of paying severance pay.

- b. The severance pay expenses were \$271 thousand, \$181 thousand and \$139 thousand in the years ended December 31, 2015, 2014 and 2013, respectively.

**NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES**

**a. Commitments:**

The Company and its subsidiaries entered into premises lease agreements that will expire between 2017 and 2019.

Future minimum lease commitments of the Company and its subsidiaries under the above leases, at exchange rates in effect on December 31, 2015, are as follows:

| Years ending December 31: | U.S.<br>dollars in<br>thousands |
|---------------------------|---------------------------------|
| 2016                      | \$ 548                          |
| 2017                      | 539                             |
| 2018                      | 246                             |

|      |          |
|------|----------|
| 2019 | 46       |
|      | \$ 1,379 |

Rental expense totaled \$529 thousand, \$603 thousand and \$581 thousand in the years ended December 31, 2015, 2014 and 2013, respectively.

**b. Contingent liabilities:**

The Company has provided bank guarantees relating to future performance on certain contracts. As of December 31, 2015, contingent liabilities on outstanding bank guarantees aggregated to an amount of approximately \$40 thousand.

**NOTE 7 - SHAREHOLDERS' EQUITY**

**a. Share capital:**

The Company's ordinary shares are traded in the United States on the NASDAQ National Market, under the symbol MNDO.

**b. Treasury shares:**

During the period between September 2008 and December 2009, the Company has purchased an aggregate amount of 3,165,092 ordinary shares for a total consideration of approximately \$2.8 million. Currently, the Company does not have an active buyback plan. As of December 31, 2015 the remaining treasury shares are 2,457,592 which amounted to \$1.7 million after exercise of options issued to employees from treasury shares in the amount of \$171 thousand, \$424 thousand and \$73 thousand in the years ended December 31, 2015, 2014 and 2013 respectively.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 - SHAREHOLDERS' EQUITY (continued)**

**c. Dividend:**

Dividends paid per share in the years ended December 31, 2015, 2014 and 2013 were \$0.30, \$0.24 and \$0.24, respectively.

The Company paid dividends to its shareholders in the amounts of \$5.8 million, \$4.5 million and \$4.5 million during the years ended December 31, 2015, 2014 and 2013, respectively. Since, at the time of the 2014 distribution, the Company had insufficient statutory retained earnings, the distribution was done by way of reduction of additional paid-in capital, after due approval by an Israeli court order, in accordance with the Israeli Companies Law, 1999.

**d. Stock option plans:**

In December 1998, the Board of Directors approved an employee stock option plan, which was amended in 2000 and in 2003 (the "1998 Plan"). During 2004, the Board of Directors approved an employee stock option plan (the "2000 Plan"). Under the 1998 Plan (as amended in 2000 and in 2003) and the 2000 plan, options for up to 4,306,000 ordinary shares of NIS 0.01 par value are to be granted to employees of the Company and its subsidiaries. The 1998 Plan and 2000 Plan expired in December 2010.

In 2011, the Board of Directors and the 2011 Annual General Meeting of the Company's shareholders approved a share incentive plan (the "2011 Share Incentive Plan"). Under the 2011 Share Incentive Plan, options for up to 1,800,000 ordinary shares of NIS 0.01 par value are to be granted to employees of the Company and its subsidiaries, directors, consultants or contractors of the Company.

Each option can be exercised to purchase one Ordinary Share. Immediately upon issuance, the Ordinary Shares issuable upon the exercise of the options will confer on holders the same rights as the other ordinary shares.

The Board of Directors determines the exercise price and the vesting period of the options granted. The outstanding options granted under the above mentioned plans vest over 3-5 years. Options not exercised will expire approximately 5-7 years after they are granted.

The compensation costs charged against income for all of the Company's equity incentive plans during the years ended December 31, 2015, 2014 and 2013 were approximately \$138 thousand, \$72 thousand and \$58 thousand, respectively without any reduction in income taxes.

As a result of a change made to Section 102 of the Israeli Income Tax Ordinance as part of the Israeli tax reform of 2003, and pursuant to an election made by the Company thereunder, Israeli employees (except for employees who are deemed "Controlling Members" under the Israeli Income Tax Ordinance) will be subject to a lower tax rate on capital gains accruing to them in respect of Section 102 awards made after December 31, 2002. However, the Company will not be allowed to claim as an expense for tax purposes the amounts credited to such employees as a benefit when the related capital gains tax is payable by them, as it had previously been entitled to do under Section 102.

**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 - SHAREHOLDERS' EQUITY (continued)****d. Stock option plans:**

The following is a summary of the status of the 1998 Plan, 2000 plan and 2011 Share Incentive Plan as of December 31, 2015, 2014 and 2013, and changes during the years ended on those dates:

**1)**

|                                                                                  | Years ended December 31 |                                          |           |                                          | 2013      |                                          |
|----------------------------------------------------------------------------------|-------------------------|------------------------------------------|-----------|------------------------------------------|-----------|------------------------------------------|
|                                                                                  | 2015                    |                                          | 2014      |                                          | 2013      |                                          |
|                                                                                  | Number                  | Weighted<br>average<br>exercise<br>price | Number    | Weighted<br>average<br>exercise<br>price | Number    | Weighted<br>average<br>exercise<br>price |
| Options outstanding at beginning of year                                         | 851,600                 | \$ 2.63                                  | 460,000   | \$ 1.93                                  | 588,700   | \$ 1.87                                  |
| Changes during year:                                                             |                         |                                          |           |                                          |           |                                          |
| Granted (a)                                                                      | 116,800                 | \$ 1.66                                  | 666,000   | \$ 2.81                                  | 96,000    | \$ 2.16                                  |
| Exercised                                                                        | (92,100 )               | \$ 1.85                                  | (225,400) | \$ 1.88                                  | (103,500) | \$ 0.70                                  |
| Forfeited                                                                        | (166,000)               | \$ 2.88                                  | (49,000 ) | \$ 2.03                                  | (36,000 ) | \$ 1.94                                  |
| Expired                                                                          | -                       | -                                        | -         | -                                        | (85,200 ) | \$ 3.24                                  |
| Options outstanding at end of year                                               | 710,300                 | \$ 2.51                                  | 851,600   | \$ 2.63                                  | 460,000   | \$ 1.93                                  |
| Options exercisable at end of year                                               | 51,000                  | \$ 1.98                                  | 43,600    | \$ 2.00                                  | 193,000   | \$ 1.95                                  |
| Weighted average grant date fair value of options<br>granted during the year (b) |                         | 0.94                                     |           | \$ 0.51                                  |           | \$ 0.41                                  |

(a) In the years ended December 31, 2015 and 2014 the options were granted with an exercise price equal to the average closing price per share of the Company's ordinary shares on the stock market during the 30 trading day period immediately preceding the date of grant of such option or with an exercise price equal to par value of NIS 0.01.

In the year ended December 31, 2013 the options were granted with an exercise price equal to the average closing price per share of the Company ordinary's shares on the stock market during the 30 trading day period immediately preceding the date of grant of such option.

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**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 - SHAREHOLDERS' EQUITY (continued)****d. Stock option plans:****1)****(continued)**

(b) The fair value of each stock option granted is computed on the date of grant according to the Black-Scholes option-pricing model with the following assumptions:

|                                  | Years ended<br>December 31 |       |       |  |  |  |
|----------------------------------|----------------------------|-------|-------|--|--|--|
|                                  | 2015                       | 2014  | 2013  |  |  |  |
| Dividend yield                   | 10 %                       | 11 %  | 11 %  |  |  |  |
| Expected volatility*             | 48 %                       | 44 %  | 49 %  |  |  |  |
| Average risk-free interest rate  | 1.5 %                      | 1.5 % | 0.8 % |  |  |  |
| Expected average term - in years | 3.88                       | 3.88  | 3.88  |  |  |  |

\* Volatility is based on historical volatility of the Company's share price for periods matching the expected term of the option until exercise.

As of December 31, 2015 there were approximately \$225 thousand of total unrecognized compensation costs, net of expected forfeitures, related to nonvested share-based compensation awards granted under the stock option plan. The costs are expected to be recognized over a weighted average period of 1.46 years.

2) The following table summarizes information about options outstanding and exercisable as of December 31, 2015:

| Range of<br>exercise<br>prices | Options Outstanding                                    |                                                                  |                                                 | Options Exercisable                                    |                                                                  |                                          |
|--------------------------------|--------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------|------------------------------------------|
|                                | Number<br>outstanding<br>at<br>December<br>31,<br>2015 | Weighted<br>average<br>remaining<br>contractual<br>life<br>Years | Weighted<br><b>average</b><br>exercise<br>price | Number<br>exercisable<br>at<br>December<br>31,<br>2015 | Weighted<br>average<br>remaining<br>contractual<br>life<br>Years | Weighted<br>average<br>exercise<br>price |
| \$0.003 – 1.939                | 118,800                                                | 2.74                                                             | \$ 0.72                                         | 44,000                                                 | 0.85                                                             | \$ 1.94                                  |
| \$2.16 – 2.947                 | 591,500                                                | 3.73                                                             | \$ 2.87                                         | 7,000                                                  | 1.74                                                             | \$ 2.27                                  |
|                                | 710,300                                                | 3.56                                                             | \$ 2.51                                         | 51,000                                                 | 0.97                                                             | \$ 1.98                                  |

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 were approximately \$176 thousand, \$322 thousand and \$165 thousand, respectively. As of December 31, 2015, the aggregate intrinsic value of the outstanding options is \$231 thousand, and the aggregate intrinsic value of the exercisable options is \$28 thousand.

#### **NOTE 8 - TAXES ON INCOME**

##### **a. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:**

The Company is an “industrial company”, as defined by this law. As such, the Company is entitled to claim depreciation at increased rates for equipment used in industrial activity, as stipulated by regulations published under the inflationary adjustments law.

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - TAXES ON INCOME (continued)**

**b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:**

**1) Tax benefits prior to the 2011 Amendment**

Substantially all of the Company's production facilities have been granted "Approved Enterprise" status under the above law (including Amendment No. 60 to the law that was published in April 2005). Income derived from the approved enterprise was tax exempt for a period of ten years commencing in the first year in which the Company earned taxable income from the approved enterprise (provided the maximum period to which it is restricted by law has not elapsed).

According to the above law, in the event of distribution of cash dividends from income that was tax exempt as above, the Company would have to pay the 25% tax in respect of the amount distributed.

The entitlement to the above benefits was conditional upon the Company's fulfilling the conditions stipulated by the above law, regulations published thereunder and the certificate of approval for the specific investments in approved enterprises. In the event of failure 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 the addition of linkage differences to the Israeli CPI and interest.

**2) Tax benefits under the 2011 Amendment**

On January 6, 2011 an amendment (Amendment No. 68) to the Law for the Encouragement of Capital Investment-1959 (the "2011 Amendment") was published. The 2011 Amendment significantly revised the tax incentive regime in Israel, commencing on January, 1 2011.

The 2011 Amendment introduced a new status of “Preferred Enterprise”. Similarly to the “Approved Enterprise” status, a Preferred Company is an industrial company meeting certain conditions (including a minimum threshold of 25% export). However, under the New Amendment the requirement for a minimum investment in productive assets in order to be eligible for the benefits granted under the Investments Law as with respect to “approved enterprise” status was cancelled. Dividends distributed from income which is attributed to a “Preferred Enterprise” will be subject to withholding tax at source at the following rates: (i) Israeli resident corporations - 0%, (ii) Israeli resident individuals – 15% (iii) non-Israeli residents - 15%, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

On July 30, 2013 the Israeli Parliament passed a Law for the change in the order of National Priorities (Legislative amendments to achieve budget objectives for 2013 and 2014) — 2013. As part of the legislation, the Law for the Encouragement of Capital Investments was amended so that the tax rate applicable to a “Preferred Enterprise” in this period in Development Area A will be 9% and the tax rate in other parts of the country will be 16%. Similarly, it was determined that the tax rate on dividends distributed to individuals and foreign residents out of preferred income will be increased to 20% as from January 1, 2014 as opposed to the current rate of 15%.

The following table summarise the reduced flat tax rate with respect to the income attributed to the Preferred Enterprise:

| Tax Year     | Development Region “A” | Other Areas within Israel |
|--------------|------------------------|---------------------------|
| 2011-2012    | 10%                    | 15%                       |
| 2013         | 7%                     | 12.5%                     |
| 2014 onwards | 9%                     | 16%                       |

**MIND C.T.I. LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - TAXES ON INCOME (continued)**

**b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959: (continued)**

**2) Tax benefits under the 2011 Amendment (continued)**

The Company is located in Development Region "A" and during 2011 had chosen the status of the 2011 Amendment.

If only a portion of the Company's capital investments is approved, its effective tax rate will be the result of a weighted combination of the applicable rates. The tax benefits from any certificate of approval relate only to taxable income attributable to the specific "Preferred Enterprise". Income derived from activity that is not integral to the activity of the "Preferred Enterprise" will not enjoy tax benefits. The Company's entitlement to the above benefits is subject to fulfillment of certain conditions under the Investment Law and related regulations.

During 2013, the Company applied for a tax ruling with respect to 2012 and future years. During 2014, the Company obtained the ruling, which provides that the portion of the income attributed to the "Preferred Enterprise" (and thereby subject to lower tax rates) will be calculated each year based on, among other things, the ratio between the number of the employees in Israel and abroad. According to the ruling, the tax rate on income in Israel in 2015 was approximately 22%.

**c. Other applicable tax rates:**

**1) Income from other sources in Israel**

On December 6, 2011, the "Tax Burden Distribution Law" Legislation Amendments (2011) was published in the official gazette, under which the previously approved gradual decrease in corporate tax was cancelled. The corporate tax rate increased to 25% as from 2012.

As part of the mentioned above law for the change in the order of National Priorities (Legislative amendments to achieve budget objectives for 2013 and 2014) — 2013 the corporate tax rate has increased to 26.5% in 2014 and 2015.

On 5 January 2016, the Israeli Parliament officially published the Law for the Amendment of the Israeli Tax Ordinance (Amendment 216), that reduces the standard corporate income tax rate from 26.5% to 25%. The amendment will enter into force on January 1, 2016 and the 25% corporate tax rate will apply to income that was generated from that day onwards.

## **2) Income of non-Israeli subsidiaries**

Non-Israeli subsidiaries are taxed according to tax laws in their countries of residence.

**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8 - TAXES ON INCOME (continued)****d. Deferred income taxes:**

|                                          | December 31               |         |
|------------------------------------------|---------------------------|---------|
|                                          | 2015                      | 2014    |
|                                          | U.S. dollars in thousands |         |
| 1) Provided in respect of the following: |                           |         |
| Research and development expenses        | \$54                      | \$13    |
| Carryforward tax losses                  | 1,494                     | 2,284   |
| Other                                    | 187                       | 182     |
| Less- valuation allowance                | (1,494)                   | (2,284) |
|                                          | \$241                     | \$195   |

As of December 31, 2015, the carryforward tax losses are related mainly to the Company's subsidiaries (in the U.S. and U.K.) and amounted to approximately \$4.6 million. The Company has provided valuation allowance in respect of deferred tax assets resulting from carryforward tax losses of the Company's subsidiaries. Management currently believes that it is more likely than not that those deferred tax losses will not be realized in the foreseeable future.

**e. Taxes on income included in the statements of operations:****1) As follows:**

Years ended December  
31,  
2015    2014    2013  
U.S. dollars in  
thousands

|                                    |         |         |       |
|------------------------------------|---------|---------|-------|
| Current:                           |         |         |       |
| In Israel                          | \$1,283 | \$1,473 | \$116 |
| Outside Israel                     | 99      | 94      | 71    |
|                                    | 1,382   | 1,567   | 187   |
| Taxes in respect of previous years | (52 )   | -       | 107   |
| Deferred taxes in Israel           | (46 )   | 101     | (157) |
|                                    | \$1,284 | \$1,668 | \$137 |

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**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8 - TAXES ON INCOME (continued)****e. Taxes on income included in the statements of operations: (continued)**

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see c. above), and the actual tax expense:

|                                                                                                                                | Years ended December<br>31,<br>2015      2014      2013<br>U.S. dollars in thousands |         |         |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------|---------|
| Income before taxes on income, as reported in the statements of operations*                                                    | \$6,302                                                                              | \$7,151 | \$2,322 |
| Theoretical tax expense                                                                                                        | 1,670                                                                                | 1,895   | 581     |
| Less - tax benefits arising from approved enterprise status, see a. above                                                      | (271 )                                                                               | (401 )  | (60 )   |
|                                                                                                                                | 1,399                                                                                | 1,494   | 521     |
| Increase (decrease) in taxes resulting from permanent differences:                                                             |                                                                                      |         |         |
| Disallowable deductions                                                                                                        | 42                                                                                   | 22      | 60      |
| Taxes in respect of previous years                                                                                             | (52 )                                                                                | -       | 107     |
| Changes in valuation allowance                                                                                                 | (747 )                                                                               | 62      | 243     |
| Changes in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate and other | 642                                                                                  | 90      | (794 )  |
| Taxes on income for the reported years:                                                                                        | \$1,284                                                                              | \$1,668 | \$137   |
| * As follows:                                                                                                                  |                                                                                      |         |         |
| Taxable in Israel                                                                                                              | \$5,346                                                                              | \$6,145 | \$1,325 |
| Taxable outside Israel                                                                                                         | 956                                                                                  | 1,006   | 997     |
|                                                                                                                                | \$6,302                                                                              | \$7,151 | \$2,322 |

**f. Tax assessments:**

The Company has received final assessments from the tax authorities, through the year ended December 31, 2011. The subsidiaries, except Omni, have not been assessed since incorporation. Omni has received final tax assessments through tax year 2006.

**g. Sale of MIND Software SRL:**

On July 2014, the Company sold its holdings in “MIND Software SRL” to “MIND Software Limited” in the amount of \$3,880 thousand.

Following the sale, the Company recognized a capital gain, which was offset against carryforward capital losses from previous years.

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**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 - SUPPLEMENTARY BALANCE SHEET INFORMATION****a. Cash and cash equivalents:**

The balance as of December 31, 2015 and 2014 includes \$6.8 million and \$3.7 million, respectively, of highly liquid bank deposits. The deposits are mainly denominated in dollars and, as of December 31, 2015, bear weighted average annual interest of 0.36%.

**b. Accounts receivable:**

1)

Trade:

December 31,  
2015 2014  
U.S. dollars in  
thousands

|                                          |         |         |
|------------------------------------------|---------|---------|
| Open accounts                            | \$2,488 | \$2,595 |
| Less - allowance for doubtful accounts * | (245 )  | -       |
|                                          | \$2,243 | \$2,595 |

\* The changes in allowance for doubtful accounts are composed as follows:

Years ended  
December 31,  
2015 2014 2013  
U.S. dollars in  
thousands

|                                     |       |      |       |
|-------------------------------------|-------|------|-------|
| Balance at beginning of year        | \$-   | \$ - | \$327 |
| Increase (decrease) during the year | 245   | -    | -     |
| Bad debt written off                | -     | -    | (327) |
| Balance at end of year              | \$245 | \$ - | \$-   |

2) Other:

December  
31,  
2015 2014  
U.S. dollars  
in  
thousands

|                      |       |       |
|----------------------|-------|-------|
| Government of Israel | \$19  | \$-   |
| Employees            | 26    | 11    |
| Sundry               | 168   | 223   |
|                      | \$213 | \$234 |

**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued)****c. Accounts payable and accruals - other:**

|                              | December 31,              |         |
|------------------------------|---------------------------|---------|
|                              | 2015                      | 2014    |
|                              | U.S. dollars in thousands |         |
| Payroll and related expenses | \$964                     | \$1,268 |
| Government institutions      | 1,166                     | 659     |
| Accrued vacation pay         | 63                        | 92      |
| Accrued expenses and sundry  | 71                        | 287     |
|                              | \$2,264                   | \$2,306 |

**NOTE 10 - SELECTED STATEMENT OF OPERATIONS DATA****a. Revenues:**

1) The Company's revenues derive from sale of software products in one operating segment. The Company has two product lines: (i) product line "A" - billing and customer care solutions for service providers; and (ii) product line "B" - call accounting and call management solutions for enterprises. Revenues from Sentori and Omni product lines are included in product line "A".

Following are data regarding revenues classified by product lines:

Years ended December 31,  
2015      2014      2013  
U.S. dollars in thousands

|                  |          |          |          |
|------------------|----------|----------|----------|
| Product line "A" | \$16,567 | \$20,990 | \$14,210 |
| Product line "B" | 4,361    | 4,030    | 4,270    |
|                  | \$20,928 | \$25,020 | \$18,480 |

2) Following are data regarding geographical revenues classified by geographical location of the customers:

|                | Years ended December 31,  |          |          |
|----------------|---------------------------|----------|----------|
|                | 2015                      | 2014     | 2013     |
|                | U.S. dollars in thousands |          |          |
| United States  | \$11,292                  | \$14,411 | \$11,809 |
| United Kingdom | 904                       | 763      | 1,221    |
| Rest of Europe | 5,793                     | 6,402    | 2,537    |
| Israel         | 1,417                     | 2,256    | 1,768    |
| Other          | 1,522                     | 1,188    | 1,145    |
|                | \$20,928                  | \$25,020 | \$18,480 |

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**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 - SELECTED STATEMENT OF OPERATIONS DATA (continued)****a. Revenues: (continued)**

Property and equipment - by geographical location:

|               |              |       |
|---------------|--------------|-------|
|               | December     |       |
|               | 31           |       |
|               | 2015         | 2014  |
|               | U.S. dollars |       |
|               | in           |       |
|               | thousands    |       |
| Israel        | \$182        | \$193 |
| Romania       | 407          | 421   |
| United States | 2            | 4     |
|               | \$591        | \$618 |

**b. Research and development expenses:**

|                               |                           |         |         |
|-------------------------------|---------------------------|---------|---------|
|                               | Years ended December      |         |         |
|                               | 31,                       |         |         |
|                               | 2015                      | 2014    | 2013    |
|                               | U.S. dollars in thousands |         |         |
| Payroll and related expenses  | \$2,148                   | \$3,614 | \$3,972 |
| Rent and related expenses     | 321                       | 367     | 378     |
| Depreciation and amortization | 72                        | 114     | 133     |
| Subcontracting                | 202                       | 189     | 188     |
| Other                         | 200                       | 255     | 359     |
|                               | \$2,943                   | \$4,539 | \$5,030 |

**c. Selling and marketing expenses:**

|                               | Years ended December      |         |         |
|-------------------------------|---------------------------|---------|---------|
|                               | 31,                       |         |         |
|                               | 2015                      | 2014    | 2013    |
|                               | U.S. dollars in thousands |         |         |
| Payroll and related expenses  | \$949                     | \$963   | \$1,459 |
| Depreciation and amortization | 4                         | 3       | 8       |
| Travel and conventions        | 123                       | 79      | 108     |
| Other                         | 97                        | 95      | 119     |
|                               | \$1,173                   | \$1,140 | \$1,694 |

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**MIND C.T.I. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 - SELECTED STATEMENT OF OPERATIONS DATA (continued)****d. General and administrative expenses:**

|                                               | Years ended December<br>31,<br>2015    2014    2013<br>U.S. dollars in thousands |         |         |
|-----------------------------------------------|----------------------------------------------------------------------------------|---------|---------|
| Payroll and related expenses                  | \$923                                                                            | \$1,298 | \$1,105 |
| Depreciation and amortization                 | 19                                                                               | 17      | 21      |
| Insurances                                    | 55                                                                               | 65      | 60      |
| Office expenses                               | 68                                                                               | 99      | 102     |
| Professional services                         | 276                                                                              | 269     | 302     |
| Allowance for doubtful accounts and bad debts | 245                                                                              | -       | -       |
| Other                                         | 180                                                                              | 186     | 136     |
|                                               | \$1,766                                                                          | \$1,934 | \$1,726 |

**e.****Financial income (expense) - net:**

|                                                          | Years ended<br>December 31,<br>2015    2014    2013<br>U.S. dollars in<br>thousands |       |       |
|----------------------------------------------------------|-------------------------------------------------------------------------------------|-------|-------|
| Income:                                                  |                                                                                     |       |       |
| Interest on bank deposits and short-term investments     | \$54                                                                                | \$151 | \$97  |
| Non-dollar currency gains - net                          | -                                                                                   | -     | 17    |
| Income from marketable securities                        | 102                                                                                 | 148   | 33    |
| Realized gain from sale of available-for-sale securities | -                                                                                   | 38    | -     |
| Interest on available for sale securities                | 59                                                                                  | 33    | 35    |
|                                                          | 215                                                                                 | 370   | 182   |
| Expenses:                                                |                                                                                     |       |       |
| Non-dollar currency losses - net                         | (315)                                                                               | (663) | -     |
| Bank commissions and charges                             | (14 )                                                                               | (13 ) | (19 ) |

|                                                        |         |         |       |
|--------------------------------------------------------|---------|---------|-------|
| Realized loss on sale of available-for-sale securities | -       | -       | -     |
|                                                        | (329)   | (676)   | (19)  |
|                                                        | \$(114) | \$(306) | \$163 |

**f. Earnings per ordinary share (“EPS”):**

Following are data relating to the weighted average number of shares for the purpose of computing EPS:

|                                                                                             | Years ended December 31,<br>2015    2014    2013<br>U.S. dollars in thousands |        |        |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------|--------|
| Weighted average number of shares issued and outstanding - used in computation of basic EPS | 19,183                                                                        | 18,949 | 18,869 |
| Add - incremental shares from assumed exercise of options                                   | 100                                                                           | 83     | 21     |
| Weighted average number of shares used in computation of diluted EPS                        | 19,283                                                                        | 19,032 | 18,890 |

In the years ended December 31, 2015, 2014 and 2013, options that their effect was anti-dilutive, were not taken into account in computing the diluted EPS.

The number of options that could potentially dilute EPS in the future and were not included in the computation of diluted EPS is 708,000 options, 636,000 options and 400,000 options, respectively for the years ended December 31, 2015, 2014 and 2013.