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

FORM 20–F

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

OR

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

For the fiscal year ended December 31, 2019

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)

2 HaCarmel Street, Yoqneam, 2069202, Israel
(Address of principal executive offices)

Shoham Shitrit
c/o MIND C.T.I. Ltd.

2 HaCarmel Street
Yoqneam, 2069202, Israel
Tel: +972-4-9936666
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
Ordinary Shares, nominal value NIS 0.01 per share	**Nasdaq Global Market**

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, 2019, the Registrant had outstanding 19,896,326 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 (§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, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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”, “our company”, “the company”, “the Company” 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, 2019. 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, 2018 and 2019 and our audited consolidated statements of operations and cash flows for each of the three years ended December 31, 2019 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,				
	2015	**2016**	**2017**	**2018**	**2019**
	(dollars in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Total revenues	$ 20,928	$ 18,052	$ 18,062	$ 18,135	$ 22,664
Gross profit	12,298	11,221	11,029	11,989	12,538
Operating income	6,416	5,206	4,686	5,350	5,040
Financial income (expenses) – net	(114)	166	630	222	483
Net income	$ 5,018	$ 4,203	$ 5,612	$ 5,134	$ 5,065
Earnings per ordinary share:					
Basic	$ 0.26	$ 0.22	$ 0.29	$ 0.27	$ 0.26
Diluted	$ 0.26	$ 0.22	$ 0.29	$ 0.27	$ 0.25
Weighted average number of ordinary shares used in computation of earnings per ordinary share – in thousands:					
Basic	19,183	19,234	19,292	19,344	19,746
Diluted	19,283	19,307	19,559	19,561	19,962

	As of December 31,				
	2015	**2016**	**2017**	**2018**	**2019**
	(dollars in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 11,475	$ 9,165	$ 5,014	$ 2,739	$ 6,479

Short-term and long-term bank deposits and marketable securities	8,090	10,649	12,625	13,269	8,840
Working capital	14,734	15,217	14,921	15,272	12,779
Total assets	30,225	29,000	27,378	25,978	31,095
Share capital and additional paid-in capital	25,916	26,052	26,234	26,458	27,104
Treasury shares	(1,692)	(1,607)	(1,554)	(1,515)	(1,204)
Total shareholders' equity	$21,848	$21,285	$21,022	$20,982	$21,936

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 and Industry

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

All the markets we operate in are significantly fragmented and highly competitive. The principal competitive factors in our market include completeness of offering, global reach, ease of integration, product features, platform scalability, reliability, security and performance, brand awareness and reputation, the strength of sales and marketing efforts, customer support, as well as the cost of deploying and using our products.

Some of our competitors are larger and have greater name recognition, longer operating histories, more established customer relationships, larger budgets and significantly greater resources than we do. In addition, they have the operating flexibility to bundle competing products and services at little or no perceived incremental cost, including offering them at a lower price as part of a larger sales transaction. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, some competitors may offer products or services that address one or a limited number of functions at lower prices, with greater depth than our products or in different geographies. Our current and potential competitors may develop and market new products and services with comparable functionality to our products, and this could lead to us having to decrease prices in order to remain competitive. Customers utilize our products in many ways and use varying levels of functionality that our products offer or are capable of supporting or enabling within their applications. Customers that use many of the features of our products or use our products to support or enable core functionality for their applications may have difficulty or find it impractical to replace our products with a competitor's products or services, while customers that use only limited functionality may be able to more easily replace our products with competitive offerings. Our customers also may choose to build some of the functionality our products provide, which may limit or eliminate their demand for our products.

With the introduction of new products and services and new market entrants, we expect competition to intensify in the future. Moreover, as we expand the scope of our products, we may face additional competition. If one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could also adversely affect our ability to compete effectively. In addition, some of our competitors have lower list prices than ours, which may be attractive to certain customers even if those products have different or lesser functionality. If we are unable to maintain our current pricing due to competitive pressures, our margins will be reduced and our business, results of operations and financial condition would be adversely affected. In addition, pricing pressures and increased competition generally could result in reduced revenue, reduced margins, increased losses or the failure of our products to achieve or maintain widespread market acceptance, any of which could harm our business, results of operations and financial condition.

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

Our results of operations, including the levels of our revenues, cost of revenues, gross margins and operating expenses, have fluctuated from quarter to quarter in the past and may continue to vary significantly in the future. These fluctuations are a result of a variety of factors, many of which are outside of our control, may be difficult to predict and may or may not fully reflect the underlying performance of our business. Our operating results may vary significantly from quarter to quarter due to a number of factors, including the following:

- our ability to retain and increase revenue from existing customers and attract new customers;
- our ability to introduce new products and enhance existing products;
- competition and the actions of our competitors, including pricing changes and the introduction of new products, services and geographies;
- changes in network service provider fees that we pay in connection with the delivery of communication services on our messaging platforms;
- reductions in pricing as a result of negotiations with our larger customers;
- change in the mix of products that our customers use;
- changes in laws, regulations or regulatory enforcement that impact our ability to market, sell or deliver our products;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business, including investments in our international expansion;

- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our products on our platform;

- general economic conditions that may adversely affect a prospective customer's ability or willingness to adopt our products, delay a prospective customer's adoption decision, reduce the revenue that we generate from the use of our products or affect customer retention;

- changes in foreign currency exchange rates;

- sales tax and other tax determinations by authorities in the jurisdictions in which we conduct business;

- the impact of new accounting pronouncements;

- expenses in connection with mergers, acquisitions or other strategic transactions;

- 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 customers due to lack of financing, internal changes, consolidation, competition or any other reason; and

- changes in our pricing policies.

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. Accordingly, in the event of a revenue shortfall, we may not be able to mitigate the negative impact on our income (loss) and margins in the short term. If we fail to meet or exceed the expectations of investors, we could face costly lawsuits, including securities class action suits.

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.

We seek to expand our business through acquisitions, which 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.

It is part of our strategy to pursue acquisitions of business, products and technologies, or the establishment of joint venture arrangements in order to offer new products or services or otherwise enhance our market position or strategic strengths, and we are actively evaluating potential acquisition opportunities. 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;
- a strain in our ability to maintain reliable service levels for our customers;
- 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. Due to the multiple risks and difficulties associated with any acquisition, there can be no assurance that we will be successful in achieving our expected strategic, operating and financial goals for any such acquisition. If future acquisitions disrupt our operations, our business may suffer.

We may not be successful in the integration of our acquisitions.

We cannot assure you that we have identified, or will be able to identify, all material adverse issues related to the integration of our acquisitions, such as significant defects in the internal control policies of companies that we have acquired. In addition, our acquisitions could lead to difficulties in integrating acquired personnel and operations and in retaining and motivating key personnel from these businesses, while maintaining our corporate culture. In some instances, we may need to depend on the seller of an acquired business to provide us with certain transition services in order to meet the needs of our customers. Any failure to properly integrate and retain personnel, to recognize significant defects in the internal control policies of acquired companies or to scale and adapt our internal control policies and our reporting systems and procedures, and any interruptions of transition services, may require a significant amount of time and resources to address and may harm our company.

If we do not continually enhance our products and service offerings, introduce new products and features and adopt and monetize new technologies and methodologies in the marketplace, we may have difficulty retaining existing customers and attracting new customers.

We believe that our future success will depend, to a significant extent, upon our ability to enhance our existing products and services, to introduce new products, services and features to meet the requirements of our customers, and to adopt to and leverage new technologies and methodologies such as cloud, microservices-based architecture, in a rapidly developing and evolving market. We devote significant resources to refining and expanding our base software modules and to developing our products, services and development methodologies and tools. In some instances, we rely on cooperative relationships with third parties to assist us in delivering certain products and services to our customers. Our present or future products, services and technology may not satisfy the evolving needs of the communications industry or of other industries that we serve. If we are unable to anticipate or respond adequately to such needs, due to resource, technological or other constraints, our business and results of operations could 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 is characterized by:

- rapid technological advances like the development of new standards for communications protocols;

- numerous introductions of new service providers, technological suppliers and other competitors; 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 our security measures for our software, hardware, services or cloud offerings are compromised and as a result, our data, our customers' data or our IT systems are accessed improperly, made unavailable, or improperly modified, our products and services may be perceived as vulnerable, which may materially affect our business and result in potential legal liability.

Our products and services, including our cloud offerings, store, retrieve, and manage our customers' information and data, as well as our own data. We have a reputation for secure and reliable product offerings and related services, and we have invested a great deal of time and resources in protecting the integrity and security of our products, services and the internal and external data that we manage. Despite our efforts to implement network security measures, we cannot guarantee that our systems are fully protected from vulnerabilities related to IT-related viruses, worms and other malicious software programs, attacks, break-ins and similar disruptions from unauthorized tampering by computer hackers and others. Such cybersecurity incident could include an attempt to gain unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Security measures in our products and services may be penetrated or bypassed by computer hackers and others who may gain unauthorized access to our or our customers' or partners' software, hardware, cloud offerings, networks, data or systems. They may use a wide variety of methods, which may include developing and deploying malicious software to attack our products third-party data, products or services incorporated into our own. Data may also be accessed or modified improperly as a result of customer, partner or employee error or malfeasance and third parties may attempt to fraudulently induce customers, partners, employees or suppliers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data or IT systems or our customers' or partners' data or IT systems. Any of the foregoing occurrences could create system disruptions and cause shutdowns or denials of service or compromise data, including personal or confidential information, of us, our partners or our customers.

If a cyber-attack or other security incident (for example phishing, advanced persistent threats, or social engineering) were to result in unauthorized access to, or deletion of, and/or modification and/or exfiltration of our customers' data, other external data or our own data or our IT systems or if the services we provide to our customers were disrupted, customers could lose confidence in the security and reliability of our products and services, including our cloud offerings, and perceive them not to be secure. This in turn could lead to fewer customers using our products and services and result in reduced revenue and earnings. The costs we would incur to address and fix these security incidents would increase our expenses. These risks will increase as we continue to grow our cloud and network offerings and store and process increasingly large amounts of data, including personal information and our customers' confidential information and data and other external data, and host or manage parts of our customers' businesses in cloud-based IT environments.

Any of the events described above could cause our customers to make claims against us for damages allegedly resulting from a security breach or service disruption, which could adversely affect our business, results of operation and financial condition.

Our products and platform and our business are subject to a variety of European and international laws and regulations, including those regarding privacy, data protection and information security, and our customers may be subject to regulations related to the handling and transfer of certain types of sensitive and confidential information. Any failure of our products to comply with or enable our customers and channel partners to comply with applicable laws and regulations would harm our business, results of operations and financial condition.

We and our customers that use our products may be subject to privacy and data protection-related laws and regulations that impose obligations in connection with the collection, processing and use of personal data, financial data, health or other similar data. The U.S. federal and various state and foreign governments have adopted or proposed limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information of individuals. The U.S. Federal Trade Commission and numerous state attorneys general are applying federal and state consumer protection laws to impose standards on the online collection, use and dissemination of data, and to the security measures applied to such data.

Similarly, many foreign countries and governmental bodies, including the European Union ("EU") member states, have laws and regulations concerning the collection and use of personally identifiable information obtained from individuals located in the EU or by businesses operating within their jurisdiction, which are often more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personally identifiable information that identifies or may be used to identify an individual, such as names, telephone numbers, email addresses and, in some jurisdictions, IP addresses and other online identifiers.

For example, the General Data Protection Regulation ("GDPR") took effect in the European Union on May 25, 2018. The GDPR enhances data protection obligations for businesses and requires service providers (data processors) processing personal data on behalf of customers to cooperate with European data protection authorities, implement security measures and keep records of personal data processing activities. Noncompliance with the GDPR can trigger fines equal to or greater of €20 million or 4% of global annual revenues. There are also additional EU laws and regulations (and member states implementations thereof) which govern the protection of consumers and of electronic communications. If our efforts to comply with GDPR or other applicable EU laws and regulations are not successful, we may be subject to penalties and fines that would adversely impact our business and results of operations, and our ability to conduct business in the EU could be significantly impaired.

As well, we continue to see jurisdictions imposing data localization laws, which require personal information, or certain subcategories of personal information to be stored in the jurisdiction of origin. These regulations may inhibit our ability to expand into those markets or prohibit us from continuing to offer services in those markets without significant additional costs.

The uncertainty and changes in the requirements of multiple jurisdictions may increase the cost of compliance, delay or reduce demand for our services, restrict our ability to offer services in certain locations, impact our customers' ability to deploy our solutions in certain jurisdictions, or subject us to sanctions, by national data protection regulators, all of which could harm our business, financial condition and results of operations.

Additionally, although we endeavor to have our products and platform comply with applicable laws and regulations, these and other obligations may be modified, they may be interpreted and applied in an inconsistent manner from one jurisdiction to another, and they may conflict with one another, other regulatory requirements, contractual commitments or our internal practices.

We also may be bound by contractual obligations relating to our collection, use and disclosure of personal, financial and other data or may find it necessary or desirable to join industry or other self-regulatory bodies or other privacy or data protection-related organizations that require compliance with their rules pertaining to privacy and data protection.

We expect that there will continue to be new proposed laws, rules of self-regulatory bodies, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, rules, regulations and standards may have on our business. Moreover, existing U.S. federal and various state and foreign privacy and data protection-related laws and regulations are evolving and subject to potentially differing interpretations, and various legislative and regulatory bodies may expand current or enact new laws and regulations regarding privacy and data protection-related matters. Because global laws, regulations and industry standards concerning privacy and data security have continued to develop and evolve rapidly, it is possible that we or our products or platform may not be, or may not have been, compliant with each such applicable law, regulation and industry standard and compliance with such new laws or to changes to existing laws may impact our business and practices, require us to expend significant resources to adapt to these changes, or to stop offering our products in certain countries. These developments could adversely affect our business, results of operations and financial condition.

Any failure or perceived failure by us, our products or our platform to comply with new or existing U.S., EU or other foreign privacy or data security laws, regulations, policies, industry standards or legal obligations, or any security incident that results in the unauthorized access to, or acquisition, release or transfer of, personally identifiable information or other customer data may result in governmental investigations, inquiries, enforcement actions and prosecutions, private litigation, fines and penalties, adverse publicity or potential loss of business.

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 have derived benefits from various programs, including Israeli tax benefits relating to our "Approved and Preferred Enterprise" programs, and starting in 2017, we have derived benefits relating to the "Preferred Technological Enterprise" program under the Israel Law for the Encouragement of Capital Investment, 1959.

To be eligible for tax benefits as a "Preferred Technological Enterprise," we must continue to meet certain conditions. Should it be determined that our Preferred Technological Enterprise programs have not met, or do not meet, the statutory conditions, our income taxes will increase.

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 in 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.

Our business may be negatively affected by exchange rate fluctuations.

Although the majority of our revenues are denominated in U.S. dollars, or dollars, or $, approximately 19% of our expenses are incurred in New Israeli Shekel, or NIS, and approximately 62% of our expenses are denominated in Euro or linked to the Euro. As a result, we may be negatively affected by fluctuations in the exchange rates between the Euro or the NIS and the dollar. We cannot predict any future trends in the rate of devaluation or appreciation of the NIS or of the Euro against the dollar. If the dollar cost of our operations in Israel and/or Romania increases, our 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 dollar-measured results of operations will be adversely affected by devaluation in the GBP, CAD or Euro relative to the 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.

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 may 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, President and Chief Executive Officer, Ms. Monica Iancu, and other members of our 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 Ms. Iancu or other members of the senior management team are unable or unwilling to continue their employment with us, our business may be harmed.

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.

We use certain "open source" software tools that may be subject to intellectual property infringement claims or that may subject our derivative works or products to unintended consequences, possibly impairing our product development plans, interfering with our ability to support our clients or requiring us to allow access to the source code of our products or necessitating that we pay licensing fees.

Certain of our products contain open source code and we may use more open source code in the future. In addition, certain third-party software that we embed in our products contains open source code. Open source code is code that is covered by a license agreement that permits the user to liberally use, copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code.

As a result of the use of open source software, we could be subject to suits by parties claiming ownership of what they believe to be their proprietary code or we may incur expenses in defending claims alleging non-compliance with certain open source code license terms. In addition, third-party licensors do not provide intellectual property protection with respect to the open source components of their products, and we may be unable to be indemnified by such third-party licensors in the event that we or our customers are held liable in respect of the open source software contained in such third-party software. If we are not successful in defending against any such claims that may arise, we may be subject to injunctions and/or monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow.

Moreover, under certain conditions, the use of open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. The circumstances under which our use of open source code would compel us to offer derivative code at no cost are subject to varying interpretations. If we are required to publicly disclose the source code for such derivative products or to license our derivative products that use an open source license, our previously proprietary software products may be available to others without charge. If this happens, our customers and our competitors may have access to our products without cost to them, which could harm our business. Certain open source licenses require as a condition to use, modification or distribution of such open source that proprietary software incorporated into, derived from or distributed with such open source be disclosed or distributed in source code form, be licensed for the purpose of making derivative works or be redistributable at no charge. The foregoing may under certain conditions be interpreted to apply to our software, depending upon the use of the open source and the interpretation of the applicable open source licenses.

We monitor our use of open source code to avoid subjecting our products to conditions we do not intend. The use of open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

We are subject to ongoing costs and risks associated with being a public company, including potential lawsuits.

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, 1999 (the "Companies Law", or the "Israeli Companies Law"). In connection with our compliance with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act of 2002, our management and other personnel devote a substantial amount of time 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.

Since we are a public company in the United States, the cost of our directors' and officers' liability insurance has significantly increased over recent years, as a result of which we have decided not to renew such insurance. Instead, our directors and officers rely on indemnification agreements provided by us. Accordingly, any lawsuits against our directors and officers could result in expensive legal expenses, settlements and judgments that we would be required to bear, which would harm our financial condition.

<u>Risks Relating to our Billing and Related Services Business</u>

System disruptions and failures may result in customer dissatisfaction, customer loss or both, which could materially and adversely affect our reputation and business.

Our billing systems are an integral part of our customers' business operations. The continued and uninterrupted performance of these systems for our customers is critical to our success. Customers may become dissatisfied by any system failure that interrupts our ability to provide services to them.

Our ability to serve our customers depends on our ability to protect our systems and infrastructure against damages and unexpected adverse events. We also depend on various cloud providers and co-location datacenter providers which provide us environments, tools and applications on which we provide our products. Although we maintain insurance that we believe is appropriate for our business and industry, such coverage may not be sufficient to compensate for any significant losses that may occur as a result of any of these events. In addition, we have experienced systems outages and service interruptions in the past, none of which has had a material adverse effect on us. However, a prolonged system-wide outage or frequent outages could cause harm to our customers and to our reputation and reduce the attractiveness of our services significantly, which could result in decreased demand for our products and services and could cause our customers to make claims against us for damages allegedly resulting from an outage or interruption. Any damage or failure that interrupts or delays our operations could result in material harm to our business and expose us to material liabilities.

The customer base for our wireline and wireless billing and customer care products is characterized by very 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 wireline and wireless billing and customer care products target very small to medium size carriers. Our growth in this field depends on continued growth of carriers of this size. We cannot be certain that carriers of this size 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 experience loss of one or more existing billing customers, we may suffer a decrease in revenues, reputation and profitability.

A significant part of our revenues is derived from our existing customer base, maintenance agreements, customizations and additional professional services. Small service providers may be acquired by larger carriers and replace our solutions with the buyer's existing billing platform, cease operations due to lack of funding, or terminate their relationship with us due to their financial condition, loss of market share and competitive pricing, 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 business and results of operations would suffer.

Because some of our billing 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 2019, we derived 60% of our revenues from the sale of software and related services to telecommunications service providers. As projects become more complex, the risk for on-time and on-budget implementation increases. Each such contract may include penalties and potential liability for damages arising from 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 customer related reasons such as lack of resources, delay in the build-up of the customer's network infrastructure or deferral in making implementation scope related decisions. Our estimate for the cost includes the effort required to release new versions comprising enhanced functionality, the on-site professional services effort needed to perform migration of data from a customer's existing platform and to develop, test and implement the customizations 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.

From time to time, our billing 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 billing 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.

Risks Relating to our Messaging Business

Although we expect that the acquisitions of Message Mobile and GTX will result in synergies and other benefits to us, we may not realize those benefits because of difficulties related to integration, the achievement of synergies and other challenges.

We entered the mobile messaging business in 2019 with the acquisitions of Message Mobile and GTX. Prior to the completion of the acquisitions, we, Message Mobile and GTX operated independently, and there can be no assurances that our businesses can be combined in a manner that allows for the achievement of substantial benefits. The integration process will require significant time and resources, and we may not be able to manage the process successfully. If we are not able to successfully integrate the businesses of Message Mobile and GTX with ours or pursue our customer and product strategy successfully, the anticipated benefits of the acquisitions may not be realized fully or may take longer than expected to be realized. Further, it is possible that there could be a loss of our pre-acquisition or new key employees and customers, disruption of our ongoing businesses, unexpected issues, higher than expected costs and an overall post-completion process that takes longer than originally anticipated. Specifically, the following issues, among others, must be addressed in combining the operations of Message Mobile and GTX with ours in order to realize the anticipated benefits of the acquisitions so the combined company performs as the parties hope:

- combining the companies' corporate functions;
- combining the businesses of Message Mobile and GTX with our business in a manner that permits us to achieve the synergies anticipated to result from the acquisitions, the failure of which would result in the anticipated benefits of the acquisitions not being realized in the time-frame currently anticipated or at all;

- maintaining existing agreements with customers, distributors, providers, talent and vendors and avoiding delays in entering into new agreements with prospective customers, distributors, providers, talent and vendors;

- determining whether and how to address possible differences in corporate cultures and management philosophies;

- integrating the companies' administrative and information technology infrastructure;

- developing products and technology that allow value to be unlocked in the future;

- evaluating and forecasting the financial impact of the acquisition transactions, including accounting charges; and

- effecting potential actions that may be required in connection with obtaining regulatory approvals.

In addition, at times the attention of certain members of our management and resources may be focused on integration of the businesses of the companies and diverted from day-to-day business operations, which may disrupt our ongoing business and the business of the combined company.

We have incurred, and may continue to incur, significant, non-recurring costs in connection with the acquisition and integration of Message Mobile and GTX, including costs to maintain employee morale and to retain key employees. We cannot ensure that the elimination of duplicative costs or the realization of other efficiencies will offset the transaction and integration costs in the near term or at all.

Our messaging business depends on customers increasing their use of our messaging products, and any loss of customers or decline in their use of our products could materially and adversely affect our business, results of operations and financial condition.

Our ability to grow our mobile messaging business and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with existing messaging customers and to have them increase their usage of our messaging platform. If our customers do not increase their use of our messaging products, then our revenue may decline and our results of operations may be harmed. Messaging customers are charged based on the usage of our products. Most of these customers do not have long-term contractual financial commitments to us and, therefore, they may reduce or cease their use of our products at any time without penalty or termination charges. Messaging customers may terminate or reduce their use of our products for any number of reasons, including if they are not satisfied with our products, the value proposition of our products or our ability to meet their needs and expectations. We cannot accurately predict customers' usage levels, and the loss of customers or reductions in their usage levels of our products may each have a negative impact on our business, results of operations and financial condition. If a significant number of messaging customers cease using, or reduce their usage of our products, it could harm our operations, financial reporting or financial results.

If we are unable to attract new messaging customers in a cost-effective manner, then our business, results of operations and financial condition would be adversely affected.

In order to grow our messaging business, we must continue to attract new customers in a cost-effective manner. We use a variety of marketing channels to promote our messaging products and platform, such as regional customer events and telemarketing campaigns. We will incur marketing expenses before we are able to recognize any revenue that the marketing initiatives may generate, and these expenses may not result in increased revenue or brand awareness. We may make significant expenditures and investments in new marketing campaigns, and we cannot guarantee that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective marketing programs, then our ability to attract new customers could be materially and adversely affected, our marketing expenses could increase substantially and our results of operations may suffer.

If we are unable to increase adoption of our messaging products by enterprises, our business, results of operations and financial condition may be adversely affected.

Our ability to increase the customer base of our messaging business, especially among enterprises, and achieve broader market acceptance of our messaging products will depend, in part, on our ability to effectively organize, focus and train our sales and marketing personnel.

As we seek to increase the adoption of our messaging products by enterprises, we expect to incur higher costs and longer sales cycles. In the enterprise market segment, the decision to adopt our products may require the approval of multiple technical and business decision makers, including security, compliance, procurement, operations and IT. In addition, while enterprise customers may quickly deploy our products on a limited basis before they will commit to deploying our products at scale, they often require extensive education about our products and significant customer support time, engage in protracted pricing negotiations and seek to secure readily available development resources. In addition, sales cycles for enterprises are inherently more complex and less predictable, and some enterprise customers may not use our products enough to generate revenue amounts that justify our cost to acquire such customers. In addition, these complex and resource intensive sales efforts could place additional strain on our product and engineering resources. Further, enterprises, including some of our customers, may choose to develop their own messaging solutions that do not include our products. They also may demand reductions in pricing as their usage of our products increases, which could have an adverse impact on our gross margin. As a result of our limited experience selling and marketing messaging products to enterprises, our efforts to sell to these potential customers may not be successful. If we are unable to increase the messaging revenue that we derive from enterprises, then our business, results of operations and financial condition may be adversely affected.

To deliver our messaging products, we rely on network service providers for our messaging services.

We currently interconnect with network service providers around the world to enable the use by our customers of our messaging products over their networks. We expect that we will continue to rely heavily on network service providers for these services going forward. Our reliance on network service providers has reduced our operating flexibility, ability to make timely service changes and control quality of service. In addition, the fees that we are charged by network service providers may change daily or weekly, while we do not typically change our customers' pricing as rapidly.

Furthermore, many of these network service providers do not have long-term committed contracts with us and may terminate their agreements with us without notice or restriction. If a significant portion of our network service providers stop providing us with access to their infrastructure, fail to provide these services to us on a cost-effective basis, cease operations or otherwise terminate these services, the delay caused by qualifying and switching to other network service providers could be time consuming and costly and could adversely affect our business, results of operations and financial condition. Further, if problems occur with our network service providers, it may cause errors or poor-quality communications with our products, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or poor quality communications on our messaging products, whether caused by our platform or a network service provider, may result in the loss of our existing customers or the delay of adoption of our products by potential customers and may adversely affect our business, results of operations and financial condition.

We may have to lower our prices for messaging products or change our pricing model from time to time.

We charge our customers based on their use of our messaging products. We expect that we may need to change our pricing from time to time. In the past we have sometimes reduced our prices either for individual customers in connection with long-term agreements or for a particular product. One of the challenges to our pricing is that the fees that we pay to network service providers over whose networks we transmit communications can vary daily or weekly and are affected by volume and other factors that may be outside of our control and difficult to predict. This can result in us incurring increased costs that we may be unable or unwilling to pass through to our customers, which could adversely impact our business, results of operations and financial condition.

Further, as competitors introduce new messaging products or services that compete with ours or reduce their prices, we may be unable to attract new customers or retain existing customers based on our historical pricing. As we expand internationally, we also must determine the appropriate price to enable us to compete effectively internationally. Moreover, enterprises, which are a primary focus for our direct sales efforts for our messaging products, may demand substantial price concessions. In addition, if the mix of products sold changes, including for a shift to IP-based products, then we may need to, or choose to, revise our pricing. As a result, in the future we may be required or choose to reduce our prices or change our pricing model, which could adversely affect our business, results of operations and financial condition.

Defects or errors in our messaging products could diminish demand for these products, harm our business and results of operations and subject us to liability.

Our customers use our messaging products for important aspects of their businesses, and any errors, defects or disruptions to our products and any other performance problems with our products could damage our customers' businesses and, in turn, hurt our brand and reputation. We provide regular updates to our messaging products, which may contain undetected errors, failures, vulnerabilities and bugs when first introduced or released. Real or perceived errors, failures or bugs in our products could result in negative publicity, loss of or delay in market acceptance of our messaging platform, loss of competitive position, lower customer retention or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. In addition, we may not carry insurance sufficient to compensate us for any losses that may result from claims arising from defects or disruptions in our products. As a result, our reputation and our brand could be harmed, and our business, results of operations and financial condition may be adversely affected.

We face a risk of litigation resulting from customer misuse of our messaging software to send unauthorized messages in violation of applicable laws.

The actual or perceived improper sending of messages with our messaging software may subject us to potential risks, including liabilities or claims relating to consumer protection laws. For example, the U.S. Telephone Consumer Protection Act of 1991 restricts telemarketing and the use of automatic SMS text messages without proper consent. The scope and interpretation of the laws that are or may be applicable to the delivery of messages are continually evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face direct liability.

In addition, if our customers' use of our messaging products will not adhere to privacy regulations and messaging rules, they and us may be blocked from sending more messages through specific channels and may be fined for such conduct. Our failure to prevent such infringements could have a material adverse effect on our business.

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 messaging revenues is derived from servicing the messaging needs of the existing customer base of our messaging business. Customers of our messaging business may be acquired by other organizations and may replace our solutions with the buyer's existing messaging provider services, cease operations due to lack of funding, or terminate their relationship with us due to their financial condition, loss of market share and competitive pricing, as occurred with customers of Message Mobile and GTX over the years. If one or more customers cease using our messaging products or services due to replacements or any other reason, our business and results of operations would suffer.

System disruptions and failures may result in customer dissatisfaction, customer loss or both, which could materially and adversely affect our reputation and business.

We provide real time messaging services to our customers. The continued and uninterrupted performance of these services for our customers is critical to our success. Customers may become dissatisfied by any service failure that interrupts their business, which could lead them to stop using our messaging services. This could materially and adversely affect our reputation and business.

Changes to regulations or technology vendor rules could materially and adversely affect our business.

We use messaging technologies and products, such as SMS and WhatsApp, to deliver messages from our customers to consumers. Changes in rules and regulations may prevent us from using some services, which may block our ability to grow our services and have a material adverse effect on our business.

<u>Risks Relating to the Market of our Ordinary Shares</u>

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 over the years. 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;
- 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, (i) 75% or more of our gross income is passive income; or (ii) 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. For this determination, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets that produce passive income.

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.

<u>Risks Relating to Our Location in Israel</u>

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 and the regulations promulgated thereunder. Our principal executive offices are located at 2 HaCarmel Street, Yoqneam 20692, 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 2017, 2018 and 2019, the aggregate cash amount of our capital expenditures were $71 thousand , $46 thousand and $52 thousand , 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 communication service providers, including traditional wireline and wireless, voice over IP, or VoIP, broadband IP network operators, wireless internet service providers, or WISPs, 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 (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 truly convergent and it includes our own integrated real-time mediation platform that provides interfaces with IP, Intelligent Networks, or IN, and traditional telecommunication equipment, our own provisioning platform and our own online charging solution (OCS).

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 (APIs) thus enabling fast and seamless integration with other systems and third-party applications. The MIND solution uses standardized best-of-breed object-oriented design concepts and development technologies such as Java, Angular, Spring, XML Web-services, REST APIs, and Micro-Services. It is JEE based and is powered by a commercial application server.

MINDBill can be installed on-premises or in a cloud environment.

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 analytics solutions and call accounting systems, which we call PhonEX ONE. PhonEX ONE is used by organizations around the world for call accounting, telecom expense management, traffic analysis and fraud detection. PhonEX ONE delivers a full-management solution including real-time and historical data dashboards, providing in-depth analysis of every session type specific to unified communications as well as traditional/VoIP PBXs, for monitoring and optimizing telephony communication networks and unified communications platforms. The flexible and scalable architecture of PhonEX ONE meets the needs of large enterprises, supporting an unlimited number of extensions, users and sites, it provides full functionality through a web browser, based on Microsoft SQL database and the advanced ASP.NET technology.

In addition, from 2019, following the acquisitions of Message Mobile and GTX, we offer enterprise messaging services, wholesale messaging services and mobile payment services.

Our enterprise mobile messaging platform enables enterprises to easily communicate with clients and partners via text / SMS, instant messaging or voice. The software may be integrated with the customers' CRM or marketing automation platforms. The messaging services are used by businesses for direct communication with their customers for several reasons, such as customer care, notifications, appointments, OTPs (one-time passwords) and marketing.

Our wholesale mobile messaging business offers wholesale messaging services and messaging termination services on our software platform. The software is designed to provide advanced routing functionality enabling us to offer competitive wholesale and termination prices to other aggregators and service providers. The payment for the wholesale and termination services is based on volume (number of messages) and is being calculated and paid every month. In most cases, there are long-term contracts with other aggregators for the wholesale and termination services, but the prices are being negotiated ad-hoc based on demand.

Our mobile payment services to businesses are offered over a proprietary software platform. These services allow consumers (end users) to pay for their purchases via their mobile phone bill. The billing process is operated by us and is activated by the consumers either via a mobile message transaction (SMS) or via an online process (online billing).

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.

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 Messaging

The global messaging market, via SMS and IP messaging, is growing, with new use cases added every year and enterprises moving their operation and marketing activities from traditional mail and email channels to mobile messaging technologies. Application to person, or A2P, messaging continues to grow as the most effective way for businesses to engage with consumers and is also believed to be the most trusted form of communication. Businesses across the world increasingly recognize that the mobile phone offers an unmatched means to engage with their consumers in a way that is attractive, direct and personalized. Cloud communications make it possible for businesses to leverage this opportunity in a way that is scalable and cost-efficient. Our Communications Platform as a Service, or CPaaS, provides simple APIs with well-defined ways to easily integrate messaging into the enterprise’s legacy systems (such as CRM) or our own applications. Our platform helps our customers to reduce costly in-house development and the need to negotiate complex commercial agreements with service providers.

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 time it enables 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, to increase our presence in mobile messaging and to remain as profitable as possible in an increasingly competitive environment.

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; and

- *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.

The key elements of our strategy to increase our presence in mobile messaging include:

- *Expand through acquisitions.* We believe that A2P messaging needs are increasing worldwide, be it in traditional text (SMS) or in IP messaging. This market is consolidating, as most of our competitors are very active and successful in executing their acquisition strategy. We believe that there are many small service providers that may be willing to be acquired. We intend to continue targeting potential acquisitions that could benefit our growth;

- *Provide multi-channel messaging solutions.* We intend to continue to develop our platform to support multiple messaging channels such as SMS, WhatsApp, RCS, Telegram and others in order to provide to our customers multiple messaging options for personal mobile communication; and

- *Partner with vendors of enterprise business support systems.* We believe that enterprises are looking for pre-integrated holistic solutions, and we intend to continue to integrate our messaging platform with other enterprise software, such as CRM and Marketing Automation, in order to provide our messaging services as part of their solution.

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 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 application server programming interface (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, field service software, and address validation systems. POS main modules:

    - *Sales Module* – a PC and Tablet-based 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.

- *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

- *Monitoring.* MINDBill includes a monitoring tool that enables 24x7 operational control, proactive monitoring and historical analysis of the behavior and well-being of our platform and the resources it is using, such as database and operating system. This tool can forward monitoring information to external network managing systems using simple network management protocol (SNMP).

Enterprise Software

Our enterprise product, known as PhonEX ONE, is used by corporations for telecom expense management, call accounting, traffic analysis and fraud detection. PhonEX ONE is a call management system that collects, records and stores all call information and enables:

- to generate near real-time reports on the enterprise's communication use;

- monitor quality of experience;
- track agent's performance in contact centers;
- produce sophisticated reports and graphics for easy and effective analysis of call activity; and
- allocate telephone expenses to specific departments, individual clients or projects.

These functions allow organizations to more effectively manage their telecommunications resources. The system is easy to install and configure, user-friendly and compatible with any switchboard system, traditional or IP. The system performs call management and traffic analysis as well as fraud management in the same manner as our billing solutions. In addition, the system is 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 can be installed on-premises or in a cloud environment.

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;
- *Quality of Service (QoS) Monitoring.* PhonEX ONE enables quantification of the user's perceived audio call quality so the organization can ensure the relevant communication quality of experience of its contact centers, calls between branches, out-going calls, etc.;
- *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.

Mobile Messaging

Following the acquisition of Message Mobile, we offer messaging and payment solutions to enterprise customers. We plan to expand the range of services we offer and the technological vehicles used to deliver them to our customers, and to increase the rate of new customer acquisition by facilitating self-registration and on-boarding for new customers, and by offering competitive pricing and quality services.

Professional Services

We provide professional services to our customers, consisting primarily of project management, customization, installations, customer support, training and maintenance services. 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 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 utilize a business processes workflow environment that facilitates the implementation of tailored and automated business processes to fit our customers' unique business rules.

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, sales, customer care and billing administration. In addition, it includes Web service and REST 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.

Our messaging and payment services are based on our modern, cloud-based messaging platform developed by Message Mobile. All types of messages and payments are served by this single technology platform.

Sales and Marketing

Sales

Billing and Customer Care Solutions

We conduct our sales and marketing activities primarily directly.

Enterprise Software

We conduct our sales and marketing activities primarily directly, 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.

Messaging

We conduct our sales and marketing activities primarily directly.

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 type of revenue and geographic region.

	Years Ended December 31,		
	2017	**2018**	**2019**
	(dollars in thousands)		
The Americas (total)	$ 12,995	$ 13,130	$ 12,030
Sale of Licenses	962	1,032	683
Services	12,033	12,098	11,347
Asia Pacific and Africa (total)	909	793	523
Sale of Licenses	202	212	168
Services	707	581	355
Europe (total)	3,181	3,328	8,839
Sale of Licenses	920	709	829
Services	2,261	2,619	8,010
Israel (total)	977	884	1,272
Sale of Licenses	357	198	618
Services	620	686	654
Total	18,062	18,135	22,664
Sale of Licenses	2,441	2,151	2,298

Services	15,621	15,984	20,366

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, Belize Telemedia and Docomo Pacific;
- Wireless telephony providers, LTE operators and MVNO's, such as KDDI America, Inc. and Chat Mobility;
- Cable providers that also offer voice services, such as EastLink; and
- Mobile Virtual Network Enablers (MVNEs), such as Pelephone Communications Ltd.

Enterprise Software

Our enterprise software products have been installed for a large base of customers worldwide, including international banking firms, global technology leaders, government agencies and other thousands of small to very large organizations.

Messaging and Payment Services

Our messaging and payment solutions are used by more than 100 enterprise customers, mostly in Germany.

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, CSG and Optiva.

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. 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.

Messaging and Payment

Our competition in the messaging and payment market comes from a few international companies, such as Sinch AB and CM.com, and from many small, local service providers in Germany. Our competitive advantage is based on a combination of technology and service – our ability and will to tailor our services to the needs of enterprise customers.

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., a wholly owned subsidiary, incorporated in the State of Delaware;
- MIND Software SRL., a wholly owned subsidiary of MIND Software Limited, incorporated in Romania.
- MIND CTI GmbH, a wholly owned subsidiary, incorporated in Germany;
- Message Mobile GmbH, a wholly owned subsidiary of MIND CTI GmbH, incorporated in Germany; and
- GTX GmbH, a wholly owned subsidiary of MIND CTI GmbH, incorporated in Germany.

In 2017, we sold Dirot Comp SRL, a wholly owned subsidiary of ours incorporated in Romania, for approximately $1.2 million, and we recorded a net one-time capital gain of $0.9 million. We sold this subsidiary because the sole asset owned by it was a plot of land in Romania on which we had planned to build our own office building, and we came to the conclusion that it would be preferable to rent office space instead.

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 15,550 square feet in Iasi, Romania and approximately 7,400 square feet in Suceava, Romania. The offices in Iasi and Suceava are used primarily for software development and for customer support.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements and the related notes included elsewhere in this annual report. The following discussion contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in certain circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified under “Cautionary Note Regarding Forward-Looking Statements” and under “Risk Factors” 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. Following the acquisitions completed during 2019 (see below), we, together with our subsidiaries, also provide enterprise messaging, communication and payment solutions.

On March 25, 2019, we acquired Message Mobile GmbH, a leading provider of enterprise messaging, communication and payment solutions, based in Germany, with more than 15 years’ experience in the mobile industry. Its messaging platform enables enterprises to easily communicate with clients and partners via text / SMS, voice and instant messaging services like WhatsApp, Facebook Messenger and Telegram. Message Mobile also offers mobile payment solutions that use phone bill charging for a wide range of applications, such as mobile parking payment.

On September 25, 2019, we acquired GTX GmbH, a company based in Germany offering global SMS services for B-2-B customers, providing business partners a robust and easy-to-use system to send SMS messages to end-users at the best possible quality and attractive pricing, acting as a one-stop-platform for clients aiming to extend their messaging activities on different channels, e.g., WhatsApp, Chatbot on Messenger and Rich Communication Services (RCS).

In 2019, 60% of our total revenues were derived from providing our billing and customer care software, 27% of our total revenues were derived from enterprise messaging and payment solutions and 13% of our total revenues were derived from providing our enterprise software. In 2019, license fees represented 10% of our total revenues and services represented 90% of our total revenues.

In 2019, no customer accounted for more than 10% of our total revenues. In 2018, two customers accounted for approximately 15% and 12% of our total revenues. In 2017, two customers accounted for approximately 16% and 12% of our total revenues. We expect to continue to derive sizeable revenues from a small number of changing customers.

Consolidation in the telecom markets was not favorable to us in the last years, and we closed fewer deals than in previous years. Accordingly, we expect challenges in maintaining our profitability levels in the near term.

Our dividend policy is to declare a dividend distribution once per year, in the amount equal to our EBITDA for the preceding year plus financial income (expenses) minus taxes on income, subject to specific board approval and applicable law. Since 2003, our cash dividends amount to approximately $4.78 per share to (including the dividend declared in 2020 in respect of 2019). The amount per share that we distributed in 2018 and 2019 was $0.30 and $0.26, respectively, and a dividend of $0.24 per share was declared in March 2020. The board of directors' decision to approve the annual distribution is based, among other factors, on our cash position at that time, potential acquisitions and future cash needs. Our board of directors may decide to discontinue the dividend distribution in whole or in part at any time.

In previous reporting periods (until the year ended on December 31, 2018), we operated in one reportable segment (billing and related services). Following the acquisition of Message Mobile on March 25, 2019 (see above), management determined that we operate since that date in two reportable segments, the second one being messaging.

Revenues. In the billing and related services segment, we are paid license fees by our customers for the right to use our products, based on (i) traffic volume, which is measured by factors such as number of subscribers, and (ii) 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. We also provide Agile development teams that perform solution enhancements, each dedicated for a period of time to a specific customer, for a fixed cost per person per month. 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).

In the messaging segment, revenues are derived mainly from usage-based fees earned from customers using our messaging software platform. Usage-based fees are recognized as revenues in the period in which the usage occurs.

We also offer payment solutions where our customer can enable their customers (the end users) to pay for goods or services by charging their mobile phone account. For these services we are entitled to a share of the processed transactions/payment. Consequently, for the payment solutions transactions we recognize revenues on a “net basis” and only our share of the processed transactions are recognized as revenues.

We provide a revenue breakdown for our billing and customer care software, our messaging and payment solutions 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. In the billing and related services segment, 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.

In the messaging segment, the cost of revenues consists primarily of fees paid to network providers. Our arrangements with the network service providers require us to pay fees based on the volume of text messages sent, as well as telephone numbers acquired by us to service our customers.

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 change in value and realization of marketable securities, gains and losses from the conversion of monetary balance sheet items denominated in non-dollar currencies into 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 the years ended December 31, 2018 and 2019, including the percentage data in the following table, is based upon our statements of operations contained in our consolidated financial statements for those years, and the related notes thereto, included in Item 18:

	Years Ended December 31,	
	2018	**2019**
	(% of revenues)	
Revenues	100.0%	100.0%
Cost of revenues	33.9	44.7
Gross profit	66.1	55.3
Research and development expenses	20.7	18.5
Selling, general and administrative expenses:		
Selling and marketing	7.0	5.4
General and administrative	8.9	9.2
Operating income	29.5	22.2
Gain on disposal of a subsidiary…………………	-	-
Financial income (expenses), net	1.2	2.1
Income before taxes on income	30.7	24.3
Income tax expense ……….	2.4	2.0
Net income	28.3 %	22.3%

Comparison of the Year Ended December 31, 2019 to the Year Ended December 31, 2018

Revenues

	Years Ended December 31, 2018	2019	% Change
	(dollars in millions)		
License sales	$ 2.1	$ 2.3	6.8
Professional services	16.0	20.4	27.4
Total revenues	$18.1	$22.7	25.0

Total revenues increased from $18.1 million in 2018 to $22.7 million in 2019, with the increase attributed to the acquisition of Message Mobile in March 2019 and GTX in September 2019, which generated revenues of $6.1 million during 2019, offset by a decrease in revenues from our existing lines of business.

Revenues from our billing and customer care solutions for service providers decreased from $14.9 million in 2018 to $13.6 million in 2019. The decrease was primarily due to some customers under maintenance, or managed services, that decided to exit their business and fewer new customers, each of which provided lower initial proceeds.

Revenues from our enterprise products decreased from $3.2 million in 2018 to $3.0 million in 2019. The decrease was primarily due to the trend of market decrease and we expect this trend to continue.

Revenues from licenses increased from $2.1 million in 2018 to $2.3 million in 2019. The increase was primarily attributed to an increase in the number of subscribers of our existing customers. The professional services significantly increased from $16.0 million in 2018 to $20.4 million in 2019, primarily as a result of the acquisition of Message Mobile in March 2019 and GTX in September 2019, which generated revenues of $6.1 million in 2019.

The following table presents the geographic distribution of our revenues:

	Years Ended December 31,	
	2018	2019
	(% of revenues)	
The Americas	72.4	53.1
Asia Pacific and Africa	4.4	2.3
Europe	18.3	39.0
Israel	4.9	5.6
Total	100%	100%

Our revenues in the Americas decreased from $13.1 million in 2018 to $12.0 million in 2019. The decrease was primarily due to some customers under maintenance, or managed services agreements, that decided to terminate their contracts with us and to signing fewer new customers, each of which provided lower initial proceeds.

Our revenues in Europe significantly increased from $3.3 million in 2018 to $8.8 million in 2019. The increase was attributed to the inclusion of Message Mobile's results of operations commencing from the second quarter of 2019 and GTX's results of operations commencing from the fourth quarter of 2019, which together generated total revenues of $6.1 million in 2019, all in Europe, offset by lower revenues from existing customers in Europe. The percentage of total revenues in Europe significantly increased from 18.3% in 2018 to 39.0% in 2019, due to the same reason. Our revenues in Israel increased from $0.9 million in 2018 to $1.3 million in 2019, mainly due to the deployment of the new version of MINDBill to an existing customer in Israel, and as a percentage of total revenues increased from 4.9% in 2018 to 5.6% in 2019.

Cost of Revenues

	Years Ended December 31,		% Change
	2018	2019	
	(dollars in millions)		
Cost of sales of license	$0.08	$0.14	75.0
Cost of services	6.07	9.99	64.6
Total cost of revenues	$6.15	$10.13	64.7

Total cost of revenues in 2019 increased by $4.0 million, compared with 2018, mainly due to the inclusion of Message Mobile's results of operations commencing from the second quarter of 2019 and GTX's results of operations commencing from the fourth quarter of 2019, which generated cost of revenues of $4.6 million in 2019. The cost of licenses increased by $0.6 million as a result of the increase of licenses revenues.

Gross profit as a percentage of total revenues decreased from 66.1% in 2018 to 55.3% in 2019, mainly due to the inclusion of Message Mobile's results of operations commencing from the second quarter of 2019 and GTX's results of operations commencing from the fourth quarter of 2019.

Operating Expenses

	Years Ended December 31,		% Change
	2018	2019	
	(dollars in millions)		
Research and development	$3.7	$4.2	11.7
Selling and marketing	1.3	1.2	(3.4)
General and administrative	1.6	2.1	28.5
Total operating expenses	$6.6	$7.5	13.0

Research and Development. The increase in our research and development expenses by 11.7% in 2019, compared to 2018, was primarily due to the inclusion of Message Mobile's results of operations commencing from the second quarter of 2019 and GTX's results of operations commencing from the fourth quarter of 2019. Research and development expenses as a percentage of total revenues decreased from 20.7% in 2018 to 18.5% in 2019, primarily due to the increase in total revenues attributed to the acquisitions of Message Mobile and GTX and the fact that research and development in the messaging segment represents a lower percentage of total revenues in comparison to our billing segment.

Selling and Marketing Expenses. Selling and marketing expenses slightly decreased from $1.3 million in 2018 to $1.2 million in 2019, mainly attributed to the decrease in sales commission expenses resulting from the lower revenues in our billing segment. Selling and marketing expenses as a percentage of total revenues decreased from 7.0% in 2018 to 5.4 % in 2019, mainly due to the above-mentioned increase in total revenues, while the selling and marketing expenses remained substantially the same.

General and Administrative Expenses. General and administrative expenses increased from $1.6 million in 2018 to $2.1 million in 2019, mainly due to the inclusion of Message Mobile's results of operations commencing from the second quarter of 2019 and GTX's results of operations commencing from the fourth quarter of 2019, which generated general and administrative expenses of $0.2 million in 2019 and also from the cost of professional services and amortization of intangible assets as a result of these acquisitions. General and administrative expenses as a percentage of revenues slightly increased from 8.9% in 2018 to 9.2% in 2019 due to the increase in expenses, offset by the increase in total revenues.

Impairment of Goodwill. No impairment of goodwill was required following the impairment test performed during 2018 and 2019.

Financial Income (Expenses), net. In 2019, financial income consisted of interest income on short-term bank deposits and marketable securities in the aggregate amount of $408 thousand and gains from currency exchange rate fluctuations in the aggregate amount of $89 thousand, offset by bank charges in the aggregate amount of $14 thousand. In 2018, financial income consisted of interest income incurred mainly on short-term bank deposits and marketable and available-for-sale securities of $340 thousand , offset by currency exchange rate fluctuations in the aggregate amount of $107 thousand and bank charges in the aggregate amount of $11 thousand.

Income Tax Expense. Income tax expenses are comprised of current and deferred taxes. 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 2019, our income tax expenses in the amount of $458 thousand included mainly taxes on income in Israel in the amount of $316 thousand and a decrease in deferred taxes in the amount of $2 thousand. In 2018, our income tax expenses in the amount of $438 thousand included mainly taxes on income in Israel in the amount of $396 thousand and a decrease in deferred taxes in the amount of $2 taxes.

For a comparison of the year ended December 31, 2018 to the year ended December 31, 2017, please refer to Item 5 in our annual report on Form 20-F, filed with the SEC on March 21, 2019.

Critical Accounting Policies

Revenue Recognition. The majority of our revenues consist of revenues generated from software licensing, sales of professional services, including integration and implementation, maintenance services, managed services and mobile messaging services.

We adopted ASC 606, "Revenue from Contracts with Customers", on January 1, 2018, using the modified retrospective approach for all contracts not completed as of the date of adoption. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with ASC 605, "Revenue Recognition". ASC 606 requires an entity to evaluate revenue recognition by identifying a contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation. We apply the provisions of ASC 606, "Revenue from Contracts with Customers", as follows:

i) Licenses: Revenue from perpetual licenses is classified as software license revenue. Software license revenue is recognized up front upon delivery of the licensed product and the utility that enables the customer to access authorization keys, provided that a signed contract has been received.

ii) Services: Revenue from training, support and other services is recognized as the services are performed. For contracts in which the service consists of a single performance obligation, such as providing a training class to a customer, we recognize revenue upon completion of the performance obligation. For service contracts that are longer in duration and often include multiple performance obligations (for example, both training and consulting), we measure the progress toward completion of the obligations and recognizes revenue accordingly. In measuring progress towards the completion of performance obligations, we typically utilize output-based estimates for services with contractual billing arrangements that are not based on time and materials, and estimates output based on the total tasks completed as compared to the total tasks required for each work contract. Input-based estimates are utilized for services that involve general consultations with contractual billing arrangements based on time and materials, utilizing direct labor as the input measure.

Contracts may include a combination of our various products and services offerings, software, consulting services, and maintenance. For contracts with multiple performance obligations, we account for individual performance obligations separately if they are distinct. Significant judgment may be required to identify distinct obligations within a contract. The total transaction price is allocated to the individual performance obligations based on the ratio of the relative established standalone selling prices (SSP), or our best estimate of SSP, of each distinct product or service in the contract. Revenue is then recognized for each distinct performance obligation.

*iii) Managed Service*s: Revenues from managed services include a monthly fee for services and a right to access our software and are recorded as service revenues. We do not provide the customer with the contractual right to take possession of the software at any time during the period under these contracts. The monthly fee is based mainly on the number of subscribers or customer's business volume and the contracts include a minimum monthly charge. These revenues are recognized on a monthly basis when those services are satisfied.

iv) Mobile Messaging Transactions: Certain of our subsidiaries provide mobile messaging services via text messages (SMS) and IP (Internet Protocol) messaging channels. Revenues from mobile messaging services are recognized when the messaging service has been rendered, i.e., the messages are delivered to recipient. The revenue amount is based on the price specified in the contract, net of discounts.

v*) Mobile Payments Services:* One of our subsidiaries offers payment solutions where the customer can enable their consumers (the end users) to pay for goods and services by charging their mobile phone account. For these services we are entitled to a share of the processed transaction/ payment. Consequently, only our share of the processed transactions is recognized as revenues.

Impairment of Goodwill. Goodwill represents the excess of the aggregate purchase price paid over the fair value of the net assets acquired in our business combinations. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Events or changes in circumstances that could trigger an impairment review include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, additional impairment testing is not required. However, if we conclude otherwise, we are required to perform the first step of a two-step impairment test. Alternatively, we may elect to proceed directly to the first step of the two-step impairment test and bypass the qualitative assessment. The first step of the impairment test involves comparing the estimated fair value of a reporting unit with its book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, the carrying amount of the goodwill is compared to its implied fair value. The estimate of implied fair value of goodwill may require valuations of certain internally generated and unrecognized intangible assets. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

In previous reporting periods (until the year ended on December 31, 2018), we operated in one reportable segment. Consequently, goodwill was evaluated for impairment based on an evaluation of the fair value of our company as a whole. Following the acquisition completed on March 25, 2019, management determined that we operate in two reportable segments. Therefore, for 2019, goodwill was tested for impairment at the reporting unit level.

We perform annual testing for impairment of the goodwill during the third quarter of each year. As of September 30, 2019, the fair value of the reporting unit exceeded its carrying value.

Recently Issued Accounting Pronouncements

Effective January 1, 2019, we adopted ASC 842, “Leases”. In accordance with ASC 842, we first determine if an arrangement contains a lease and the classification of that lease, if applicable, at inception. ASC 842 requires the recognition of right-of-use assets and lease liabilities for our operating leases. We adopted ASC 842 using a modified retrospective transition method. Consequently, periods prior to January 1, 2019 were not restated.

We elected to adopt the package of practical expedients permitted under ASC 842. Therefore, we are not required to reassess: (i) whether any expired or existing contracts are or contain leases; (ii) the classification of any expired or existing leases; and (iii) initial direct costs for any existing leases.

As a result of adopting ASC 842, we recognized right-of-use assets and corresponding liabilities on our consolidated balance sheets, with no material impact to our consolidated statements of operations or consolidated statements of cash flows. Recently issued accounting pronouncements are described in Note 1(Significant Accounting Policies) and Note 4 (Leases) to our consolidated financial statements included in Item 18.

Our Functional Currency

The currency of the primary economic environment in which we operate is the U.S. dollar (“dollar”). In 2019, the majority of our revenues were denominated in dollars. In addition, the majority of our cash reserves and investments are denominated in dollars. Thus, the functional currency of the Company and certain subsidiaries is the dollar.

The Company and certain subsidiaries’ transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with Accounting Standards Codification (“ASC”) 830, “Foreign Currency Matters”. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

For those subsidiaries whose functional currency has been determined to be a non-dollar currency, assets and liabilities are translated at year-end exchange rates, and statement of operation's items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

Impact of Foreign Currency Fluctuations on Results of Operations

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

The weakening of the dollar in global markets will have a negative effect on our profitability as we receive payment in 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 dollar has the effect of reducing dollar amount of any of our expenses or liabilities which are payable in NIS, unless these expenses or payables are linked to the dollar. This devaluation also has the effect of decreasing the dollar value of any asset, which consists of NIS or receivables payable in NIS, unless the receivables are linked to the dollar.

Any increase in the value of the NIS and/or Euro in relation to the dollar has the effect of increasing the dollar value of our expenses. Because exchange rates between the NIS and Euro to the 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, 2019, we had $6.5 million in cash and cash equivalents, and our working capital was $12.8 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 denominated in dollars.

Net Cash Provided by Operating Activities. Net cash provided by operating activities in 2019 was $6.7 million, attributable to our net income of $5.1 million, non-cash related items, net, in the amount of $0.3 million, a net increase in operating assets and liabilities items in the amount of $1.3 million. Net cash provided by operating activities in 2018 was $4.5 million, attributable to our net income of $5.1 million, non-cash related items, net, in the amount of $0.5 million, a net decrease in operating assets and liabilities items in the amount of $1.1 million.

The increase in net cash provided by operating activities of $2.2 million from 2018 to 2019 reflects mainly an increase of $1.3 million in operating assets and liabilities in 2019, compared with a decrease of $1.1 million in 2018.

Net Operating Working Capital

As of December 31, 2019, net operating working capital was $12.8 million, compared with $15.3 million as of December 31, 2018. The decrease of $2.5 million is mainly due to a decrease in cash and short-term investments used for the acquisitions of Message Mobile and GTX.

Cash Deposits

As of December 31, 2019, we had approximately $ 6.8 million in bank deposits with maturities of between three and twelve months.

Marketable Securities

As of December 31, 2019, we held marketable securities of $2.0 million.

Net Cash Provided by/Used in Investing Activities. In 2019, we used cash of approximately $2.3 million for the acquisition of subsidiaries, we decreased our investments in short-term bank deposits by $2.0 million, and we decreased our investments in marketable securities by $2.5 million. In 2018, we increased our investments in short-term bank deposits by $2.6 million, and we decreased our investments in marketable securities by $1.8 million.

Net Cash Used in Financing Activities. In 2019, our financing activities used $5.1 million due to a cash dividend of $5.1 million. In 2018, our financing activities used $5.76 million due to a cash dividend of $5.8 million, offset by $0.04 million in proceeds from the exercise of employee stock options.

Capital Expenditures. The aggregate cash amount of our capital expenditures was $52 thousand and $ 46 thousand in 2019 and 2018, 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 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 $ 4.78 per share to our shareholders, including $0.30 per share in 2018, $0.26 per share in March 2019, and we declared a dividend of $0.24 per share in March 2020. 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 $4.2 million (or 18.5% of total revenues) in 2019.and $3.7 million (or 20.7% of total revenues) in 2018. The increase in 2019 was mainly due to the inclusion of Message Mobile's results of operations commencing from the second quarter of 2019 and GTX's results of operations commencing from the fourth quarter of 2019. Our engineering department comprised approximately 108 employees as of December 31, 2019.

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 replacing multiple obsolete products 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 rapidly, to be innovative in creating new product offers and to optimize business processes for maximum efficiency. Many service providers seek solutions that are implemented upon a native cloud architecture. However, we have not developed native cloud-based solutions, and this has harmed our competitive position.

The telecommunication market is undergoing consolidation and intensifying competition, and we have lost customers as a result of their exiting their business or consolidating their platform. Many operators that remain have very limited budgets. We expect that these trends will negatively impact our revenues, and more so our profitability, in 2020.

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. SaaS deals typically generate lower initial proceeds than license deals, which has adversely impacted our revenues. We expect this trend to continue.

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.

With increasing adoption, the trend we expect in the messaging business is companies turning to Application to Person (A2P) messaging to reach and engage with their target audience in a reliable, fast and secure way. Essentially, A2P messaging allows an application to send a message (typically SMS or IP Messaging). Examples of these types of messages include bank alerts, shipping notifications from online stores, appointment reminders, promotional and loyalty program notifications and two-factor authentication one-time passcodes for account security.

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

	Payment due by period ($ in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Operating Lease Obligations	$1,368	$312	$702	$289	$65

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	62	President and Chief Executive Officer, Director
Shoham Shitrit	40	Chief Financial Officer
Gilad Parness	51	Vice President, Enterprise Solutions
Oren Tanhum	49	Vice President, Professional Services
Shoval Cohen Nissan	45	Vice President, Information Technology
Rani Ron	48	Vice President, Customer Solutions and Innovation
Liviu Serea	65	General Manager, MIND Romania
Danny Engle	51	Vice President, Sales for North America
Mihail Rotenberg	68	Chairman of the Board of Directors
Meir Nissensohn	76	Director
Joseph Tenne	64	Director

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

Monica Iancu. Ms. 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. Ms. Iancu holds a B.Sc. degree in Computer Science and a Master's degree in Telecommunications (with expertise in Voice and Data Integration over the Ethernet) from the Technion, Israel Institute of Technology.

Shoham Shitrit. Mr. Shitrit joined MIND in June 2019, bringing over ten years of experience in accounting and financial management in public companies. Before joining MIND, Shoham served as Company Controller of Elbit Systems Ltd. (NASDAQ: ESLT). Prior to that, he served for four years as Controller of Lumenis Ltd. (NASDAQ: LMNS). Prior thereto, Mr. Shitrit served for three years as a senior auditor at Ernst & Young (Israel). Mr. Shitrit holds a B.A. degree in Accounting and Economics from Bar- Ilan University and he is a Certified Public Accountant in Israel.

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

Oren Tanhum. Mr. Tanhum has served as our Vice President of Professional Services since 2016. He joined MIND in July 1997 as a software engineer and was involved in the development of all versions of our billing platform. Throughout his almost 20 years with us, he has been promoted in the R&D organization, filling leadership roles at various levels. Mr. Tanhum holds a B.A. degree in Mathematics and Computer Science from Haifa University.

Shoval Cohen Nissan. Mr. Cohen Nissan has served as our IT Manager since December 1998 and was promoted to Vice President of IT in 2016. 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.

Rani Ron. Mr. Ron has served as our Vice President, Customer Solutions and Innovation since July 2019. He joined MIND in 1999 as a product manager and was promoted in 2004 to Product Management Group Leader and in 2006 to Director of Product Management. From 1996 to 1999, Mr. Ron worked as a software engineer at Intel Development Center in Haifa, Israel. He holds a B.Sc. in Computer Science from the Technion, Israel Institute of Technology.

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 has served as the Vice President of North American Sales for MIND Software, Inc. (formerly Sentori, Inc.) since 2005. Mr. Engle joined Sentori in 2003 as Director of Sales, and we acquired Sentori in 2005. 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.

Mihail Rotenberg. Mr. Rotenberg has served as an independent 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 CEO 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.

Meir Nissensohn. Mr. Nissensohn has served as an independent 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 and serves as a director at several companies, including O.R.T. Technologies (TASE: ORTC) and Top Ramdor Systems (TASE: TOPS). Mr. Nissensohn holds a B.Sc. degree in Industrial Engineering from the Technion, Israeli Institute of Technology, and a post graduate degree in Business Administration (Finance) and an M.B.A. degree, both from Tel Aviv University.

Joseph Tenne. Mr. Tenne has served as an independent director of our company since August 2014. Since May 2017, Mr. Tenne served as a financial consultant to Itamar Medical Ltd. (NASDAQ and TASE: ITMR). Mr. Tenne serves as a director at AudioCodes Ltd., at OPC Energy Ltd., at Sapir Corp Ltd. and at Ratio Oil Explorations (Finance) Ltd. From 2014 to 2017, Mr. Tenne served as the CFO and VP Finance of Itamar Medical Ltd. From 2005 to 2013, Mr. Tenne served as the CFO of Ormat Technologies, Inc. (NYSE and TASE: ORA). From 1997 until 2003, Mr. Tenne was a partner in Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited (“PwC Israel”).

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 2019 was $1.9 million, including $115,215 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 2019, we granted to our executive officers under our option plans options to purchase 36,000 ordinary shares at exercise price of $0.003 per share. All these options expire in 2024.

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, 2019. 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 (1)	Equity-Based Compensation (2)	All Other Compensation(3)	Total ($)
Monica Iancu	President and Chief Executive Officer	$240,000	$240,000		$41,974	$521,974
Shoham Shitrit	Chief Financial Officer (starting June 2019)	$47,921		$29,475	$18,166	$95,562
Danny Engle	Vice President of Sales, North America	$130,050	$293,827		$4,800	$428,677
Gilad Parness	Vice President, Enterprise Solutions	$95,899	$24,780		$36,125	$156,804
Shoval Cohen Nisaan	Vice President, Information Technology	$93,768	$24,807		$36,014	$154,589

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(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.

(3) 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 June 24, 2013, at our 2013 annual general meeting of shareholders, our shareholders approved a new compensation policy for directors and officers. In accordance with the Companies Law, the compensation terms of office holders of public companies are required to be determined in accordance with a compensation policy that is reviewed and approved at least one every three years. The compensation policy for directors and officers was updated and re-approved by our shareholders at our 2016, 2017, 2018 and 2019 annual general meetings.

On May 4, 2017, our board of directors resolved that each of our external directors will be entitled to receive an annual fee of $13,200 and a participation fee of $680 per meeting. On August 9, 2017, payment in the same amounts to each of our non-executive directors was approved by our shareholders. At the meeting our shareholders also approved that the remuneration of those of our external directors who our Board classifies as "expert external directors" (as such term is defined in the Israeli Companies Law) will be 20% more than the remuneration of non-expert external directors.

C. Board Practices

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 2019, Class II in 2020 and Class III in 2021. Monica Iancu is a member of Class I, Mihail Rotenberg and Joseph Tenne are members of Class II and Meir Nissensohn 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.

Pursuant to regulations that took effect in April 2016, a Nasdaq-listed company that does not have a controlling shareholder is entitled to opt out of the provisions of the Companies Law requiring at least two external directors and certain related requirements, so long as the company complies with the SEC regulations and Nasdaq listing rules regarding independent directors and the composition of the audit and compensation committees. In May 2016, our board of directors decided to adopt this relief, subject to the shareholder approval of related amendments to our articles of association, which occurred in August 2016.

Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting experience, as defined in the regulations, which our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require one director with the requisite financial and accounting expertise.

Audit Committee

Under the Companies Law, our board of directors is required to appoint an audit committee, comprised of at least three directors. The members of the audit committee must satisfy certain independence standards under the Companies Law. Our audit committee consists of Mr. Joseph Tenne (Chairman of the audit committee), Mr. Mihail Rotenberg and Mr. Meir Nissensohn.

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.

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.

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, among other things, whether the company’s actions comply with the law and orderly business procedure. The internal auditor must satisfy certain independence standards. Ms. Dana Gottesman-Erlich, C.P.A., partner of the accounting firm of BDO 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. For this purpose, 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 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 31,		
	2017	**2018**	**2019**
Approximate numbers of employees by geographic location			
Israel	41	34	25
Romania	197	185	171
United States	2	2	2
Germany	-	-	16
Total workforce	240	221	214
Approximate numbers of employees by category of activity			
General and administration	19	17	18
Research and development	151	144	138
Professional services and customer support	62	54	46
Sales and marketing	8	6	12
Total workforce	240	221	214

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 6% or 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 19.5% 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 6.0% of his or her base salary and we contribute 14.8% (and such contributions include contributions towards the severance component). Each employee who agrees to participate in the Pension Fund contributes 6.0% or 7.0% of his or her base salary and we contribute 14.8% 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 Education 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 Labor, Social Affairs and Social Services, 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 March 1, 2020, Monica Iancu beneficially owned 3,316,265, or 16.67% 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. Our most recent 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.

As of March 1, 2020, options to purchase 352,000 ordinary shares were outstanding and options for 2,107,290 ordinary shares had been exercised. The options vest over four years, primarily commencing on the date of grant. Generally, options not previously exercised will expire five 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 and held by a trustee for two years 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.

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 March 1, 2020, Ms. Iancu had sold 537,735 ordinary shares under the plan. The plan expired in September 2019.

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 March 1, 2020, unless otherwise specified, by each person who is known to own beneficially 5% or more of the outstanding ordinary shares.

Name of Beneficial Owners	Total Shares Beneficially Owned	Percentage of Ordinary Shares [1]
Monica Iancu	3,316,265[2]	16.67%
Invesco Ltd. and affiliates	1,200,000[3]	6.03%
Morgan Stanley and affiliates	1,154,774[4]	5.80%

(1) Based on 19,896,326 ordinary shares outstanding on March 1, 2020.
(2) Based on a Schedule 13G/A filed with the SEC on March 5, 2015.
(3) Based on a Schedule 13G filed with the SEC on February 14, 2017, Invesco Advisers, Inc. is a subsidiary of Invesco Ltd. and advises the Invesco European Small Company Fund, which owns the foregoing shares.
(4) Based on a Schedule 13G filed with the SEC on February 13, 2020.

As of March 1, 2020, there were nine 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 16,956,919 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 is distribute a cash dividend once in each calendar year, in the amount 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, 2019.

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.

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 of directors is divided into three classes of directors serving staggered three-year terms.

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

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 (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 currently do not maintain 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 23% for the 2019 tax year and future years. 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

During 2011, we decided to implement the new legislation amending the Investments Law, while waiving future benefits provided from the Approved Enterprise program under the Investments Law (see more details hereinafter).

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."

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 the reduced tax rate in recent years is 9% for development area A and 16% for the rest of Israel. Under an amendment to the Investment Law enacted in December 2016, the reduced tax rate of 9% decreased to 7.5% for 2017 and thereafter.

- 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.

The 2017 amendment ("Preferred Technological Enterprises")

Amendment 73 to the Investments Law, which came into effect on January 1, 2017, provides a new tax incentive regime. Regulations have been promulgated to implement the “Nexus Principles,” based on OECD guidelines published as part of the Base Erosion and Profit Shifting (BEPS) project.

The new incentive regime will apply to “Preferred Technological Enterprises” that meet certain conditions, including all of the following:

- The company’s average R&D expenses in the three years prior to the current tax year must be greater than or equal to 7% of its total revenue or exceed NIS 75 million (approximately $20 million) per year; and

- The company must satisfy one of the following conditions:
  - at least 20% of the workforce (or at least 200 employees) are employed in R&D;
  - a venture capital investment in an amount approximately equivalent to at least NIS 8 million was previously made in the company, and the company has not changed its business following such investment; or
  - growth in sales or workforce by an average of 25% over the three years preceding the applicable tax year, and the company's total revenue was at least NIS 10 million or at least 50 employees are employed by the company over the three years preceding the applicate tax year.

A Preferred Technological Enterprises will be subject to a corporate tax rate of 12% unless it is located in a specified development zone, in which case the rate will be 7.5% with respect to the portion of income derived from intellectual property developed in Israel. The withholding tax on dividends from such enterprises will be 4% for dividends paid to a foreign parent company holding at least 90% of the shares of the distributing company. For other dividend distributions, the withholding tax rate will be 20% (or a lower rate under a tax treaty, if applicable).

On February 18, 2018, the Israel Tax Authority issued a tax ruling granting us "Preferred Technological Enterprise" status, subject to the conditions and terms of the tax ruling. The grant of the status means that starting January 1, 2017 we are subject to a reduced Israeli corporate tax rate of 7.5% on any future taxable "technological income".

The tax ruling applies for five years until 2021 and may be extended for further periods subject to receipt of an additional ruling from the Israeli Tax Authority.

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.

We paid dividends to our shareholders in the amount of $6.2 million in 2017, $5.8 million in 2018 and $5.1 million in 2019. In March 2020, we declared a dividend of approximately $4.8 million and withholding tax held at a rate of 20%.

Law for the Encouragement of Industry (Taxes), 1969

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, 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.

Shareholders that are individuals who have taxable income that exceeds NIS 640,000 in a tax year (linked to the CPI each year, which amounts to NIS 649,560in the 2019 tax year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 3% 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) the 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, (ii) the capital gains from such sale can be allocated to a permanent establishment in Israel or (iii) such Treaty U.S. Resident is an individual and was present in Israel for 183 days or more during the relevant taxable year. A sale, exchange or disposition of our ordinary shares by a Treaty U.S. Resident who does not meet the above conditions 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

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 20%.

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%. 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 20%.

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, provided that the conditions in clauses (a) and (b) above are met.

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 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, *among other things*, 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 Tax Considerations - Dividend Taxation.") Cash distributions paid by us in NIS will be included in the income of U.S. Holders at a 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 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 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 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 24%) 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.

H. Documents on Display

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 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, 2019.

Currency	**Current Monetary Assets (Liabilities)-Net**
	(dollars in thousands)
NIS	$365
EURO	416
Romanian RON	(217)
Other non-dollar currencies	170
	$734

Our annual expenses paid in NIS are approximately $4.3 million. Accordingly, we estimate that a hypothetical increase of the value of the NIS against the dollar by 1% would result in an increase in our operating expenses by approximately $43 thousand for the year ended December 31, 2019.

We are exposed to changes in prices of various securities in which we invest. As of December 31, 2019, we held short term investments (mainly highly rated municipal bonds) of $2.0 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 $0.2 million.

As of December 31, 2019, 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, 2019. 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, 2019.

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 the *Internal Control-Integrated Framework* (2103 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, 2019 and concluded that our internal control over financial reporting was effective as of December 31, 2019.

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 2019 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. 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

At the annual meeting held on May 26, 2019, our shareholders re-appointed Brightman Almagor Zohar & Co., certified public accountants in Israel and a firm in the Deloitte Global Network, 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,	
	2018	**2019**
Audit Fees	$80,261	$84,163
Audit-Related Fees	-	-
Tax Fees	-	-
Total	$80,261	$84,163

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 Israeli 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 requirements relating to compensation committees (other than the due composition thereof), our audit committee (in its capacity as our compensation committee) fulfills the duties of a 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-29 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
2(d)	Description of Ordinary Shares
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, dated May 26, 2019
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 firm in the Deloitte Global Network
101	The following financial information from MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2019 and 2018; (ii) Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; 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, 2016.

*** 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: March 18, 2020

Exhibit 8

LIST OF SUBSIDIARIES

Name of Subsidiary	Jurisdiction of Incorporation
MIND Software SRL	Romania
MIND Software, Inc.	Delaware
MIND Software Limited	United Kingdom
MIND CTI GmbH	Germany
Message Mobile GmbH	Germany
GTX Messaging GmbH	Germany

Exhibit 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

I, Monica Iancu, certify that:

1. I have reviewed this annual report on Form 20-F of MIND C.T.I. Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/ Monica Iancu

Date: March 18, 2020

Monica Iancu
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 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

I, Shoham Shitrit, certify that:

1. I have reviewed this annual report on Form 20-F of MIND C.T.I. Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/ Shoham Shitrit

Date: March 18, 2020

Shoham Shitrit
Chief Financial Officer
(Principal Financial Officer)

Exhibit 13.1

Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350,
as adopted pursuant to § 906 of the Sarbanes-Oxley Act

In connection with the annual report on Form 20-F for the fiscal year ended December 31, 2019 of MIND C.T.I. Ltd. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "Commission") on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Monica Iancu, certify that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 18, 2020
/s/ Monica Iancu
Monica Iancu
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 13.2

Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350,
as adopted pursuant to § 906 of the Sarbanes-Oxley Act

In connection with the annual report on Form 20-F for the fiscal year ended December 31, 2019 of MIND C.T.I. Ltd. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "Commission") on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Shoham Shitrit, certify that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 18, 2020
/s/ Shoham Shitrit
Shoham Shitrit
Chief Financial Officer
(Principal Financial Officer)

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration No. 333-181383; No. 333-117054; No. 333-100804 and No. 333-54632) of our report dated March 18, 2020 relating to the consolidated financial statements of MIND C.T.I. Ltd. (the "Company") appearing in the Annual Report on Form 20-F of the Company for the year ended December 31, 2019.

/s/ Brightman Almagor Zohar & Co.
Certified Public Accountants
A firm in the Deloitte Global Network Tel Aviv, Israel
March 18, 2020