MIND CTI LTD
Form 20-F
April 17, 2018

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, 2017

OR

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

For the transition period from ____________________ to ________________

OR

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

Date of event requiring this shell company report _____________

Commission file number 000-31215

MIND C.T.I. LTD.

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

ISRAEL

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

(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, 2017, the Registrant had outstanding 19,307,418 Ordinary Shares, nominal value NIS 0.01 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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” 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.

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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, 2017. 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, 2016 and 2017 and our audited consolidated statements of operations and cash flows for each of the three years ended December 31, 2017 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,				
	2013	2014	2015	2016	2017
	($ in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Total revenues	$18,480	$25,020	$20,928	$18,052	$18,062
Gross profit	10.609	15,070	12,298	11,221	11,029
Operating income	2.159	7,457	6,416	5,206	4,686

Other Financial income (expenses) – net	163	(306)	(114)	166	630
Net income	2,185	5,483	5,018	4,203	5,612
Earnings per ordinary share:					
Basic	$0.12	$0.29	$0.26	$0.22	$0.29
Diluted	$0.12	$0.29	$0.26	$0.22	$0.29
Weighted average number of ordinary shares used in computation of earnings per ordinary share – in thousands:					
Basic	18,869	18,949	19,183	19,234	19,292
Diluted	18,890	19,032	19,283	19,307	19,559

	As of December 31,				
	2013	2014	2015	2016	2017
	($ in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$8,212	$8,100	$11,475	$9,165	$5,014
Working capital	14,540	14,818	14,734	15,217	14,921
Total assets	29,624	30,347	30,225	29,000	27,378
Share capital and additional paid-in capital	30,250	25,778	25,916	26,052	26,234
Treasury Shares	(2,287)	(1,863)	(1,692)	(1,607)	(1,554)
Total shareholders' equity	20,989	22,411	21,848	21,285	21,022

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

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

Risks Relating to Our Business

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

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

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

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

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

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

potential termination of contracts by our customer due to lack of financing, internal changes or any other reason; and changes in our pricing policies or competitive pricing by our competitors.

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

The customer base for our wireline and wireless billing and customer care products is characterized by 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 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.

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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 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.

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

A significant part of our revenues is derived from 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 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 2017, we derived 82% of our revenues from the sale of software and related services to telecommunications service providers. As the deal size increases, our projects become more complex and the risk of on-time and on-budget implementation increases. Each such contract may include penalties and potential liability for damages arising from our late performance. These customers conduct a lengthy and complex approval and purchasing process, and the pricing for each project needs to be competitive in order to win. Our cost of sales increases as the length of the approval process increases because we need to support each opportunity during the time required for the customer to determine their specifications and the time required for the customer to receive internal approval to commit significant resources towards acquisition of the billing solution. The project implementation may be delayed due to 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.

Our business may be negatively affected by exchange rate fluctuations.

Although the majority of our revenues are denominated in U.S. dollars, approximately 38% of our expenses are incurred in New Israeli Shekel, or NIS, and approximately 47% of our expenses are tied 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 U.S. dollar. We cannot predict any future trends in the rate of devaluation or appreciation of the NIS or of the Euro against the U.S. dollar. If the U.S. dollar cost of our operations in Israel and/or Romania increases, our U.S. dollar-measured results of operations will be adversely affected. In addition, some of our revenues are denominated in Euro, some are denominated in Canadian dollar, or CAD and some are denominated in Great Britain Pound, or GBP. As a result, our U.S. dollar-measured results of operations will be adversely affected by devaluation in the GBP, CAD or Euro relative to the U.S. dollar. We may choose to limit these exposures by entering into hedging transactions. However, hedging transactions may not enable us to avoid exchange-related losses, and our business may be harmed by exchange rate fluctuations.

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

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

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

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

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

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

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

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

potentially dilutive issuances of equity securities;

the incurrence of debt and contingent liabilities;

amortization of intangible assets;

changes in our business model and margins;

research and development write-offs; and

other acquisition-related expenses.

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

We depend on a limited number of key personnel who would be difficult to replace. If we lose the services of these individuals, our business 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 and CEO, Monica Iancu, and other members of senior management. Because the demand for highly qualified senior personnel exceeds the supply of this type of personnel, it will be difficult to replace members of our management if one or more of them were to leave us. If either 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.

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

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

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

frequent new service offerings and enhancements by our customers, such as value-added IP-based services and new rating plans; and

changing customer needs.

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

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

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

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

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

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

We 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 complying with extensive corporate governance and disclosure requirements.

As an Israeli company subject to U.S. federal securities laws, we spend a significant amount of management time and resources to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, SEC regulations, Nasdaq listing rules and the Israeli Companies Law. In connection with our compliance with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time 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.

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Risks Relating to the Market of our Ordinary Shares

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

The market for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. The price of our ordinary shares has fluctuated significantly 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;
- changes in pricing policies by us or our competitors;
- market conditions in our industry; and
- the general state of the securities market (particularly the technology sector).

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

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

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

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Risks Relating to Our Location in Israel

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

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

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

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

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

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

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

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

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

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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.

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Item 4. Information on the Company

A. History and Development of the Company.

General

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

Principal Capital Expenditures

During 2015, 2016 and 2017, the aggregate cash amount of our capital expenditures were $146,000, $68,000 and $71,000, respectively. These expenditures were mainly for the purchase of equipment and licenses for software tools to be used by our engineering teams. We currently have no material commitments for capital expenditures.

B. Business Overview

Overview

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

Our convergent billing and customer care solution supports multiple services, including voice, data and content services as well as prepaid, postpaid and pay-in-advance payment models in a single platform. Prepaid subscribers can enjoy the full range of services offered by the provider, with their special bundles, rating plans and limits. The prepaid solution authorizes each service and controls each session in real time, taking care that the balance is not exceeded.

Postpaid subscribers, including credit-limited and non-limited, retail or business customers, represent the loyal and the higher average revenue per user, or ARPU, market. All services used by a postpaid subscriber appear in a single bill, which includes all charges, including one-time, recurring and usage-related charges. Our billing solution (MINDBill) is unique as it is truly convergent and it includes our own integrated real-time mediation product that provides interfaces with IP, Intelligent Networks, or IN, and traditional telecommunication equipment, as well as our own point-of-sale solution.

Our billing and customer care solution includes a powerful workflow engine to support the implementation of business processes such as subscriber registration, order management, trouble ticket and debt collection. It also includes an integral point of sale (POS) solution that covers all dealer, store and cashier management and sales processes. We base our solution on a multi-layered architecture supporting real-time distributed processing, achieving performance, scalability and high availability. It uses an open architecture, including Service Oriented Architecture (SOA) and robust Application Programming Interfaces (API's) thus enabling fast and seamless integration with other systems and third party applications. The MIND solution is built using standardized best-of-breed object-oriented design concepts and development technologies such as Java, Angular, Spring and XML. 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 solutions call management systems used by organizations for call accounting, telecom expense management, traffic analysis and fraud detection. Our enterprise software product has been installed on about 20,000 switches around the world, for traditional telephony, for IP switches and hybrid networks. Our latest product, PhonEX ONE, delivers one unified solution for all voice communication expenses including traditional, IP and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites, it provides full functionality through a web browser, based on Microsoft SQL database and the advanced ASP.NET technology.

Our Market Opportunity

Billing and Customer Care Industry

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

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

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

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Convergence

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

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

Mobile Market and IP Services Industry

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

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

Our Billing and Customer Care Solution

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

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

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

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

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

Our Strategy

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

The key elements of our strategy to become a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers include:

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

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

Expand professional services opportunities. As our projects are of larger scale and as convergent service offerings become more complex, our customers require more consulting services, especially for customization, as well as for project management, installation and training, technical support and maintenance. We aim to increase our revenues from consulting services.

Billing and Customer Care Solutions

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

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

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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;

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

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

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

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

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

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

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;

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

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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 telephone use;

monitor quality of experience;

track agents 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;

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

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

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

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

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

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

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

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

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

Professional Services

We provide professional services to our customers, consisting primarily of project management, customization, installations, customer support, training and maintenance services. As our projects become more complex, more customers require customization services to add specialized features to their systems. We also offer enhanced support options, called managed services, which are mainly offered to customers in the United States and are performed from our offices. The managed services include performing day to day billing operational tasks. The managed services contracts are usually for a term of three to five years and are paid on a monthly basis. We also have the ability to implement Software-as-a-Service (SaaS) models in a similar way.

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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 believe that our technology allows us to offer products with the following benefits:

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

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

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

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

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

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

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

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

Sales and Marketing

Sales

Billing and Customer Care Solutions

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

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

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Enterprise Software

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

Marketing

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

participating in industry trade shows and special events;

conducting ongoing public and press relations programs; and

conducting training seminars for vendors and system integrators.

Principal Markets

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

	Years ended December 31,		
	2015	2016	2017
	($ in thousands)		
The Americas (total)	$11,292	$12,714	$12,995
Sale of Licenses	1,396	2,689	962
Services	9,896	10,025	12,033
Asia Pacific and Africa (total)	1,522	1,125	909
Sale of Licenses	458	316	202
Services	1,064	809	707
Europe (total)	6,697	3,333	3,181

Sale of Licenses	1,806	732	920
Services	4,891	2,601	2,261
Israel (total)	1,417	880	977
Sale of Licenses	282	187	357
Services	1,135	693	620
Total	20,928	18,052	18,062
Sale of Licenses	3,942	3,924	2,441
Services	16,986	14,128	15,621

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., Chat Mobility and SI Wireless;
- cable providers that also offer voice services, such as EastLink; and
- Mobile Virtual Network Enablers (MVNEs), such as Pelephone Telecommunications Ltd.

Enterprise Software

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

Competition

Billing and Customer Care Solutions

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

We believe that our competitive advantage is based on:

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

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

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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.

C. Organizational Structure

Set forth below is a list of our significant subsidiaries:

MIND Software Limited, a wholly owned subsidiary, incorporated in the United Kingdom;

MIND Software Inc. (formerly Sentori Inc.), a wholly owned subsidiary, incorporated in the State of Delaware; and

MIND Software SRL., a wholly owned subsidiary of MIND Software Limited, incorporated in Romania.

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 the 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 2,100 square feet of office space in Silver Spring, Maryland, approximately 24,000 square feet in Iasi, Romania and approximately 7,400 square feet in Suceava, Romania. The office in Maryland is used primarily for supporting our customers in the United States, while the offices in Iasi and Suceava are used primarily for software development and for customer support. The office in Maryland is the group’s headquarters in the Americas.

Item 4A. Unresolved Staff Comments

Not applicable.

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Item 5. Operating and Financial Review and Prospects

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

Overview

We were incorporated in Israel in 1995 and started providing our enterprise software products in that year. In 1997, we introduced our billing and customer care software for Voice over IP. We have enhanced our billing solutions since then to support multiple IP services, wireless and wireline carriers and triple play (voice, data and content) service providers. In 2017, 82% of our revenues were derived from providing our billing and customer care software and 18% were derived from providing our enterprise software. In 2017, license fees represented 14% of our revenues and services represented 86%. In 2017, two customers accounted for approximately 16% and 12% of total revenues. In 2016, one customer accounted for approximately 14% of total revenues. In 2015, two customers accounted for approximately 10% and 13% of total revenues. We expect to continue to derive sizeable revenues from a small number of changing customers.

The telecom carriers compete mainly on price. Our customers encounter profitability challenges and continually aim to reduce both operating and capital expenditures. We believe that our up-to-date, versatile, comprehensive product-based billing platform and agile delivery fit perfectly with multi-play service providers and address their challenge of reducing operational cost. While the markets appear to be still active, showing ongoing demand for our products and services, extensive pre-sales efforts are required and many processes are extended or constantly delayed. Consolidation in the telecom markets was not favorable to us in the last years, and we closed fewer deals than in previous years. Accordingly, we expect challenges in maintaining our revenues level in the near term. During the last two years we invested significantly in the new version of MINDBill, which was released in 2017, installed at one customer and acquired by three others, and we intend to continue to promote the sales of upgrades. We plan to continue investing in technology, cloud solutions and seeking to enter new markets, as we continue to focus on our profitability targets.

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

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In July 2003, we adopted a dividend policy, according to which we declare, subject to specific board approval and applicable law, a dividend distribution once per year, in the amount of our net income from the previous year. In October 2010, our board of directors updated this policy slightly. The new policy changes only the amount to be distributed, the new amount being equal to our EBITDA plus financial income (expenses) minus taxes on income. Additionally, the board approved dividend distributions in 2003, 2007, 2008, 2009, 2010, 2011 and 2014 that were subject to approvals from an Israeli Court in accordance with Section 303 of the Israeli Companies Law due to the fact that we did not have sufficient retained earnings, which court approvals were received. Since 2003, we have distributed aggregate cash dividends of approximately $4.28 per share to our shareholders. The amount per share that we distributed in 2015, 2016, and 2017 was $0.30, $0.27 and $0.32, respectively, and $0.30 per share in March 2018. The board decision to approve the annual distribution is based, among other factors, on our cash position at that time, potential acquisitions and future cash needs. The board may decide to discontinue the dividend distribution in whole or in part at any time.

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

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

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

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

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

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

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

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

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

A. Operating Results

The following discussion of our results of operations for 2015, 2016 and 2017, including the percentage data in the following table, is based upon our statements of operations contained in our financial statements for those periods, and the related notes thereto, contained in Item 18:

	Years ended December 31,		
	2015	2016	2017
	(% of revenues)		
Revenues	100.0%	100.0%	100.0%
Cost of revenues	41.2	37.8	38.9
Gross profit	58.8	62.2	61.1
Research and development expenses	14.1	19.5	18.9
Selling, general and administrative expenses:			
Selling and marketing expenses	5.6	6.1	6.9
General and administrative expenses	8.4	7.7	9.3
Operating income	30.7	28.9	26.0
Gain on disposal of a subsidiary	-	-	4.9
Financial income (expenses) – net	(0.6)	0.9	3.5
Income before taxes on income	30.1	29.8	34.4
Income tax expense	6.1	6.5	3.3
Net income	24.0	23.3	31.1

Comparison of 2014, 2015 and 2016

Revenues

	Years ended December 31,			% Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	($ in millions)				
License sales	3.9	3.9	2.5	-	(35.9)
Professional services	17.0	14.2	15.6	(16.5)	9.9
Total revenues	20.9	18.1	18.1	(13.4)	-

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Revenues in 2016 decreased in comparison to 2015 by 13.4%. The decrease was primarily attributed to the total value of the deals we signed both in 2014 and 2015, in comparison to the large deals we signed in 2013, for which the revenues were recognized mainly in 2014 but also in 2015, and a decrease in our volume of sales in Europe, reflecting also the lower Euro to U.S. dollar exchange rate. Revenues in 2017 remained the same compared to 2016.

Revenues from our billing and customer care product solutions for service providers decreased from $16.6 million in 2015 to $14.6 million in 2016 and slightly increased to $14.7 million in 2017. The increase was primarily attributed to a large deal we signed in 2016, for which the revenues were recognized mainly in 2017.

Revenues from our enterprise products decreased from $4.3 million in 2015 to $3.5 million in 2016. The decrease was primarily attributed to a significant decrease in our volume of sales in Europe, reflecting also the lower Euro to U.S. dollar exchange rate. Revenues from professional services decreased from $17.0 in 2015 to $14.1 in 2016. The decrease in 2016 was due to the aforementioned reasons for the changes in total revenues. Revenues from our enterprise products decreased from $3.5 million in 2016 to $3.4 million in 2017. The decrease was primarily attributed to a significant decrease in our volume of sales of our enterprise products in the United States of America. Revenues from professional services increased from $14.1 in 2016 to $15.6 in 2017. The increase in 2017 was primarily attributed to a large deal we signed in 2016 that includes ample professional services and to the increase in sales of consulting services, on-site technical support and customizations to existing customers.

The following table presents the geographic distribution of our revenues:

	Years ended December 31,		
	2015	2016	2017
	(% of revenues)		
The Americas	54.0	70.4	71.9
Asia Pacific and Africa	7.3	6.2	5.0
Europe	32.0	18.5	17.7
Israel	6.7	4.9	5.4
Total	100.0%	100.0%	100.0%

Our revenues in the Americas increased from $11.3 million in 2015 to $12.7 million in 2016 and further increased to $13.0 million in 2017 and as a percentage of total revenues increased from 54.0% in 2015 to 70.4% in 2016 and to 71.9% in 2017. The increase in 2016 was due to two new customers and three large follow-on orders from existing customers in this area. The increase in 2017 was primarily attributed to the above-mentioned large deal we signed in 2016, for which the revenues were recognized mainly in 2017. Our revenues in Europe decreased from $6.7 million in 2015 to $3.3 million in 2016 and further decreased to $3.2 million in 2017 and as a percentage of total revenues decreased from 32.0% in 2015 to 18.5% in 2016 and to 17.7% in 2017, mainly due to lower revenue recognition of the large deal we signed in late 2013, that approaches completion. Our revenues in Israel decreased from $1.4 million in 2015 to $0.9 million in 2016, and as a percentage of total revenues decreased from 6.7% in 2015 to 4.9% in 2016, mainly due to completion of a large billing project in Israel during the second quarter of 2015 and a continual decrease in call accounting revenues. Our revenues in Israel increased from $0.9 million in 2016 to $1.0 million in 2017 and as a percentage of total revenues increased from 4.9% in 2016 to 5.4% in 2017, mainly due to an increase in the services we provide to our MVNE customer in Israel.

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Cost of Revenues

	Years ended December 31,			% Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	($ in millions)				
Cost of sales of licenses	0.4	0.3	0.2	(25.0)	(33.3)
Cost of services	8.2	6.5	6.8	(20.7)	4.6
Total cost of revenues	8.6	6.8	7.0	(20.9)	2.9

The total cost of revenues in 2016 decreased by $1.8 million compared with 2015 mainly due to a decrease in labor-related costs of $1.6 million as a result of a decrease in the total number of employees engaged in deployment or professional services and the appreciation of the U.S. dollar in relation to the Euro. The total cost of revenues in 2017 increased by $0.2 million compared with 2016 due to an increase in cost of services by $0.3 million, mainly due to an increase in purchases of equipment and deferred charges of $0.4 million, an increase in travel expenses of $0.1 million and a decrease in labor-related costs of $0.2 million, offset by the decrease in cost of licenses by $0.1 million that occurred due to the decrease in revenue from licenses.

Gross profit as a percentage of revenues increased from 58.8% in 2015 to 62.2% in 2016 mainly due to the above-mentioned decrease in labor related cost and due to increased efficiency in project implementation. Gross profit as a percentage of revenues slightly decreased from 62.2% in 2016 to 61.1% in 2017 mainly due to the increase in cost of services while the revenues remained substantially the same.

Operating Expenses

	Years ended December 31,			% Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	($ in millions)				
Research and development	2.9	3.5	3.4	20.7	(2.9)
Selling and marketing	1.2	1.1	1.2	(8.3)	0.1
General and administrative	1.8	1.4	1.7	(22.2)	21.4
Total operating expenses	5.9	6.0	6.3	1.7	5.0

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Research and Development. We have made substantial investment in research and development to maintain our advanced technology, to add functionality to our products and to develop Version 8, the latest version of our MINDBill platform. The increase in our research and development expenses by 20.7% in 2016, compared to 2015, was primarily due to an increase in research and development related payroll expenses by $0.5 million and an increase in subcontracting expenses by $0.1 million. The increase in payroll and subcontracting expenses reflects the expansion in R&D personnel required to improve and expand our product offering. The decrease in our research and development expenses by 2.9% in 2017, compared to 2016, was primarily due to a decrease in subcontracting expenses. Research and development expenses as a percentage of revenues increased from 14.1% in 2015 to 19.5% in 2016 as the result of the above-mentioned decrease in our revenues and the increase in the research and development-related payroll expenses. Research and development expenses as a percentage of revenues slightly decreased from 19.5% in 2016 to 18.9% in 2017 primarily due to the increase in research and development expenses while the revenues remained substantially the same. We expect cost of employment per employee to be significantly higher in the future, as the global need for software engineers constantly grows and more European companies adopt near-shore outsourcing. The cost of employment may also be negatively affected by fluctuations in the exchange rates between the Euro or the NIS and the U.S. dollar.

Selling and Marketing Expenses. Selling and marketing expenses decreased from $1.2 million in 2015 to $1.1 million in 2016 mainly due to a decrease in sales commission expenses and a decrease in travel expenses. Selling and marketing expenses increased from $1.1 million in 2016 to $1.2 million in 2017 mainly due to an increase in selling and marketing related payroll expenses and an increase in participating in conventions. Selling and marketing expenses as a percentage of revenues increased from 5.6% in 2015 to 6.1% in 2016 mainly due to the decreased overall revenues and due to the above-mentioned slight decrease in selling and marketing expenses. Selling and marketing expenses as a percentage of revenues increased from 6.1% in 2016 to 6.9% in 2017 mainly due to the above-mentioned slight increase in selling and marketing expenses while the revenues remained substantially the same.

General and Administrative Expenses. General and administrative expenses decreased from $1.8 million in 2015 to $1.4 million in 2016 mainly as a result of a successful collection of one customer’s debt in 2016 which was recorded as a doubtful account in 2015. General and administrative expenses increased from $1.4 million in 2016 to $1.7 million in 2017 mainly due to the mentioned above decrease in allowance for doubtful accounts in 2016 and an increase in general and administrative related payroll expenses as a result of the devaluation of the U.S. dollar in relation to the NIS. General and administrative expenses as a percentage of revenues decreased from 8.4% in 2015 to 7.7% in 2016. The decrease in 2016 compared to 2015 resulted from the recovery in doubtful account expense, offset by a decrease of revenue in a lower rate than the abovementioned decrease in the expense. General and administrative expenses as a percentage of revenues increased from 7.7% in 2016 to 9.3% in 2017 mainly due to the above-mentioned increase in general and administrative expenses while the revenues remained substantially the same.

Impairment of Goodwill. No impairment of goodwill was required following the impairment test performed during 2015, 2016 and 2017.

Financial Income (Expenses). In 2015, financial expenses consisted of negative currency exchange rate fluctuations and bank charges in the aggregate amount of approximately $329,000, offset by interest income incurred mainly on short-term bank deposits and marketable and available-for-sale securities in the aggregate amount of approximately $215,000. In 2016, financial income consisted of interest income incurred mainly on short-term bank deposits and marketable and available-for-sale securities in the aggregate amount of approximately $319,000, offset by bank charges and a realized loss from sale of available-for-sale securities in the aggregate amount of approximately $153,000. In 2017, financial income consisted of interest income incurred mainly on short-term bank deposits and marketable and available-for-sale securities and currency exchange rate fluctuations in the aggregate amount of approximately $672,000, offset by bank charges and a realized loss from sale of available-for-sale securities in the aggregate amount of approximately $42,000.

Income Tax Expenses. Income tax expenses are comprised of current tax expenses and deferred tax expenses/income. On a regular basis, we estimate our actual current tax exposures and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred taxes, which are included on our consolidated balance sheet. In 2015, our income tax expenses in the amount of $1.3 million were comprised of current tax expenses in the amount of $1.4 million, offset by taxes in respect of previous years in the amount of $52,000 and an increase in deferred taxes in the amount of $46,000. In 2016, our income tax expenses in the amount of $1.2 million included mainly taxes on income in the amount of $1.0 million ($0.9 million in Israel) and a decrease in deferred taxes in the amount of $146,000. In 2017, we have derived tax benefits relating to the “Preferred Technological Enterprise” program under the Israel Law for the Encouragement of Capital Investment, 1959 and our income tax expenses in the amount of $0.6 million included mainly taxes on income in Israel in the amount of $0.5 million and a decrease in deferred taxes in the amount of $63,000.

Critical Accounting Policies

To improve understanding of our financial statements, it is important to obtain some degree of familiarity with our critical or principal accounting policies. These policies are described in Note 1 to the consolidated financial statements contained in Item 18. We review our accounting policies annually to ensure that the financial statements developed, in part, on the basis of these accounting policies provide complete, accurate and transparent information concerning the financial condition of our company. As part of this process, we reviewed the selection and application of our critical accounting policies and financial disclosures as of December 31, 2017, and we believe that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of our company as of that date.

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

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

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

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

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

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

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

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

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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. The Company has 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, the Company determines 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 the Company concludes otherwise, the Company is required to perform the first step of a two-step impairment test. Alternatively, the Company 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.

The Company has a single reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole.

We perform annual testing for impairment of the goodwill during the third quarter of each year. As of September 30, 2017, the fair value of the reporting unit exceeded its carrying value.

Recently Issued Accounting Pronouncements

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

Our Functional Currency

The currency of the primary economic environment in which we operate is the U.S. dollar. In 2017, the majority of our revenues were denominated in U.S. dollars. In addition, most of our marketing costs are incurred outside Israel, primarily in U.S. dollars. Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Balances in non-dollar currencies are remeasured into U.S. dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items reflected in our income statements, the following exchange rates are used:

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

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

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

Impact of Foreign Currency Fluctuations on Results of Operations

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

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

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

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

B. Liquidity and Capital Resources

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

As of December 31, 2017, we had approximately $5.0 million in cash and cash equivalents, and our working capital was $14.9 million. In our opinion, our working capital is sufficient for our requirements for the foreseeable future.

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

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Net Cash Provided by/Used in Operating Activities. Net cash provided by operating activities in 2015 was $6.3 million, attributable to our net income of $5.0 million, non-cash related items, net, in the amount of $0.5 million, a net decrease in operating assets items in the amount of $0.5 million and a net increase in operating liabilities items in the amount of $0.3 million. Net cash provided by operating activities in 2016 was $5.2 million, attributable to our net income of $4.2 million, non-cash related items, net, in the amount of $0.4 million, a net decrease in operating assets items in the amount of $1.2 million and a net decrease in operating liabilities items in the amount of $0.6 million. Net cash provided by operating activities in 2017 was $2.7 million, attributable to our net income of $5.6 million, non-cash related items, net, in the amount of $0.3 million, gain on disposal of subsidiary in the amount of $0.9 million, a net increase in operating assets items in the amount of $0.8 million and a net decrease in operating liabilities items in the amount of $1.4 million.

The decrease in net cash provided by operating activities of $1.1 million from 2015 to 2016 reflects mainly a decrease in our net income of $0.8 million, a decrease in accounts receivable of $1.2 million in 2016, compared with a decrease of $0.4 million in 2015, a decrease of $1.2 million in accounts payable and accruals in 2016, compared with an increase of $0.1 million in 2015, and an increase of $0.7 million in deferred revenues in 2016, compared with an increase of $0.3 million in 2015. The decrease in net cash provided by operating activities of $2.5 million from 2016 to 2017 reflects mainly an increase in our net income of $1.4 million (including a one-time gain on disposal of subsidiary in the amount of $0.9 million), an increase in accounts receivable of $0.8 million in 2017, compared with a decrease of $1.2 million in 2016, a decrease of $0.3 million in accounts payable and accruals in 2017, compared with a decrease of $1.2 million in 2016, and a decrease of $1.1 million in deferred revenues in 2017, compared with an increase of $0.7 million in 2016.

Net Operating Working Capital

As of December 31, 2016, net operating working capital was $15.2 million, compared with $14.7 million as of December 31, 2015. The increase of $0.5 million is mainly due to an increase in short term investments in the amount of $3.2 million, offset by a decrease in cash and cash equivalents in the amount of $2.3 million, a decrease of $1.2 million in accounts receivables, a decrease of $1.2 million in accounts payables and an increase of $0.4 million in deferred revenues. As of December 31, 2017, net operating working capital was $14.9 million, compared with $15.2 million as of December 31, 2016. The decrease of $0.3 million is due to an increase in short-term investments in the amount of $2.2 million, an increase of $0.8 million in accounts receivables, a decrease of $0.4 million in accounts payables, a decrease of $0.5 million in deferred revenues, offset by a decrease in cash and cash equivalents in the amount of $4.2 million.

Cash Deposits

As of December 31, 2017, we had approximately $6.1 million in bank deposits with maturities of between three and twelve months.

Marketable Securities

As of December 31, 2017, we held marketable securities of approximately $5.9 million (consisting mainly of municipal bonds which are held for trading).

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Net Cash Provided by/Used in Investing Activities. In 2015, we decreased our investments in short-term bank deposits by $3.1 million, we used $0.1 million for capital expenditures and we increased our investments in marketable securities by $0.2 million. In 2016, we increased our investments in short-term bank deposits by $3.5 million, we used $0.1 million for capital expenditures and we decreased our investments in marketable securities by $1.1 million. In 2017, we increased our investments in short-term bank deposits by $1.2 million, we used $0.1 million for capital expenditures and we increased our investments in marketable securities by $1.1 million and we received proceeds from sale of subsidiary of approximately $1.2 million (1.1 million Euro).

Net Cash Provided by/Used in Financing Activities. In 2015, our financing activities used $5.6 million due to a cash dividend of $5.8 million, offset by $0.2 million in proceeds from the exercise of employee stock options. In 2016, our financing activities used $5.1 million due to a cash dividend of $5.2 million, offset by $0.1 million in proceeds from the exercise of employee stock options. In 2017, our financing activities used $6.1 million due to a cash dividend of $6.2 million, offset by $0.1 million in proceeds from the exercise of employee stock options.

Capital Expenditures. The aggregate cash amount of our capital expenditures was $146,000, $68,000 and $71,000 in 2015, 2016 and 2017, 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 approximately $4.28 per share to our shareholders, including $0.30 per share in 2015, $0.27 per share in 2016, $0.32 per share in 2017 and $0.30 per share in March 2018. 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 $2.9 million (or 14.1% of revenues) in 2015, $3.5 million (or 19.5% of revenues) in 2016 and $3.4 million (or 18.9% of revenues) in 2017. The minor percentage decrease in 2017 was mainly the result of a decrease in R&D subcontracting. Our engineering department comprised approximately 151 employees at the end of 2017.

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D. Trend Information

Our billing and customer care solutions target tier 2 and tier 3 service providers. The trend that we believe is currently driving the market is eliminating niche solutions and replacing multiple platforms with one convergent real time billing solution. The need for comprehensive billing solutions is also driven by the market trend that requires service providers to introduce new services more rapidly, to be innovative in creating new product offers and to optimize business processes for maximum efficiency by enabling consumers to purchase services on-line. The self-service trend requires advanced subscriber management capabilities and supporting omni-channel models. This type of new required functionality is more likely to be implemented with cloud-based solutions.

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

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

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

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

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

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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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	More than 5 years
Operating Lease Obligations	$ 1,428	$ 503	$ 717	$ 101	$ 107

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	60	President and Chief Executive Officer, Director
Aviram Cohen	41	Chief Financial Officer
Oren Tanhum	47	Vice President, Professional Services
Revital Libfrand	46	Vice President, Cloud Solutions
Shoval Cohen Nissan	43	Vice President, Information Technology
Gilad Parness	49	Vice President, Enterprise Solutions
Liviu Serea	63	General Manager, MIND Romania
Iulian Dimitriu	46	Vice President, Engineering
Danny Engle	49	Vice President, Sales for North America
Mihail Rotenberg	66	Chairman of the Board
Meir Nissensohn	74	Director
Joseph Tenne	62	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 Masters Degree in Telecommunications (with expertise in Voice and Data Integration over the Ethernet) from the Technion, Israel Institute of Technology.

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

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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.

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 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 all levels. He has also served as a Project Manager, responsible for planning of projects through their successful delivery. He was promoted to R&D Director in October 2006 and to Vice President of Professional Services in October 2016. Mr. Tanhum holds a B.A. degree in Mathematics and Computer Science from Haifa University.

Revital Libfrand. Ms. Libfrand rejoined MIND to serve as Vice President of Cloud Solutions in September 2016. In the last few years, Revital served as a Business & Marketing Consultant helping SaaS companies grow their business. Prior to that, she held various positions in the areas of Sales, Marketing and Business Development at Ness-Gilon and Xeround as well as MIND (since inception until 2006). Ms. Libfrand holds a B.A. degree in Economics from Haifa University and an M.B.A. degree from Netanya Academic College.

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

Iulian Dimitriu. Mr. Dimitriu joined us as a software testing engineer in June 2001 and was promoted to Director of Quality Assurance in June 2012. Before joining MIND he held different programming positions in local software companies. Mr. Dimitriu was promoted to Vice President of Engineering in July 2016. Mr. Dimitriu holds a B.Sc. degree in Computer Science from Asachi University in Iasi, Romania.

Danny Engle. Mr. Engle is Vice President of North American Sales for MIND Software Inc. (formerly Sentori Inc.). Mr. Engle joined Sentori in 2003 as Director of Sales, and in 2005 was promoted to Sentori's Vice President of North American Sales. Mr. Engle is responsible for Sales, Customer Account Management and Partner Relationship Management. Prior to joining Sentori, Mr. Engle was District Manager at Siebel Systems, a leading CRM solutions provider. Mr. Engle holds a B.S. degree in Business Administration from the University of Texas.

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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 Chief Executive Officer of BreezeCOM from 1993 to 2000. From 2000 to 2005, Mr. Rotenberg served as President and CEO of Accessnet SA, a wireless internet service provider in Romania, which was sold in 2005 to Clearwire Inc. Mr. Rotenberg holds a Ph.D. degree from Polytechnic University, Bucharest, Romania.

Meir Nissensohn. Mr. Nissensohn has served as an independent and external director of our company since August 2014. Mr. Nissensohn served as the Chairman of the Board of Directors and Chief Executive Officer of IBM Israel Ltd. from 1996 to 2012, having joined IBM Israel as a computer programmer in 1969. Since his retirement from IBM, he is involved in various business initiatives with venture capital funds and serves as a director at several companies, including O.R.T. Technologies and Top Ramdor Systems, both companies listed on the Tel Aviv Stock Exchange. 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 and external director of our company since August 2014. Since May 2017, Mr. Tenne served as a financial consultant to Itamar Medical Ltd., a company listed on the Tel Aviv Stock Exchange. Mr. Tenne serves as a director at AudioCodes Ltd., at Orbotech Ltd., at OPC Energy Ltd., at Ability Inc. 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., a company listed on the New York Stock Exchange. From 1997 until 2003, Mr. Tenne was a partner in Kesselman & Kesselman, Certified Public Accountants in Israel and a member of PricewaterhouseCoopers International Limited. Mr. Tenne holds a B.A. degree in Accounting and Economics and an M.B.A. degree from Tel Aviv University. Mr. Tenne is also a Certified Public Accountant in Israel.

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

B. Compensation of Directors and Executive Officers

The aggregate direct remuneration paid to all persons who served in the capacity of director or executive officer during 2017 was approximately $2.0 million, including approximately $148,000 that was set aside for pension and retirement benefits. This does not include amounts expensed by us for automobiles made available to our officers or expenses, including business, travel, professional and business association dues and expenses, reimbursed to officers, and do not include equity based compensation expenses.

During 2017, we granted to our executive officers under our option plans options to purchase 24,000 ordinary shares at exercise price of $2.425 per share, and options to purchase 40,000 ordinary shares, at an exercise price of the par value of $0.003. All these options expire in 2022.

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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, 2017. 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	CEO	$240,000	$ 210,000	-	$ 52,674	$502,674
Aviram Cohen	CFO	$100,736	-	-	$ 36,491	$137,227
Danny Engle	VP of Sales, North America	$130,050	$ 279,902	$ 4,770	$ 4,800	$419,522
Gilad Parness	VP, Enterprise Solutions	$95,364	$ 21,864	$ 29,397	$ 35,736	$182,361
Shoval Cohen Nissan	VP, Information Technology	$86,228	$ 19,131	$ 29,397	$ 32,976	$167,732

(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. On August 11, 2016, at our 2016 annual general meeting of shareholders, our shareholders re-approved the existing compensation policy for directors and officers.

On May 4, 2017, our board of directors resolved that each of our non-executive 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 non-executive directors who our Board classifies as “expert directors” (as such term is defined in the Israeli Companies Law) will be 20% more than the remuneration of non-expert directors.

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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 III will expire in 2018, Class I in 2019 and Class II in 2020. 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.

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Under the Nasdaq rules, our audit committee assists the board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our independent auditors. Our audit committee also has the authority and responsibility to oversee our independent auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our independent auditors and to pre-approve audit engagement fees and all permitted non-audit services and fees. We have adopted an audit committee charter, which sets forth the qualifications, powers and responsibilities of our audit committee.

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

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

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

Internal Auditor

Under the Companies Law, the board of directors must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, inter alia, whether the company’s actions comply with the law and orderly business procedure. The internal auditor must satisfy certain independence standards. 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.

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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.

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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 recent Israeli case law, the non-competition undertakings of employees may not be enforceable.

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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,		
	2015	2016	2017
Approximate numbers of employees by geographic location			
Israel	47	42	41
Romania	287	217	197
United States	3	3	2
Total workforce	337	262	240
Approximate numbers of employees by category of activity			
General and administration	16	15	19
Research and development	224	161	151
Professional services and customer support	88	79	62
Sales and marketing	9	7	8
Total workforce	337	262	240

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 Advanced Studies Fund. Each employee who agrees to participate in the Advanced Studies fund contributes up to 2.5% of base salary and we contribute up to 7.5%.

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

E. Share Ownership

As of April 1, 2018, Monica Iancu beneficially owned 3,316,265, or 17.16% of our ordinary shares. None of our other directors or members of senior management beneficially owns 1% or more of our ordinary shares.

We have established stock option plans to provide for the issuance of options to our directors, officers and employees. As these plans expired on December 31, 2010, a new share incentive plan was adopted by our shareholders at our 2011 annual general meeting (the “2011 Share Incentive Plan”). Under the 2011 Share Incentive Plan, our ordinary shares and/or options to purchase our ordinary shares may be issued from time to time to our directors, officers, employees, consultants and contractors at exercise prices and on other terms and conditions as determined by our board of directors. Our board of directors determines the exercise price and the vesting period of options granted. Unless otherwise is determined by our Board, any award granted under the 2011 Share Incentive Plan will have a four-year vesting schedule, such that 50% of the award will vest on the second anniversary of the commencement date and 25% of the award will vest on each of the third and fourth anniversaries of the commencement date, and the exercise price will be equal to the average closing price per share of our ordinary shares on the stock market during the 30 trading day period immediately preceding the date of grant of such award. The total pool of shares reserved for the 2011 Share Incentive Plan permits the issuance of shares and/or options to acquire up to 1,800,000 ordinary shares.

As of April 1, 2018, options to purchase 766,100 ordinary shares were outstanding and options for 1,880,290 ordinary shares had been exercised. The options vest over three to five years, primarily commencing on the date of grant. Generally, options not previously exercised will expire approximately five to seven years after they are granted. Our board of directors elected the capital gains treatment afforded under Section 102 of the Israeli Income Tax Ordinance [New Version], 1961, or the Tax Ordinance, in respect of options and ordinary shares awarded to our Israeli employees under our option or share incentive plans after January 1, 2003. Accordingly, gains derived from options awarded to our Israeli employees 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 April 1, 2018, Ms. Iancu had sold 537,735 ordinary shares under the new plan.

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Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of April 1, 2018, unless otherwise specified, by each person who is known to own beneficially more than 5% of the outstanding ordinary shares.

Name of Beneficial Owners	Total Shares Beneficially Owned		**Percentage of Ordinary Shares (1)**	
Monica Iancu	3,316,265	(2)	17.16	%
Invesco Ltd. and affiliates	1,200,000	(3)	6.21	%
Morgan Stanley	964,683	(4)	5.00	%

(1) Based on 19,329,418 ordinary shares outstanding on April 1, 2018.
(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 January 31, 2018.

As of April 1, 2018, there were seven holders of record of our ordinary shares in the United States who collectively held less than 1% of our outstanding ordinary shares. In addition to this amount, there were also 16,388,512 shares held by the Depositary Trust Company in the United States. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

B. Related Party Transactions

None.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Financial Statements

See Item 18.

Export Sales

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

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Legal Proceedings

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

Dividend Policy

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

B. Significant Changes

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2017.

Item 9. The Offer and Listing

A. Offer and Listing Details

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

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

Period	High	Low
Last six months:		
March 2018	2.73	2.21
February 2018	2.81	2.62
January 2018	2.84	2.68
December 2017	2.84	2.61
November 2017	2.75	2.63
October 2017	2.81	2.62
Last nine quarters:		
Q1 2018	2.84	2.21
Q4 2017	2.84	2.61
Q3 2017	2.59	2.43
Q2 2017	2.58	2.36
Q1 2017	2.90	2.30
Q4 2016	2.68	2.16
Q3 2016	2.28	2.06
Q2 2016	2.14	2.00
Q1 2016	2.53	2.02
Last five years:		
2017	2.90	2.30
2016	2.68	2.00
2015	3.99	2.36
2014	4.20	1.87
2013	2.26	1.65

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.

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E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Associations

Objects and Purposes

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

Transfer of Shares and Notices

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

Election of Directors

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

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.

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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.

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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.

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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;

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reasonable litigation expenses, including attorneys' fees, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent or in connection with a financial sanction;

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

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

Limitations on Exculpation, Insurance and Indemnification

The Companies Law provides that a company may not exculpate or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

a breach by the office holder of his duty of loyalty unless, with respect to indemnification or insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

a breach by the office holder of his duty of care if the breach was done intentionally or recklessly;

any act or omission done with the intent to derive an illegal personal benefit; or

any fine levied against the office holder.

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In addition, under the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, if the beneficiary is a director, by our shareholders.

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

C. Material Contracts

None.

D. Exchange Controls

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

E. Taxation

Israeli Tax Considerations

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

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

General Corporate Tax Structure

The general rate of corporate tax in Israel to which Israeli companies are subject is 24% for the 2017 tax year. Under an amendment to the Israeli Income Tax Ordinance enacted in December 2016, the corporate tax rate decreased to 23% for 2018 and thereafter. 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.

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Law for the Encouragement of Capital Investments, 1959

General

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

Our Approved and Preferred Enterprises

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

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

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

Dividends Taxation

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

We paid dividends to our shareholders in the amount of $5.8 million in 2015, $5.2 million in 2016 and $6.2 million in 2017. In March 2018, we distributed to our shareholders approximately $5.8 million and tax was withheld at a rate of 20%.

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.

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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% will decrease 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.

Following our 2011 request to the Israeli tax authorities for applying the new benefits under the 2011 Amendment, we applied in 2013 for a tax ruling with respect to 2012 and future years. At the beginning of 2014, we obtained the ruling that applied to financial years 2012 to 2016, which provided that the portion of our income attributed to the Preferred Enterprise (and thereby subject to lower tax rates) was calculated each year based on, among other things, the ratio between the number of our employees in Israel and abroad. According to the ruling, our tax rate on income in Israel in 2016 was approximately 22%.

The 2017 amendment ("Preferred Technological Enterprises")

Amendment 73 to the Investment Law, which came into effect on January 1, 2017, provides a new tax incentive regime and stipulates that regulations are to be promulgated by no later than March 31, 2017 to implement the "Nexus Principles," based on OECD guidelines recently 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 $19 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 $2 million was previously made in the company; or

growth in sales or workforce by an average of 25% over the three years preceding the applicable 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 Israeli 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.

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.

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Eligibility for the benefits under the law is not subject to receipt of prior approval from any governmental authority. We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. However, the definition may be amended from time to time and the Israeli tax authorities, which reassess our qualifications annually, may determine that we no longer qualify as an Industrial Company. As a result of either of the foregoing, the benefits described above might not be available in the future.

Israeli Transfer Pricing Regulations

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

Capital Gains Tax on the Sale of our Ordinary Shares

General

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

Israeli Residents

Generally, as of January 1, 2012, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale, *i.e.*, such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate will be 30%. However, the foregoing tax rates will not apply to individuals: (i) who are dealers in securities; or (ii) who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of listed shares.

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

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As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year (NIS 803,520 in the 2016 tax year)), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of such threshold. For this purpose, taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions. Under an amendment to the Israeli Income Tax Ordinance enacted in December 2016, for 2017 and thereafter the rate of High Income Tax will increase to 3% and will be applicable to annual income exceeding NIS 640,000 (linked to the CPI each year, which amounts to NIS 641,880 in the 2018 year).

Non-Residents of Israel

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

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

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

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

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Dividend Taxation

Income Taxes on Dividends Distributed by the Company to Israeli Residents

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

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

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

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

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Distributions on Ordinary Shares

Subject to the discussion under the heading "Passive Foreign Investment Companies" below, a U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on Ordinary Shares (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution which exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder's tax basis for the Ordinary Shares to the extent thereof, and then capital gain. Corporate holders generally will not be allowed a deduction for dividends received. For noncorporate U.S. Holders, to the extent that their total adjusted income does not exceed applicable thresholds, the maximum federal income tax rate for "qualified dividend income" and long-term capital gains is generally 15%. For those noncorporate U.S. Holders whose total adjusted income exceeds such income thresholds, the maximum federal income tax rate for "qualified dividend income" and long-term capital gains is generally 20%. For this purpose, "qualified dividend income" means, *inter alia*, dividends received from a "qualified foreign corporation." A "qualified foreign corporation" is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States which includes an exchange of information program. The IRS has stated that the Israel/U.S. Tax Treaty satisfies this requirement and we believe we are eligible for the benefits of that treaty.

In addition, our dividends will be qualified dividend income if our Ordinary Shares are readily tradable on Nasdaq or another established securities market in the United States. Dividends will not qualify for the preferential rate if we are treated, in the year the dividend is paid or in the prior year, as a passive foreign investment company, or PFIC. A U.S. Holder will not be entitled to the preferential rate: (1) if the U.S. Holder has not held our Ordinary Shares or ADRs for at least 61 days of the 121-day period beginning on the date which is 60 days before the ex-dividend date, or (2) to the extent the U.S. Holder is under an obligation to make related payments on substantially similar property. Any days during which the U.S. Holder has diminished its risk of loss on our Ordinary Shares are not counted towards meeting the 61-day holding period. Finally, U.S. Holders who elect to treat the dividend income as "investment income" pursuant to Code section 163(d)(4) will not be eligible for the preferential rate of taxation.

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

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

Disposition of Shares

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

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

Tax on Net Investment Income

U.S. Holders who are individuals, estates or trusts will generally be required to pay 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.

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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.

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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.

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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, 2017.

Currency	**Current Monetary Assets (Liabilities)-net**
	($ in thousands)
NIS	1,149
Euro	(52)
Romanian Ron	182
Other non-dollar currencies	201
	1,480

Our annual expenses paid in NIS are approximately $5.3 million. Accordingly, we estimate that a hypothetical increase of the value of the NIS against the U.S. dollar by 1% would result in an increase in our operating expenses by approximately $53,000 for the year ended December 31, 2017.

We are exposed to changes in prices of various securities in which we invest. As of December 31, 2017, we held short term investments (mainly highly-rated municipal bonds) of approximately $5.9 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 $0.59 million.

As of December 31, 2017, 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.

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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, 2017. 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, 2017.

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, 2017 and concluded that our internal control over financial reporting was effective as of December 31, 2017.

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 2016 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.

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Item 16C. Principal Accountant Fees and Services

In the annual meeting held on August 9, 2017, our shareholders re-appointed Brightman Almagor Zohar & Co., certified public accountants in Israel and a member of Deloitte Touche Tohmatsu Limited, as our independent auditor until the close of the following year's annual general meeting. Brightman Almagor Zohar has served as our independent auditor since 2009.

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

	Years ended December 31,	
	2016	2017
Audit Fees	$78,973	$85,611
Audit-Related Fees	-	-
Tax Fees	-	$23,304
Total	$78,973	$108,915

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.

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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
4.1***	MIND 1998 Share Option Plan
4.2***	MIND 2000 Share Option Plan
4.3****	MIND 2011 Share Incentive Plan
4.4*****	Compensation Policy of Directors and Officers, as adopted June 24, 2013 and re-approved on August 11, 2016
8	List of Subsidiaries
11****	Code of Ethics and Business Conduct
12.1	Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act
12.2	Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act
13.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act
13.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act
15.1	Consent of Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu Limited
101	The following financial information from MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language):

(i) Consolidated Balance Sheets at December 31, 2017 and 2016;
(ii) Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015;
(iii) Consolidated Comprehensive Income for the years ended December 31, 2017, 2016 and 2015;
(iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015;
(v) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015; 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.

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SIGNATURES

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

MIND CTI LTD.

/s/ *Monica Iancu*
By: Monica Iancu
Title: President & CEO
Date: April 16, 2018

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MIND C.T.I. LTD.

(An Israeli Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR 2017

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MIND C.T.I. LTD.

(An Israeli Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of MIND C.T.I. LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MIND C.T.I. Ltd and its subsidiaries ("the Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Brightman Almagor Zohar & Co.

Certified Public Accountants

Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel

April 17, 2018

We have served as the Company's auditor since 2009.

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MIND C.T.I. LTD.

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2017	December 31, 2016
		U.S. dollars in thousands	
A S S E T S			
CURRENT ASSETS:			
Cash and cash equivalents	9a	$5,014	$9,165
Short-term bank deposits		6,102	5,033
Marketable securities	2a	5,878	4,784
Accounts receivable, net:	9b		
Trade		1,239	1,098
Other		843	176
Prepaid expenses		347	319
Deferred cost of revenues		-	-
Inventories		4	5
Total current assets		19,427	20,580
INVESTMENTS AND OTHER NON-CURRENT ASSETS:			
Marketable securities - available-for-sale	2b	544	832
Long-term bank deposits		101	-
Severance pay fund	5	1,642	1,565
Deferred income taxes	8e	32	95
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	3	202	498
GOODWILL	4	5,430	5,430
Total assets		$27,378	$29,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accruals:			
Trade		$113	$51
Other	9c	837	1,233
Deferred revenues		3,556	4,079
Total current liabilities		4,506	5,363
LONG-TERM LIABILITIES:			
Deferred revenues		138	665
Employees' rights upon retirement	5	1,712	1,687
Total liabilities		6,356	7,715

Commitments and contingencies	6		
SHAREHOLDERS' EQUITY:	7		
Share capital- Ordinary shares of NIS 0.01 par value – Authorized: 88,000,000 shares at December 31, 2017 and 2016; Issued: 21,660,010 shares at December 31, 2017 and 2016; Outstanding: 19,307,418 and 19,261,418 shares at December 31, 2017 and 2016, respectively		54	54
Additional paid-in capital		26,180	25,998
Accumulated other comprehensive loss		(804)	(867)
Accumulated deficit		(2,854)	(2,293)
Treasury shares - 2,352,592 and 2,398,592 shares at December 31, 2017 and 2016, respectively		(1,554)	(1,607)
Total shareholders' equity		21,022	21,285
Total liabilities and shareholders' equity		$27,378	$29,000

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

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MIND C.T.I. LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Years ended December 31, 2017	2016	2015
		U.S. dollars in thousands, except per share data		
REVENUES:	10a			
Sales of licenses		$2,441	$3,924	$3,942
Services		15,621	14,128	16,986
		18,062	18,052	20,928
COST OF REVENUES				
Cost of sales of licenses		238	349	418
Cost of services		6,795	6,482	8,212
		7,033	6,831	8,630
GROSS PROFIT		11,029	11,221	12,298
RESEARCH AND DEVELOPMENT EXPENSES	10b	3,417	3,517	2,943
SELLING AND MARKETING EXPENSES	10c	1,250	1,105	1,173
GENERAL AND ADMINISTRATIVE EXPENSES	10d	1,676	1,393	1,766
OPERATING INCOME		4,686	5,206	6,416
GAIN ON DISPOSAL OF A SUBSIDIARY		893		
FINANCIAL INCOME (EXPENSES) - net	10e	630	166	(114)
INCOME BEFORE TAXES ON INCOME		6,209	5,372	6,302
TAXES ON INCOME	8f	597	1,169	1,284
NET INCOME		$5,612	$4,203	$5,018
EARNINGS PER SHARE - Basic and diluted	10f	$0.29	$0.22	$0.26
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN COMPUTATION OF EARNINGS PER SHARE - IN THOUSANDS	10f			
Basic		19,292	19,234	19,183

Diluted	19,559	19,307	19,283

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

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MIND C.T.I. LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
COMPREHENSIVE INCOME			
Net Income	$5,612	$4,203	$5,018
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) from available-for-sale securities	63	205	(132)
TOTAL COMPREHENSIVE INCOME	$5,675	$4,408	$4,886

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MIND C.T.I. LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital Number Outstanding of shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Treasury shares	Total
	In thousands	U.S. dollars in thousands					
BALANCE AS OF JANUARY 1, 2015	19,110	$54	$25,724	$(940)	$(564)	$(1,863)	$22,411
CHANGES DURING 2015:							
Comprehensive income	-	-	-	(132)	5,018	-	4,886
Dividend paid (Note 7c)	-	-	-	-	(5,758)	-	(5,758)
Employees share based compensation expenses	-	-	138	-	-	-	138
Exercise of options issued to employees from treasury shares	92	-	-	-	-	171	171
BALANCE AS OF DECEMBER 31, 2015	19,202	54	25,862	(1,072)	(1,304)	(1,692)	21,848
CHANGES DURING 2016:							
Comprehensive income	-	-	-	205	4,203	-	4,408
Dividend paid (Note 7c)	-	-	-	-	(5,192)	-	(5,192)
Employees share based compensation expenses	-	-	136	-	-	-	136
Exercise of options issued to employees from treasury shares	59	-	-	-	-	85	85
BALANCE AS OF DECEMBER 31, 2016	19,261	54	25,998	(867)	(2,293)	(1,607)	21,285
CHANGES DURING 2017:							
Comprehensive income	-	-	-	63	5,612	-	5,675
Dividend paid (Note 7c)	-	-	-	-	(6,173)	-	(6,173)
Employees share based compensation expenses	-	-	182	-	-	-	182
Exercise of options issued to employees from treasury shares	46	-	-	-	-	53	53
BALANCE AS OF DECEMBER 31, 2017	19,307	$54	$26,180	$(804)	$(2,854)	$(1,554)	$21,022

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

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MIND C.T.I. LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31		
	2017	2016	2015
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$5,612	$4,203	$5,018
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	104	161	173
Deferred income taxes, net	63	146	(46)
Accrued severance pay	(145)	(123)	105
Foreign currency exchange rate loss from marketable securities – available-for-sale		128	-
Unrealized loss from marketable securities, net	30	23	98
Employees share-based compensation	182	136	138
Gain on disposal of subsidiary	(893)	-	-
Realized loss (gain) on sale of marketable securities – available-for-sale, net	25	(44)	-
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(141)	1,145	352
Other	(680)	37	21
Decrease (increase) in prepaid expenses and deferred cost of revenues	(28)	(9)	95
Decrease in inventories	1	4	1
Increase (decrease) in accounts payable and accruals:			
Trade	62	(186)	99
Other	(396)	(1,031)	(42)
Increase (decrease) in deferred revenues	(1050)	654	285
Net cash provided by operating activities	2,746	5,244	6,297
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in marketable securities – available-for-sale	-	(1,000)	-
Proceeds from sales of marketable securities – available-for-sale	326	1,730	-
Purchase of property and equipment	(71)	(68)	(146)
Severance pay funds	93	82	(32)
Proceeds from (investment in) short-term bank deposits	(1,170)	(3,535)	3,053
Proceeds from (investment in) marketable securities	(1,124)	344	(210)
Proceeds from sale of subsidiary	1,169	-	-
Net cash provided by (used in) investing activities	(777)	(2,447)	2,665
CASH FLOWS FROM FINANCING ACTIVITIES:			
Employee stock options exercised and paid	53	85	171
Dividend paid	(6,173)	(5,192)	(5,758)

Net cash used in financing activities	(6,120)	(5,107)	(5,587)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,151)	(2,310)	3,375
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,165	11,475	8,100
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	$5,014	$9,165	$11,475
SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND NON-CASH ACTIVITIES-			
Taxes paid	$935	$841	$414

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

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

a. General:

1) Nature of operations

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

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

2) Accounting principles

The consolidated financial statements were prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”).

3) Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates. The most significant estimates with regard to the Company’s consolidated financial statements relate to revenue recognition of products and service sales using the percentage of completion method and the impairment of goodwill.

4) Functional currency

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

Transactions and balances originally denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are re-measured into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (detailed below) reflected in the statements of operations, the following exchange rates are used: (i) for transactions: exchange rates at transaction dates or average rates; and (ii) for other items (derived from non-monetary balance sheet items, such as depreciation and amortization, etc.) - historical exchange rates. The resulting currency translation gains or losses are carried to financial income or expenses, as appropriate.

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of consolidation:

1) The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries.

2) Inter-company balances and transactions have been eliminated in consolidation. Profits from inter-company sales, not yet realized outside the Company and its subsidiaries, have also been eliminated.

c. Comprehensive Income:

The purpose of reporting comprehensive income is to report a measure of all changes in equity of an entity that result from recognized transactions and other economic events of the period resulting from transactions from non-owner sources.

d. Segment Reporting:

The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, management has determined that the Company operates in one reportable segment.

e. Cash equivalents:

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

f. Fair Value of Financial Instruments:

The Company records its financial assets and liabilities at fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company recognizes transfers among Level 1, Level 2 and Level 3 classifications as of the actual date of the events or change in circumstances that caused the transfers.

The Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities have carrying amounts which approximate fair value due to the short-term maturity of these instruments.

MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Short-term bank deposits:

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

h. Marketable securities:

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

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

Available-for-sale investments are classified within short-term investments, or long-term investments based on the remaining maturity of the investment, and are reported at fair value, with unrealized gains and losses, net of tax, presented as a separate component of stockholders' equity (deficit) within accumulated other comprehensive income. All realized gains and losses and unrealized losses resulting from declines in fair value that are other-than-temporary are recorded in other expense, net in the period of occurrence. The Company uses the specific identification method to determine the realized gains and losses on investments. For all investments in marketable securities, the Company assesses whether the impairment is other-than-temporary. If the fair value of a security is less than its amortized cost basis, an impairment is considered other-than-temporary if (i) the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its entire amortized cost basis, or (ii) the Company does not expect to recover the entire amortized cost of the security. If an impairment is considered other-than-temporary based on condition (i), the entire difference between the amortized cost and the fair value of the security is recognized in earnings. If an impairment is considered other-than-temporary based on condition (ii), the amount representing credit losses, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the security, will be recognized in earnings, and the amount relating to all other factors will be recognized in other comprehensive income. The Company evaluates both qualitative and quantitative factors such as duration and severity of the unrealized losses, credit ratings, default and loss rates of the underlying collateral, structure and credit enhancements to determine if a credit loss may exist. See also Note 2.

i. Inventories:

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

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Long-term bank deposits:

Long-term bank deposits are deposits with maturities of more than one year. These deposits are presented at cost and earn interest at market rates. The deposits and accumulated interest approximate fair value.

k. Property and equipment:

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

2) The assets are depreciated by the straight-line method, on basis of their estimated useful life.

Annual rates of depreciation are as follows:

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

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

l. Goodwill:

Goodwill reflects the excess of the purchase price of subsidiaries acquired over the fair value of net assets acquired. Under Accounting Standards Codification ("ASC") 350, "Goodwill" is not amortized but rather tested for impairment at least annually. The Company has a single reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. The Company performs annual testing for impairment of the goodwill during the third quarter of each year, see also Note 4.

m. Income taxes:

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

Deferred tax liabilities and assets are classified as non-current.

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

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenue recognition:

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

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

i) *Licenses*

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

ii) *Services*

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

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

(iii) *Managed Services*

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

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

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Research and development expenses:

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

p. Allowance for doubtful accounts:

The allowance is determined for specific debts doubtful of collection.

q. Share-based compensation:

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

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

r. Earnings per share ("EPS"):

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

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

s. Treasury shares:

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

t. Concentration of credit risks:

Most of the Company's and its subsidiaries' cash and cash equivalents as of December 31, 2017 and 2016 were deposited with Israeli, European and U.S. banks. The Company is not aware of any specific credit risks in respect of these banks.

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

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Recently issued accounting pronouncements:

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract(s); (3) determine the transaction price(s); (4) allocate the transaction price(s) to the performance obligations in the contract(s); and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires advanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"), which defers the effective date of FASB's revenue standard under ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. As a result of ASU 2015-14, the guidance under ASU 2014-09 shall apply for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarified the implementation guidance regarding performance obligations and licensing arrangements. In May 2016, the FASB issued ASU 2016-12, which amends guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax and transition. ASU 2016-08, ASU 2016-10 and ASU 2016-12 must be adopted together with the new revenue standard. The Company adopted ASU 2014-09 under the modified retrospective option effective January 1, 2018 and evaluates the cumulative effect of the new standard on retained earnings as of January 1, 2018 is approximately $450 thousand.

In January 2017, the FASB issued ASU 2017-04, "Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 reduces the complexity of goodwill impairment tests by no longer requiring entities to determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance will be effective for the fiscal year beginning on January 1, 2020, including interim periods within that year (early adoption is permitted). The Company is currently evaluating the potential effect of ASU 2017-04 on its consolidated financial statements.

In January 2016 the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", which provides targeted improvements to the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. Specific accounting areas addressed include, equity investments, financial liabilities reported under the fair value option and valuation allowance assessment resulting from unrealized losses on available-for-sale securities. ASU 2016-01 also changes certain presentation and disclosure requirements for financial instruments. The Update is to be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. ASU 2016-01 is effective for the Company in its first quarter of fiscal year 2018. Early adoption, with certain exceptions, is not permitted. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements.

MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Recently issued accounting pronouncements: (continued)

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which amends, among other things, the existing guidance by requiring lessees to recognize lease assets (right-to-use) and liabilities (for reasonably certain lease payments) arising from operating leases on the balance sheet. For leases with a term of twelve months or less, ASU 2016-02 permits an entity to make an accounting policy election to recognize such leases as lease expense, generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 using a modified retrospective approach, with early adoption permitted. The Company is currently evaluating ASU 2016-02 and its impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which simplifies certain provisions associated with the accounting for stock compensation. Among other things, ASU 2016-09 requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of income and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting”, which provides guidance on changes to terms and conditions of share-based payment awards (“ASU 2017-09”). ASU 2017-09provides guidance about which changes to terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for the fiscal year beginning on January 1, 2018, including interim periods within that year. The Company is currently reviewing and evaluating ASU 2017-09 and its impact on its consolidated financial statements.

NOTE 2 - MARKETABLE SECURITIES

	Maturity year	December 31, 2017	2016
		U.S. dollars in thousands	
Short-term (a):			
Municipal bond		$4,806	$4,117
Corporate bond		1,072	667
		$5,878	$4,784
Long-term - security bond (b)	Perpetual	$544	$832

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

b. As of December 31, 2017 the Company held a long-term security bond which is classified as available-for-sale security and presented at fair value. The fair value of the available-for-sale security based on quoted prices in active markets for identical instruments (Level 1 as defined under ASC 820).

MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PROPERTY AND EQUIPMENT

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

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Computers and electronic equipment	$1,848	$1,807
Land	-	263
Office furniture and equipment	155	152
Vehicles	146	146
Leasehold improvements	18	8
	2,167	2,376
Less - accumulated depreciation and amortization	1,965	1,878
	$202	$498

b. Depreciation and amortization expenses totaled $104 thousand, $161 thousand and $173 thousand in the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 4 - 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.

The Company has 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, the Company determines 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 the Company concludes otherwise, the Company is required to perform the first step of a two-step impairment test.

Alternatively, the Company 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.

The Company performed the annual impairment tests during the third quarter of 2017, 2016 and 2015 and did not identify any indication for impairment losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EMPLOYEES' RIGHTS UPON RETIREMENT

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

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

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Accrued severance pay	$1,712	$1,687
Less - amounts funded (presented in "investment and other non-current assets")	(1,642)	(1,565)
Unfunded balance	$70	$122

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

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

b. The severance pay expenses were $113 thousand, $169 thousand and $271 thousand in the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

The Company and its subsidiaries entered into premises lease agreements that will expire between 2018 and 2025.

Future minimum lease commitments of the Company and its subsidiaries under the above leases, at exchange rates in effect on December 31, 2017, are as follows:

	U.S. dollars in thousands
Years ending December 31:	
2018	$ 503
2019	504
2020	213
2021	50
2022-2025	158
	$ 1,428

Rental expense totaled $489 thousand, $542 thousand and $529 thousand in the years ended December 31, 2017, 2016 and 2015, respectively.

b. Contingent liabilities:

The Company has provided bank guarantees relating to future performance on certain contracts. As of December 31, 2017, contingent liabilities on outstanding bank guarantees aggregated to an amount of approximately $45 thousand.

MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - SHAREHOLDERS' EQUITY

a. Share capital:

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

b. Treasury shares:

During the period between September 2008 and December 2009, the Company has purchased an aggregate amount of 3,165,092 ordinary shares for a total consideration of approximately $2.8 million. Currently, the Company does not have an active buyback plan. As of December 31, 2017 the remaining treasury shares are 2,352,592 which amounted to $1.6 million after exercise of options issued to employees from treasury shares in the amount of $53 thousand, $85 thousand and $171 thousand in the years ended December 31, 2017, 2016 and 2015 respectively.

c. Dividend:

Dividends paid per share in the years ended December 31, 2017, 2016 and 2015 were $0.32, $0.27 and $0.30, respectively.

The Company paid dividends to its shareholders in the amounts of $6.2 million, $5.2 million and $5.8 million during the years ended December 31, 2017, 2016 and 2015, respectively.

d. Stock option plans:

In 2011, the Board of Directors and the 2011 Annual General Meeting of the Company's shareholders approved a share incentive plan (the "2011 Share Incentive Plan"). Under the 2011 Share Incentive Plan, options for up to

1,800,000 ordinary shares of NIS 0.01 par value are to be granted to employees of the Company and its subsidiaries, directors, consultants or contractors of the Company.

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

The Board of Directors determines the exercise price and the vesting period of the options granted. The outstanding options granted under the above mentioned plan vest over 2-4 years. Options not exercised will expire 5 years after the day of grant.

The compensation costs charged against income for all of the Company's equity incentive plans during the years ended December 31, 2017, 2016 and 2015 were approximately $182 thousand, $137 thousand and $138 thousand, respectively without any reduction in income taxes.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

d. Stock option plans: (continued)

The following is a summary of the status of the 2011 Share Incentive Plan as of December 31, 2017, 2016 and 2015, and changes during the years ended on those dates:

1)

	Years ended December 31,					
	2017		2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding at beginning of year	875,500	$ 1.60	710,300	$ 2.51	851,600	$ 2.63
Changes during year:						
Granted (a)	90,000	$ 0.65	344,000	$ 0.003	116,800	$ 1.66
Exercised	(46,000)	$ 1.15	(59,000)	$ 1.45	(92,100)	$ 1.85
Forfeited	(78,400)	$ 1.41	(117,800)	$ 2.49	(166,000)	$ 2.88
Expired	(28,000)	$ 2.95	(2,000)	$ 2.16	-	-
Options outstanding at end of year	813,100	$ 1.49	875,500	$ 1.60	710,300	$ 2.51
Options exercisable at end of year	303,000	$ 2.90	246,500	$ 2.87	51,000	$ 1.98
Vested and expected to vest at end of year	731,517	$ 1.72				
Weighted average grant date fair value of options granted during the year (b)		$ 1.30		$ 1.46		$ 0.94

(a) In the year ended December 31, 2017 the options were granted with an exercise price equal to the average closing price per share of the Company's ordinary shares on the stock market during the 30 trading day period immediately preceding the date of grant of such option or with an exercise price equal to par value of NIS 0.01.

In the year ended December 31, 2016 the options were granted with an exercise price equal to par value of NIS 0.01.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

d. Stock option plans: (continued)

1) (continued)

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

	Years ended December 31,		
	2017	2016	2015
Dividend yield	11 %	11 %	10 %
Expected volatility*	35 %	35 %	48 %
Average risk-free interest rate	1.9 %	2.0 %	1.5 %
Expected average term - in years	3.88	3.88	3.88

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

As of December 31, 2017 there were approximately $447 thousand of total unrecognized compensation costs, net of expected forfeitures, related to nonvested share-based compensation awards granted under the stock option plan. The costs are expected to be recognized over a weighted average period of 1.41 years.

2) The following table summarizes information about options outstanding and exercisable as of December 31, 2017:

	Options Outstanding			Options Exercisable		
Range of exercise prices	Number outstanding at December 31, 2017	**Weighted average remaining contractual life**	**Weighted average exercise price**	Number exercisable at December 31, 2017	**Weighted average remaining contractual life**	**Weighted average exercise price**
		Years			**Years**	
$ 0.003 – 2.160	409,600	3.73	$ 0.10	18,000	0.18	$ 2.16
$ 2.425 – 2.947	403,500	2.01	$ 2.91	285,000	1.85	$ 2.94
	813,100	2.88	$ 1.49	303,000	1.75	$ 2.90

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 were approximately $70 thousand, $51 thousand and $176 thousand, respectively. As of December 31, 2017, the aggregate intrinsic value of the outstanding options is $1.1 million, and the aggregate intrinsic value of the exercisable options is $11 thousand.

NOTE 8 - TAXES ON INCOME

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

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

MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TAXES ON INCOME (continued)

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

1) Tax benefits prior to the 2011 Amendment

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

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

The entitlement to the above benefits was conditional upon the Company's fulfilling the conditions stipulated by the above law, regulations published thereunder and the certificate of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli CPI and interest.

2) Tax benefits under the 2011 Amendment

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

The 2011 Amendment introduced a new status of "Preferred Enterprise". Similarly to the "Approved Enterprise" status, a Preferred Company is an industrial company meeting certain conditions (including a minimum threshold of 25%

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

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

MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TAXES ON INCOME (continued)

b. Tax benefits under the Investment Law: (continued)

2) Tax benefits under the 2011 Amendment (continued)

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

Tax Year	Development Region "A"	Other Areas within Israel
2011-2012	10 %	15 %
2013	7 %	12.5 %
2014 and thereafter	9 %	16 %

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

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

During 2013, the Company applied for a tax ruling with respect to 2012 and future years. During 2014, the Company obtained the ruling, which provides that the portion of the income attributed to the "Preferred Enterprise" (and thereby subject to lower tax rates) will be calculated each year based on, among other things, the ratio between the number of the employees in Israel and abroad. According to the ruling, the tax rate on income in Israel in the year ended December 31, 2016 was approximately 22%.

c. Tax benefits:

On February 18, 2018 the Company received a status of “Technologic Preferred Enterprise” as defined under the Encouragement of Capital Investment Law -1959 (the “Approval”). In accordance with the Approval, starting 2017 until 2021, revenues originating from granting the right of use as defined in the Approval, will be defined as Technologic Preferred Revenue, as defined under the Law, and will be subject to tax rate of 7.5%.

d. Other applicable tax rates:

1) Income from other sources in Israel

In January 2016, a legislation to amend the corporate income tax law was published. The legislation determined a decrease of the corporate income tax law as of January 1, 2016 to 25% (1.5% decrease).

In December 2016, a legislation to amend the corporate income tax law was published. The legislation determined a decrease of the corporate income tax law as of January 1, 2017 to 24% and another decrease of the corporate income tax law as of January 1, 2018 to 23%.

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TAXES ON INCOME (continued)

d. Other applicable tax rates: (continued)

2) Income of non-Israeli subsidiaries

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

e. Deferred income taxes:

	December 31	
	2 0 1 7	2 0 1 6
	U.S. dollars in thousands	
1) Provided in respect of the following:		
Research and development expenses	$23	$51
Carryforward tax losses	1,738	1,867
Other	9	44
Less - valuation allowance	(1,738)	(1,867)
	$32	$95

In fiscal year 2016 the Company adopted ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes". Upon retrospectively adoption the Company included its current deferred income tax assets with its noncurrent deferred income tax assets; no adjustments were made to deferred tax liabilities.

2) As of December 31, 2017, the carryforward tax losses are related mainly to the Company's subsidiaries (in the U.S. and U.K.) and amounted to approximately $5.2 million. The Company has provided valuation allowance in respect of deferred tax assets resulting from carryforward tax losses of the Company's subsidiaries. Management currently believes that it is more likely than not that those deferred tax losses will not be realized in the foreseeable future.

f. Taxes on income included in the statements of operations:

1) As follows:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Current:			
In Israel	$491	$945	$1,283
Outside Israel	43	78	99
	534	1,023	1,382
Taxes in respect of previous years	-	-	(52)
Deferred taxes in Israel	63	146	(46)
	$597	$1,169	$1,284

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TAXES ON INCOME (continued)

f. Taxes on income included in the statements of operations: (continued)

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

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Income before taxes on income, as reported in the statements of operations*	$6,209	$5,372	$6,302
Theoretical tax expense	1,428	1,343	1,670
Less - tax benefits arising from approved enterprise status, see a. above	(1,110)	(208)	(271)
	318	1,135	1,399
Increase (decrease) in taxes resulting from permanent differences:			
Disallowable deductions	41	42	42
Taxes in respect of previous years	-	-	(52)
Changes in valuation allowance	244	373	(747)
Changes in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate and other	(6)	(381)	642
Taxes on income for the reported years:	$597	$1,169	$1,284
* As follows:			
Taxable in Israel	$5,162	$4,406	$5,346
Taxable outside Israel	1,047	966	956
	$6,209	$5,372	$6,302

g. Tax assessments:

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

h. Sale of S.C. Dirot COMP S.R.L ("DIROT"):

In April 2017, the Company sold its holdings in "DIROT" for EUR 1,100 thousand. Following the sale, the Company recognized a capital gain, which was partialy offset against carryforward capital losses from previous years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - SUPPLEMENTARY BALANCE SHEET INFORMATION

a. Cash and cash equivalents:

The balance as of December 31, 2017 and 2016 includes $7.2 million and $8.6 million, respectively, of highly liquid bank deposits. The deposits are mainly denominated in dollars and, as of December 31, 2017, bear weighted average annual interest of 1.57%.

b. Accounts receivable:

1) Trade:

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Open accounts	$524	$1,098
Less - allowance for doubtful accounts *	-	-
	$524	$1,098

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

Years ended December 31,		
2017	2016	2015
U.S. dollars in thousands		

Balance at beginning of year	-	$245	$-
Increase (decrease) during the year	-	(245)	245
Balance at end of year	$-	$-	$245

2) Other:

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Government of Israel	$659	$10
Employees	25	8
Sundry	159	158
	$843	$176

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued)

c. Accounts payable and accruals - other:

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Payroll and related expenses	$507	$702
Government institutions	208	348
Accrued vacation pay	52	67
Accrued expenses and sundry	70	116
	$837	$1,233

NOTE 10 - SELECTED STATEMENT OF OPERATIONS DATA

a. Revenues:

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

The following table sets forth the revenues classified by product lines:

Years ended December 31,		
2017	2016	2015
U.S. dollars in thousands		

Product line “A”	$14,722	$14,544	$16,567
Product line “B”	3,340	3,508	4,361
	$18,062	$18,052	$20,928

2) The following table sets forth the geographical revenues classified by geographical location of the customers:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
United States	$12,995	$12,711	$11,292
United Kingdom	457	589	904
Rest of Europe	2,724	2,744	5,793
Israel	977	880	1,417
Other	909	1,128	1,522
	$18,062	$18,052	$20,928

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MIND C.T.I. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - SELECTED STATEMENT OF OPERATIONS DATA (continued)

a. Revenues: (continued)

Property and equipment - by geographical location:

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Israel	$85	$119
Romania	116	378
United States	1	1
	$202	$498

b. Research and development expenses:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Payroll and related expenses	$2,788	$2,682	$2,148
Rent and related expenses	280	330	321
Depreciation and amortization	37	53	72
Subcontracting	165	307	202
Other	147	145	200
	$3,417	$3,517	$2,943

c. Selling and marketing expenses:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Payroll and related expenses	$953	$911	$949
Depreciation and amortization	5	5	4
Travel and conventions	58	71	123
Other	234	118	97
	$1,250	$1,105	$1,173

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - SELECTED STATEMENT OF OPERATIONS DATA (continued)

d. General and administrative expenses:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Payroll and related expenses	$1,105	$1,039	$923
Depreciation and amortization	16	18	19
Insurance	42	50	55
Office expenses	58	69	68
Professional services	326	242	276
Allowance for doubtful accounts and bad debts	-	(245)	245
Other	129	220	180
	$1,676	$1,393	$1,766

e. Financial income (expense) - net:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Income:			
Interest on bank deposits and short-term investments	$75	$49	$54
Non-dollar currency gains - net	419	69	-
Income from marketable securities	136	143	102
Realized gain from sale of available-for-sale securities		-	-
Interest on available for sale securities	42	58	59
	672	319	215
Expenses:			
Non-dollar currency losses - net	(4)	(56)	(315)
Realized loss from sale of available-for-sale securities	(24)	(84)	-

Bank commissions and charges	(14)	(13)	(14)
	(42)	(153)	(329)
	$630	$166	$(114)

f. Earnings per ordinary share ("EPS"):

The following table sets forth the computation of the Company's basic and diluted net loss per share of common stock:

	Years ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Weighted average number of shares issued and outstanding - used in computation of basic EPS	19,292	19,234	19,183
Add - incremental shares from assumed exercise of options	267	73	100
Weighted average number of shares used in computation of diluted EPS	19,559	19,307	19,283

In the years ended December 31, 2017, 2016 and 2015, options that their effect was anti-dilutive, were not taken into account in computing the diluted EPS.

The number of options that could potentially dilute EPS in the future and were not included in the computation of diluted EPS is 354,000 options, 489,500 options and 708,000 options, for the years ended December 31, 2017, 2016 and 2015 respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - RELATED PARTIES

a. Balances

As of December 31, 2017 and 2016, the Company had an accrual in the amount of $240 thousand and $215 thousand, respectively, pursuant to an employment agreement with its CEO.

b. Transactions

During 2017, 2016 and 2015, the Company recorded salary expenses, cash bonus and directors’ fee to its related parties in the amount of $558 thousand, $596 thousand and $540 thousand respectively.

NOTE 12 - SUBSEQUENT EVENT

In March 2018, the Company distributed dividend to its shareholders in the amount of approximately $5.8 million.