MER TELEMANAGEMENT SOLUTIONS LTD
Form 20-F
March 25, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

o 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: 0-28950

MER TELEMANAGEMENT SOLUTIONS LTD.
(Exact Name of Registrant as specified in its charter and translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

14 Hatidhar Street, Ra'anana 4366516, Israel
(Address of principal executive offices)

Alon Mualem (Chief Financial Officer), +972-9-7777-555 (phone), +972-9-7777-566 (fax)
14 Hatidhar Street, Ra'anana 4366516, Israel
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.01 Par Value	NASDAQ Capital Market

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 0.01 per share……………4,672,664
(as of December 31, 2014)

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

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 o No x

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 x No o

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 x No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

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 o Item 18 o

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 o No x

This Report on Form 20-F is incorporated by reference into our Form S-8 Registration Statements File Nos. 333-123321 and 333-180369.

INTRODUCTION

We are a worldwide provider of solutions for telecommunications expense management, or TEM, used by enterprises, and billing solutions used by information and telecommunication service providers. Our TEM solutions assist enterprises and organizations to make smarter choices with their telecommunications spending at each stage of the service lifecycle, including allocation of cost, proactive budget control, fraud detection, processing of payments and spending forecasting. Our converged billing solutions have been successfully implemented worldwide by wireless providers, Voice over Internet Protocol, Internet Protocol Television, and content service providers. Our converged billing solutions include applications for charging and invoicing customers, interconnect billing and partner revenue management using pre-pay and post-pay schemes, as well as a managed service for a mobile virtual network operator in the United States.

Since our public offering in May 1997, our ordinary shares have been listed on the NASDAQ Stock Market (symbol: MTSL) and are presently listed on the NASDAQ Capital Market. As used in this annual report, the terms “we,” “us” and “our” mean Mer Telemanagement Solutions Ltd. and its subsidiaries, unless otherwise indicated. As used in this annual report, “MTS IntegraTRAK” means MTS IntegraTRAK Inc., our wholly-owned U.S. subsidiary.

On February 3, 2015, we entered into a share purchase agreement, or the Vexigo SPA, by and among us, Vexigo Ltd., or Vexigo, FPSV Holdings Ltd., or FPSV, and the shareholders of Vexigo and FPSV. The Vexigo SPA provides for, among other things, our purchase, directly and indirectly of all the issued and outstanding shares of Vexigo, or the Vexigo Shares. We will acquire such ownership of the Vexigo Shares by acquiring approximately 38% of the issued and outstanding Vexigo Shares, or the Acquired Vexigo Shares, from all of the shareholders of Vexigo other than FPSV, or the Sellers, and by acquiring all of the issued and outstanding shares of FPSV, or the Acquired FPSV Shares, which currently owns the remaining 62% of the outstanding Vexigo Shares from the shareholders of FPSV, or the FPSV Sellers. The aggregate consideration for the Acquired Vexigo Shares and the Acquired FPSV Shares is comprised of the following: (i) cash consideration in the amount of $4 million, to be paid in three installments as follows: (a) $3 million upon closing of the Vexigo Transaction, or the Closing, (b) $500,000 three months following the Closing and (c) $500,000 six months following the Closing, and (ii) the issuance to the sellers of the Acquired Vexigo Shares and Acquired FPSV Shares of ordinary shares, nominal value NIS 0.01 per share, or MTS Shares, representing 40% of outstanding MTS Shares post-Closing. In addition, the sellers of the Acquired Vexigo Shares and the Acquired FPSV Shares will be entitled to receive earn-out payments equal to 45% of the EBITDA of the Vexigo Product Line for a period of 5.5 years from Closing, calculated on an annual basis, subject to a minimum annual EBITDA of the Vexigo Product Line that is required to remain in Vexigo, based on the definitions included in the Vexigo SPA and up to an aggregate cap of $16 million. Therefore, immediately following the Closing, our current shareholders will own 60% of outstanding MTS Shares.

We own U.S. trademark rights for TABS by MER®, CALLTRAC®, ANCHORPOINT®, MAP-TO-WIN® and TOTAL-e™ and have common law rights in the trademarks TABS.IT, PMSI, TELSOFT SOLUTIONS, TELSOFT, MEGACALL and CALLTRAC LITE, based on use of the marks in the United States. All other trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references in this annual report to “dollars” or “$” are to U.S. dollars and all references in this annual report to “NIS” are to New Israeli Shekels.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. We urge you to consider that statements which use the terms "anticipate," "believe," "do not believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Such forward-looking statements are also included in Item 4 – "Information on the Company" and Item 5 – "Operating and Financial Review and Prospects." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3D. "Key Information - Risk Factors."

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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

The following selected consolidated financial data for and as of the five years ended December 31, 2014 are derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our audited consolidated financial statements for the three years ended December 31, 2014 and as of December 31, 2013 and 2014 appear elsewhere in this Annual Report. Our selected consolidated financial data as of December 31, 2010 and 2011 and for the years ended December 31, 2010 and 2011 have been derived from audited consolidated financial statements not included in this Annual Report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified entirely by reference to Item 5. "Operating and Financial Review and Prospects," and our consolidated financial statements and notes thereto included elsewhere in this annual report.

Statement of Operations Data:

	Year Ended December 31,				
	2010	2011	2012	2013	2014
	(in thousands, except share and per share data)				
Revenues	$11,639	$12,003	$13,126	$12,472	$7,066
Cost of revenues	4,201	3,941	4,494	4,024	2,893
Gross profit	7,438	8,062	8,632	8,448	4,173
Selling and marketing	2,584	1,905	2,457	2,164	1,868
Research and development	1,547	1,909	1,329	1,389	1,387
General and administrative	3,016	3,847	2,804	3,188	2,459
Operating income (loss)	291	401	2,042	1,707	(1,541)
Financial (expenses) income, net	--	2	60	61	(95)
Capital gain on sale of long-term investment	--	78	--	--	--
Income (loss) before taxes on income	291	481	2,102	1,768	(1,636)
Taxes on income, net	47	10	736	435	54
Net income (loss) from continuing operations	$244	$471	1,366	1,333	(1,690)
Net income (loss) from discontinued operations	(68)	(84)	-	73	80
Net income (loss)	$176	$387	1,366	1,406	(1,610)
Basic and diluted net income (loss) per share from continuing operations	$0.05	$0.11	$0.30	$0.28	$(0.36)
Basic and diluted net income (loss) per share from discontinued operations	$(0.01)	$(0.02)	--	$0.02	$0.02
Basic and diluted net income (loss) per share	$0.04	$0.09	$0.30	$0.30	$(0.34)

Weighted average number of ordinary shares used in computing basic net income (loss) per share	4,459,057	4,459,057	4,478,677	4,659,230	4,670,964
Weighted average number of ordinary shares used in computing diluted net income (loss) per share	4,459,057	4,459,057	4,531,384	4,720,966	4,670,964

Balance Sheet Data:

	As of December 31,				
	2010	2011	2012	2013	2014
	(in thousands)				
Working capital (deficiency)	$(1,129)	$(317)	$1,659	$3,455	$2,090
Total assets	9,607	9,734	11,124	12,629	10,892
Shareholders' equity	3,363	3,832	5,569	7,161	5,632

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be harmed. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.

Risks Relating to Our Business and Market

We have had operating losses in the past and may not sustain profitability in the future; to the extent that we incur operating losses, we may not have sufficient working capital to fund our operations in the future.

While we have generated operating profits in three of the past four years, we may not be able to sustain profitable operations in the future or generate positive cash flows from operations. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations in the future. If we do not generate sufficient cash from operations, we will be required to obtain additional financing or reduce level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected.

We derive the majority of our revenues from TEM call accounting solutions, the market for which has declined in recent years.

The majority of our revenues are derived from our TEM call accounting solutions, whose revenues declined each year from 2006 through 2014 and revenues for these products may not grow in the future. If the market for our TEM solutions fails to grow or stabilize in the future, our business, operating results and financial condition would be adversely affected. Our future financial performance will be dependent to a substantial degree on the successful introduction, marketing and customer acceptance of our TEM call accounting solutions.

If we do not replace the revenues generated by Simple Mobile LLC, our operations and financial condition will be adversely affected.

Our improved operations during the three years ended December 31, 2013 were attributable in great measure to our entry into the mobile virtual network operator, or MVNO, services business. We provide services to MVNOs and assist them to reduce their time to market, focus on sales and marketing and reduce their initial capital expenses. The emergence of the MVNO model in various markets worldwide is mostly related to changes in regulations and in the ability of MVNOs to address new market segments that may increase their revenue streams. Our first MVNO customer was Simple Mobile, a U.S.-based MVNO, for whom we provided MVNE services. In 2012 and 2013, sales attributable to Simple Mobile accounted for approximately 22.8% and 33.3% of our revenues, respectively. During 2012, Simple Mobile was acquired by TracFone and in 2013 TracFone migrated the hosted billing services to their own platform and did not renew their agreement with us. We are continuing our efforts to gain new customers for our MVNO services, but our future success cannot be assured. If we do not replace the revenues generated by Simple Mobile LLC, our operating results and financial condition will be adversely affected.

We are subject to risks associated with rapid technological change and risks associated with new versions and new products.

The information and telecommunication service providers market in which we compete is characterized by rapid technological change, introductions of new products, changes in customer demands and evolving industry standards. Our future success will depend upon our ability to keep pace with the technological developments and to timely address the increasingly sophisticated needs of our customers by supporting existing and new telecommunication technologies and services and by developing and introducing enhancements to our current and new products. We may not be successful in developing and marketing enhancements to our products that will respond to technological change, evolving industry standards or customer requirements. We may experience difficulties that could delay or prevent the successful development, introduction and sale of such enhancements or such enhancements may not adequately meet the requirements of the marketplace and achieve any significant degrees of market acceptance. If release dates of any new products or enhancements are delayed, or if when released, they fail to achieve market acceptance, our business, operating results and financial condition would be materially and adversely affected. In addition, the introduction or announcement of new product offerings or enhancements by us or our competitors may cause customers to defer or forgo purchases of current versions of our products, which could adversely affect our business, operating results and financial condition.

Our results may be adversely affected by intense competition.

The market for telemanagement products and invoice management solutions is fragmented and is intensely competitive. Competition in the industry is generally based on product performance, depth of product line, technical support and price. We compete both with international and local competitors (including providers of telecommunications services), many of whom have significantly greater financial, technical and marketing resources than us. We anticipate continuing competition in the telemanagement products and invoice management solution market and the entrance of new competitors into the market. Our existing and potential customers, including business telephone switching system manufacturers and vendors, may be able to develop telemanagement products and services that are as effective as, or more effective or easier to use than, those offered by us. Such existing and potential competitors may also enjoy substantial advantages over us in terms of research and development expertise, manufacturing efficiency, name recognition, sales and marketing expertise and distribution channels. We may not be able to compete successfully against current or future competitors and that competition may adversely affect our future revenues and, consequently, on our business, operating results and financial condition.

We are subject to risks relating to proprietary rights and risks of infringement.

We believe that, because of the rapid pace of technological change in the communications industry, the most significant factors in our intellectual property rights are the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services provided by us. In addition, we rely upon a combination of security devices, copyrights, trademarks, patents, trade secret laws, confidentiality procedures and contractual restrictions to protect our rights in our products. We try to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. It is possible that others will develop technologies that are similar or superior to our technology. Unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. It is difficult to police the unauthorized use of our products, and we expect software piracy to be a persistent problem, although we are unable to determine the extent to which piracy of our software products exists. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. Our means of protecting our proprietary rights in the United States or abroad may not be adequate or our competition may independently develop similar technology.

It is possible that third parties will claim infringement by us of their intellectual property rights. We believe that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merits, could: (i) result in costly litigation; (ii) divert management's attention and resources; (iii) cause product shipment delays; or (iv) require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. If there is a successful claim of product infringement against us and we are not able to license the infringed or similar technology, our business, operating results and financial condition would be adversely affected. We are not aware that we are infringing upon any proprietary rights of third parties.

Our operating results fluctuate significantly.

Our quarterly and annual results have fluctuated significantly in the past and are likely to fluctuate significantly in the future. Our future operating results will depend on many factors, including, but not limited to the following:

- demand for our products;
- ability to retain existing customers;
- changes in our pricing policies or those of our competitors;
- new product announcements by us and our competitors;
- the number, timing and significance of product enhancements;
- product life cycles;
- our ability to develop, introduce and market new and enhanced products on a timely basis;
- changes in the level of our operating expenses;
- budgeting cycles of our customers;
- customer order deferrals in anticipation of enhancements or new products that we or our competitors offer;
- changes in our strategy;
- seasonal trends and general domestic and international economic and political conditions, among others; and
- currency exchange rate fluctuations and economic conditions in the geographic areas where we operate.

Our expense levels are substantially based on our expectations for future revenues and are therefore relatively fixed in the short term. If revenue levels fall below expectations, our quarterly results are likely to be disproportionately adversely affected because a proportionately smaller amount of our expenses varies with our revenues. Our operating results are generally not characterized by a seasonal pattern, except that our sales in Europe are generally lower in the summer months.

We typically ship orders for our TABS product shortly after receipt of a purchase order and, consequently, order backlog at the beginning of any quarter has in the past represented only a small portion of that quarter’s revenues. As a result, license revenues from our TABS product in any quarter depend substantially on orders for TABS products that have been booked and shipped in that quarter. Also, we cannot predict whether revenues from our TEM Suite will be recognized in any quarter because the delivery and, in some cases, the implementation of all the components of the TEM Suite (including among, other things, customer training) are dependent on the customers individual timing requirements, which can delay the completion of these orders. In addition, a portion of our revenues from billing solutions are generated by using contract accounting on a percentage of completion method and because the completion pace varies from quarter to quarter and is dependent on different variables that are out of our control, a portion of our billing solutions revenues in any quarter depend on our customers’ operational plans, which can delay our ability to progress and complete the projects.

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Due to the foregoing, our quarterly financial performance has varied significantly in the past and may vary significantly in the future. Our revenues and operating results in any quarter may not be indicative of our future performance, and it may be difficult for investors to evaluate our prospects. In some future quarter, our operating results may be below the expectations of public market analysts and investors. In such event, it is likely that the price of our ordinary shares would be adversely affected. Accordingly, quarterly revenues and operating results are difficult to forecast, and it is likely that our future operating results will be adversely affected by these or other factors. 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.

Unfavorable national and global economic conditions could adversely affect our business, operating results and financial condition.

Worsening economic conditions, such as the continued European sovereign debt uncertainty, may result in diminished demand for our products and in decreased sales volumes. Although global economic conditions have stabilized or improved since the 2008 financial crisis, many of the markets in which we operate have not fully recovered. If the economies in the countries in which we operate continue to be uncertain or weaken further, the demand for our products and technology may decrease as a result of constraints on capital spending by our customers. In addition, this could result in longer sales cycles and increased price competition for our products. Any of these events would likely harm our business, operating results and financial condition. If global economic and market conditions, or economic conditions in the United States, Europe or Asia or other key markets, remain uncertain or weaken further, our business, operating results and financial condition may be adversely affected.

Because we collect and recognize revenue from services over the term of our customer agreements, the lack of customer renewals or new customer agreements may not be immediately reflected in our operating results.

We collect and recognize revenue from our customers in service agreements over the term of their agreements with us. As a result, the aggregate effect of a decline in new or renewed customer agreements in any one quarter would not be fully recognized in our revenue for that quarter, but would negatively affect our revenue in future quarters. Consequently, the aggregate effect of significant upturns or downturns in sales of our solution would not be fully reflected in our results of operations until future periods.

We face risks associated with expanding and maintaining our distribution network.

We sell our products through distributors, business telephone switching systems manufacturers and vendors, post, telephone and telegraph authorities, or PTTs and our direct sales force. Our ability to achieve revenue growth in the future will depend in large part on our success in establishing and maintaining relationships with business telephone switching systems manufacturers and vendors and PTTs, and establishing and maintaining relationships with distributors. Historically, we have at times experienced difficulty in establishing effective distribution relationships. We may not be able to successfully expand our distribution channels or any such expansion may not result in an increase in revenues. The failure to expand or maintain our distribution channels could adversely affect our business, operating results and financial condition.

We are subject to risks associated with international operations.

We are based in Israel and generate a large percentage of our sales in the United States. Our sales in the United States accounted for 78.1%, 86.4% and 79.8% of our total revenues for the years ended December 31, 2012, 2013 and 2014, respectively. We may not be able to maintain or increase international market demand for our products. To the extent that we cannot do so in a timely manner, our business, operating results and financial condition will be adversely affected.

International operations are subject to inherent risks, including the following:

- the impact of recessionary environments in multiple foreign markets;
- costs of localizing products for foreign markets;
- longer receivables collection periods and greater difficulty in accounts receivable collection;

- unexpected changes in regulatory requirements;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences; and
- political and economic instability.

Our distributors or resellers may not be able to sustain or increase revenues from international operations or the foregoing factors may adversely affect our future revenues and, as a result, on our business, operating results and financial condition.

We may be adversely affected by fluctuations in currency exchange rates. While our revenues are generally denominated in U.S. dollars and Euros, a portion of our expenses, primarily salaries, are incurred in NIS. From time to time, we may enter into hedging transactions in order to mitigate such fluctuations. Any hedging transactions that we enter into may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. In addition, if, for any reason, exchange or price controls or other restrictions on the conversion of foreign currencies into NIS were imposed, our business could be adversely affected. Currency fluctuations in the future may adversely affect our revenues from international sales and, consequently, on our business, operating results and financial condition.

We depend on business telephone system manufacturers, vendors and distributors for our sales.

Historically, one of the primary distribution channels for our call accounting management products has been private branch exchange, or PBX, original equipment manufacturers, or OEMs, and vendors who market our products to end-users in conjunction with their own products. We are dependent upon the active marketing and distribution efforts of our PBX OEMs and local master distributors.

Sales of call accounting solutions by PBX manufacturers and vendors have declined markedly in the recent past, and sales through this channel may continue to decline. Our future success will be dependent to a substantial degree on the marketing and sales efforts of such third parties in marketing and integrating our products. These third parties may not give priority to the sale of our products as an enhancement to their products. Although most of the major business telephone switching systems manufacturers and vendors currently rely on third party suppliers to provide call accounting and other telemanagement products, these manufacturers and vendors, including our current customers, may develop their own competing products or purchase competing products from others.

Because we sell our products through local master distributors in countries where we do not have a marketing subsidiary, we are highly dependent upon the active marketing and distribution efforts of our distributors. We also depend in large part upon our distributors for product maintenance and support. Our distributors may not continue to provide adequate maintenance and support to end-users or provide maintenance and support for new products, which might cause us to seek new or additional distributors or incur additional service and support costs. The distributors to whom we sell our products are generally not contractually required to make future purchases of our products and could, therefore, discontinue carrying our products at any time. None of our distributors or resellers is subject to any minimum purchase requirements under their agreements with us.

We may not be able to continue our relationships with our OEM customers or, if such relationships are not maintained, we may not be able to attract and retain comparable PBX OEMs. The loss of any of our major reseller or

OEM relationships, either to competitive products offered by other companies or products developed by such resellers, would adversely affect our business, financial condition and results of operations. Our future performance will depend, in part, on our ability to attract additional PBX manufacturers and vendors that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber-attacks or other breaches of network or information technology (IT) security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. In particular, both unsuccessful and successful cyber-attacks on companies have increased in frequency, scope and potential harm in recent years. Such an event may result in our inability to operate our facilities, which, even if the event is for a limited period of time, may result in significant expenses and/or loss of market share to other competitors in the market for telemanagement products and invoice management solutions. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. A failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

We have been subject, and will likely continue to be subject, to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access. However, to date, we have not been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, resulted in a material impact to our operations or financial condition.

We are subject to risks arising from product defects and potential product liability.

We may generally provide a warranty for up to three months for end-users and, in limited instances, up to twelve months. Our sales agreements typically contain provisions designed to limit our exposure to potential product liability or related claims. The limitation of liability provisions contained in our agreements may not be effective. Our products are used by businesses to reduce communication costs, recover charges payable by third parties, prevent abuse and misuse of telephone networks and converged billing solutions for information and telecommunication service providers, and as a result, the sale of products by us may entail the risk of product liability and related claims. A product liability claim brought against us could adversely affect our business, operating results and financial condition. Products such as those offered by us may contain undetected errors or failures when first introduced or when new versions are released. Despite our testing and testing by current and potential customers, errors may be found in new products or releases after commencement of commercial shipments. The occurrence of these errors could result in adverse publicity, loss of or delay in market acceptance or claims by customers against us, any of which could adversely affect our business, operating results and financial condition.

We may not be able to retain or attract the key managerial, technical and research and development personnel we need to succeed.

Our success has largely depended and will depend in the future on our skilled professional and technical employees. The competition for these employees is intense. We may not be able to retain our present employees, or recruit additional qualified employees as we require them. The loss of any key member of our management team might significantly delay or prevent the achievement of our business or development objectives. Our ability to replace key members of our management team and hire additional skilled personnel in the future might be negatively impacted by the use of restrictive covenants in our industry and market. Any failure to attract and retain key managerial, technical and research and development personnel could adversely affect our ability to generate sales, deploy our products or successfully develop new products and enhancements.

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404(a) of the Sarbanes-Oxley Act of 2002 governing internal control and procedures for financial reporting have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could adversely affect our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Risks Factors Arising From Our Pending Acquisition of Vexigo

Payment of the cash consideration pursuant to the Vexigo Transaction will significantly decrease our cash reserves, which could materially adversely affect our operations and financial strength.

As of January 31, 2015, we held cash and restricted marketable securities of approximately $5.1 million. Pursuant to the terms of the Vexigo Transaction, we will be required to pay an aggregate amount in cash of $4 million as consideration, with $3 million to be paid upon closing and two additional payments of $500,000 each three and six months following the Closing. Therefore, the consummation of the Vexigo Transaction will significantly decrease our cash reserves. In the event we will not be successful at generating sufficient cash from our current operations or from Vexigo’s operations, we may not be able to continue to manage our operations and may be required to obtain financing from outside sources or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, results of operations and financial condition will be adversely affected.

The earn-out payments under the terms of the Vexigo transaction will reduce our ability to use cash generated from Vexigo’s operations in order to fund our operations and the potential growth of our business.

The Vexigo Transaction requires us to pay the Sellers and the FPSV Sellers earn-out payments equal to 45% of the EBITDA from the Vexigo Products Line (as such term is defined in the Vexigo SPA) for a period of 5.5 years from Closing, subject to certain limitations and up to a cap of $16 million. As the Earn-out Payments are calculated based on EBITDA, certain payments and liabilities of Vexigo, including any tax liability, will not be taken into account in the calculation of the payments, which will further decrease the cash generated by Vexigo’s operations left in Vexigo and/or in MTS. This mechanism will effectively reduce our ability to use cash generated from Vexigo’s operations in order to fund our operations and the potential growth of our other business lines for the period in which Earn-out Payments are made.

The issuance of the equity consideration in connection with the Vexigo Transaction will dilute the holdings of all of our existing shareholders as of the Closing and will result in our current shareholders holding 60% of our outstanding shares immediately following the Closing.

As the equity consideration to be issued to the Sellers and FPSV Sellers in connection with the Vexigo Transaction represents 40% of our outstanding shares post-Closing, the holdings of shareholders that beneficially own our shares immediately prior to Closing will be diluted upon Closing, resulting in our current shareholders holding 60% of our outstanding shares immediately following the Closing. Following the Closing, it is expected that there will be six (6) shareholders who will beneficially own more than 5% of our outstanding shares and none of them will hold more than 15% of our outstanding shares. Therefore, the market price per share of our ordinary shares may be adversely affected by the issuance of the Equity Consideration and following the Closing will be significantly dependent on the future success of the Vexigo business.

The Vexigo Transaction is structured as a share purchase rather than an asset purchase, which could expose us to additional liabilities; we will only be entitled to request limited indemnification from the Sellers and the FPSV Sellers for damages arising out of the Vexigo Transaction and may be subject to indemnification claims from the Sellers and the FPSV Sellers.

Except under specific circumstances, we are entitled to indemnification from the Sellers and the FPSV Sellers for damages resulting from certain breaches of representations and warranties and of the Vexigo SPA that are limited in amount and time. In addition, the Vexigo SPA provides for our obligation to indemnify the Sellers and the FPSV Sellers for damages resulting from certain breaches of representations and warranties and of the Vexigo SPA that, except under specific circumstances, are also limited in amount and time. To the extent our damages are higher than the amounts set forth in the Vexigo SPA or are discovered after the expiration of the relevant representation or warranty, we will not be entitled to indemnification. To the extent the Sellers and the FPSV Sellers incur damages, we may be subject to indemnification obligations. The Vexigo Transaction is structured as a share acquisition rather than an asset acquisition, and we are also acquiring the shares of an additional company, FPSV. The purchase of shares as opposed to an acquisition of assets, could expose us to additional liabilities which are unrelated to the current business of Vexigo. Any such occurrences may have a material adverse effect on our financial position.

We have no control over the operations of Vexigo or FPSV during the period between signing of the Vexigo SPA and Closing of the Vexigo Transaction, and actions taken during such period may adversely affect the operations of these companies.

Although the Vexigo SPA contains several provisions aimed at ensuring that no material changes will occur to the Vexigo or FPSV operations in the period between signing and Closing, we have no control over the conduct of business or operations of either company during such period. Certain actions taken or not taken during such period may adversely affect the operations and business of these companies, and if these do not amount to a Material Adverse Effect, as defined in the Vexigo SPA, we will still be required to consummate the Vexigo Transaction.

If the benefits of the Vexigo Transaction do not meet the expectations of the marketplace, investors, financial analysts or industry analysts, the market price of our ordinary shares may decline.

The market price of our ordinary shares may decline as a result of the Vexigo Transaction if Vexigo does not perform as expected or if we do not otherwise achieve the perceived benefits of the Vexigo Transaction as rapidly as, or to the extent anticipated by, the marketplace, investors, financial analysts or industry analysts. Accordingly, our shareholders may experience a loss as a result of a decline in the market price of our ordinary shares held by them, and our ability to raise future capital, if necessary, by selling our ordinary shares may be materially adversely affected.

Our ability to manage our operations during the period prior to Closing is limited and subject to the undertakings included in the Vexigo SPA.

The Vexigo SPA contains restrictions on the operation of our business and management of our company during the period between signing of the Vexigo SPA and the Closing of the Vexigo Transaction. Therefore, during such period we may not be able to perform certain actions or enter into certain agreements that we would otherwise perform or execute and certain business opportunities may become unavailable or materially different due to changes implemented at the request of the Sellers and the FPSV Sellers. The loss of such opportunities may materially adversely affect our business and results of operations.

If the Vexigo Transaction is not consummated by June 3, 2015 or if one of the conditions to Closing is not fulfilled or waived, either we or the Sellers and the FPSV Sellers may choose to terminate the Vexigo SPA.

To the extent any of the conditions to Closing is not fulfilled or waived by the relevant party to the Vexigo SPA, the other party to the Vexigo SPA may terminate the SPA, resulting in a loss of the time, efforts and funds expended by us on the Vexigo Transaction up to the date of termination.

Risks Factors Following the Anticipated Closing of the Vexigo Transaction

We do not have independent expertise in Vexigo's line of business and will significantly depend on the continuing employment and cooperation of Vexigo's employees and management both in managing the Vexigo business and in integrating the Vexigo business into our company.

We do not have independent expertise in the field of online advertising and therefore following the closing of the Vexigo Transaction we will be extensively dependent on the cooperation and expertise of Vexigo's management and employees. If we do not receive sufficient cooperation from Vexigo's management and employees or in the event any of Vexigo's key employees terminates his employment with Vexigo, this could result in a significant adverse effect on Vexigo's operations. There is also no assurance that we could locate alternative officers or employees in the place of former officers or employees of Vexigo in a timely manner and on commercially reasonable terms.

Vexigo is a private company and as such was not subject to the regulation applicable to us as a foreign private issuer, including with respect to disclosure controls and procedures and internal control over financial reporting.

Vexigo is privately-held and is not currently subject to the reporting and other obligations applicable to foreign private issuers or to companies traded on the NASDAQ Stock Market. In addition, Vexigo's financial reporting was outsourced and Vexigo did not use in-house designated software for the creation and maintaining of its financial records. Following Closing, we will be required to implement or strengthen the work procedures in Vexigo and to acquire appropriate software and enhance the finance team in Vexigo in order to ensure our continued compliance with applicable regulations, including with respect to disclosure controls and procedures and internal control over financial reporting. The implementation process will likely divert management time and employee attention, both in Vexigo and our company, from the operations of both companies and will entail additional costs and expenses. If we are not successful in implementing the proper procedures, there could be future deficiencies in our disclosure controls and procedures and our internal control over financial that will render them ineffective and will require us to contain relevant declarations in our future filings with the SEC.

We may encounter difficulties in realizing the potential financial or strategic benefits of the Vexigo Transaction or any future transactions.

Mergers and acquisitions of companies are inherently risky and subject to many factors outside of our control and no assurance can be given that the acquisition of Vexigo or other companies in the future, will be successful and will not adversely affect our business, operating results, or financial condition. In the future, we may seek to acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in the future in order to expand our business. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to a failure to do so. Even when an acquired company has previously developed and marketed products, there can be no assurance that new product enhancements will be made in a timely manner or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products. We may face difficulties in connection with the Vexigo Transaction or other transactions, including:

- Difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired businesses or enterprises;
- Diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;
- Potential difficulties in completing projects associated with in-process research and development;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- Insufficient revenue to offset increased expenses associated with acquisitions; and
- The potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

If we fail to manage our growth, our business could be disrupted and our profitability will likely decline.

We expect to experience significant growth upon the acquisition of Vexigo through both acquisitions and organic growth. Such growth may significantly strain our management and other operational and financial resources. In particular, headcount growth increases the integration challenges involved in:

- recruiting, training and retaining skilled technical, marketing and management personnel;
- maintaining high quality standards;
- preserving our corporate culture, values and entrepreneurial environment;
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal controls; and
- maintaining high levels of customer satisfaction.

Our systems, procedures or controls may not be adequate to support the growth in our operations, and our management may not be able to achieve the execution necessary to exploit the market opportunities for our businesses. Our future operating results will also depend on our ability to expand our development, sales and marketing organizations. If we are unable to manage growth effectively, we may not be profitable.

Vexigo's limited operating history makes it difficult to evaluate its business and prospects and assess its future viability.

While Vexigo was incorporated in 2010, it only initiated its current line of business at the beginning of 2014 and, as a result, has only a limited operating history upon which its business and future prospects may be evaluated. Such limited operating history makes it difficult to establish conclusions about trends and patterns for upcoming periods. Although Vexigo has experienced substantial revenue growth in its limited history, it may not be able to sustain this rate of growth or even maintain its current revenue levels in the future.

If Vexigo does not manage its growth effectively, the quality of its solutions or its relationships with its customers may suffer, and its operating results may be negatively affected.

Vexigo has encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and changing industries, including challenges related to recruiting, integrating and retaining qualified employees; making effective use of its limited resources; achieving market acceptance of its existing and future offerings, including its newly introduced Visualizer solution, as well as its shift into the video advertiser industry; competing against companies with greater financial and technical resources; acquiring and retaining customers and maintaining relationships with advertisers, advertising agencies and owners of publishing space and publisher agencies; and developing new offerings.

Vexigo's current operational infrastructure may require changes for it to scale its business efficiently and effectively to keep pace with demand for its solutions and achieve long-term profitability. If Vexigo fails to implement these changes on a timely basis, or if it is unable to implement them effectively or at all due to factors beyond its control or other reasons, its business may suffer. Vexigo cannot provide assurance that it will be successful in addressing these and other challenges it may face in the future. As a growing company in a rapidly evolving industry, Vexigo's business prospects depend in large part on its ability to:

- develop and offer a competitive technology platform and offerings that meet Vexigo's advertising and publishing customers' needs as they change;
- build a reputation for superior solutions and create trust and long-term relationships with advertisers and advertising agencies, as well as owners of mobile and online publishing platforms;
- distinguish itself from competitors in the industry;
- maintain and expand its relationships with the sources of quality advertising space through which Vexigo executes its customers' media campaigns;
- respond to evolving industry standards and government regulations that impact Vexigo's business, particularly in the areas of data collection and consumer privacy;
- prevent or otherwise mitigate failures or breaches of security or privacy;
- expand its business internationally; and
- attract, hire, integrate and retain qualified and motivated employees.

If Vexigo is unable to meet one or more of these objectives or otherwise adequately address the risks and difficulties that it faces, its business may suffer, its revenue may decline and it may not be able to achieve further growth or long-term profitability.

To manage its growth effectively, Vexigo must continue to improve and expand its infrastructure, including its information technology, or IT, systems, financial and administrative systems and controls. Vexigo must also continue to manage its employees, operations, finances, research and development and capital investments efficiently. Vexigo's productivity and the quality of its solutions may be adversely affected if it does not integrate and train its new employees, particularly its sales and account management personnel, quickly and effectively and if it fails to appropriately coordinate across its executive, engineering, finance, human resources, legal, marketing, sales, operations and customer support teams. If Vexigo continues its rapid growth, it will incur additional expenses, and its growth may continue to place a strain on its resources, infrastructure and ability to maintain the quality of its solutions. If Vexigo does not adapt to meet these evolving growth challenges, and if the current and future members of its management team do not effectively scale with its growth, the quality of its solutions may suffer and its corporate culture may be harmed. Failure to manage its future growth effectively could cause its business to suffer, which, in turn, could have an adverse impact on its financial condition and results of operations.

If Vexigo fails to make the right investment decisions in its offerings and technology platforms, it may not attract and retain media affiliates and its revenue and results of operations may decline.

With its digital video advertising solution, Vexigo competes for advertisers and publishers, which are often represented by agencies, who want to purchase digital media for advertising campaigns. Vexigo's industry is subject to rapid changes in standards, technologies, products and service offerings, as well as in advertiser and publisher demands and expectations. Vexigo continuously needs to make decisions regarding which offerings and technology to invest in to meet media affiliates' demand and evolving industry standards and regulatory requirements. Vexigo may make wrong decisions regarding these investments. If new or existing competitors offer more attractive offerings than those of Vexigo, it may lose affiliates or affiliates may decrease their spending on its solutions. New media affiliates' demand for superior competitive offerings or new industry standards could render Vexigo's existing solutions unattractive, unmarketable or obsolete and require it to make substantial unanticipated changes to its technology platform or business model, resulting in additional expenses and loss of revenues. Vexigo's failure to adapt to a rapidly changing market or to anticipate media affiliates' demand could harm its business and its financial performance.

Vexigo may experience fluctuations in its operating results, which make its future results difficult to predict and could cause its operating results to fall below investors' and analysts' expectations.

Vexigo's future operating results may fluctuate due to a variety of factors, many of which are beyond Vexigo's control. Vexigo's fluctuating results could cause its performance to fall below our expectations and adversely affect the outcome of the Vexigo Transaction. Because Vexigo's business is changing and evolving rapidly, its historical operating results may not be useful in predicting its future operating results. Factors that may increase the volatility of Vexigo's operating results include the following:

the addition or loss of media affiliates;

changes in demand and pricing for Vexigo's solutions;

Vexigo's ability to effectively market and integrate its newly introduced Visualizr solution;

the seasonal nature of Vexigo's customers' spending on video advertising campaigns;

changes in Vexigo's pricing policies or the pricing policies of its competitors and the pricing of video advertising space or of other third-party services;

the introduction of new technologies, products or service offerings by Vexigo's competitors;

changes in Vexigo's customers' video advertising budget allocations, agency affiliations, or marketing strategies;

changes and uncertainty in the regulatory environment applicable to Vexigo or its affiliates;

changes in the economic prospects of Vexigo's video advertisers or the economy generally, which could alter current or prospective advertisers' spending priorities or could increase the time or costs required to complete sales with advertisers;

changes in the availability of video advertising space through real-time advertising exchanges or in the cost to reach end consumers through video advertising;

- changes in Vexigo's capital expenditures as it acquires the hardware, equipment and other assets required to support its business; and

- costs related to acquisitions of businesses or technologies and to recruitment and retention of employees and consultants.

Based upon all of the factors described above and others that Vexigo may not anticipate, including those beyond its control, it has a limited ability to forecast its future revenue, costs and expenses. As a result, Vexigo's operating results may from time to time fall below its estimates or the expectations of investors and analysts.

The online advertising market is highly competitive. In order to compete effectively, Vexigo may be required to reduce the cost of the advertising space it sells, and there can be no assurance that the price paid by Vexigo for advertising space will decline at all or to the same extent. A reduction in Vexigo's gross margin without an increase in revenues and an improved technological ability will adversely affect Vexigo's financial condition and operating results.

The online advertising market, although growing rapidly, is also characterized by extensive competition and consolidation. Due to the short-term nature of the commercial relationship and in order to compete effectively, market participants, including Vexigo, may be required to implement price cutting. There can be no assurance that the cost of advertising space will decline at all or to the same extent due, especially the cost of high-quality advertising space. In the event Vexigo's gross margin decreases, Vexigo will be required to implement several measures in order to attempt to maintain or improve its profitability. Such measures include, among others, an attempt to increase sales, implementing improvements to the technology in order to decrease the amount of advertising space that expires before it is sold and improving the services provided in order to maintain and attract customers. There can be no assurance that Vexigo will succeed in implementing the required measures, resulting in a decrease in gross margin and an adverse effect on Vexigo's financial condition and operating results.

If Vexigo's access to quality digital video advertising space is diminished or if Vexigo fails to acquire new advertising space, its revenues could decline and its growth could be impeded.

Vexigo must maintain a consistent supply of attractive digital video advertising space. Vexigo's success depends on its ability to secure quality advertising space on reasonable terms across a broad range of advertising networks and exchanges, including LiveRail, Brightroll and SpotXchange.

The amount, quality and cost of advertising space available to Vexigo can change at any time. Vexigo's suppliers are generally not bound by long-term contracts. The sellers that supply their advertising space to Vexigo typically do so on a non-exclusive basis and are not required to provide it with any minimum amounts of advertising space or with a consistent supply of advertising space. Sellers may seek to change the terms at which they offer advertising space to Vexigo, or they may elect to make advertising space available to Vexigo's competitors who offer advertisements to them on more favorable economic terms. As a result, Vexigo cannot provide any assurance that it will have access to a consistent supply of quality digital video advertisement space. Moreover, the number of competing intermediaries that purchase advertising space from real-time advertising exchanges continues to increase, which could put upward pressure on advertising space costs. If sellers decide not to make media space available to Vexigo, decide to increase the price of advertising space, or place significant restrictions on the sale of their advertising space, Vexigo may not be able to replace this with advertising space from other sellers that satisfies its requirements in a timely and cost-effective manner. In addition, significant sellers in the industry may enter into exclusivity arrangements with Vexigo's competitors, which could limit its access to a meaningful supply of advertising space. If Vexigo is unable to compete favorably for advertising space available on real-time advertising exchanges, or if real-time advertising exchanges decide not to make their advertising space available to Vexigo, Vexigo may not be able to place advertisements at competitive rates or find alternative sources of advertising space with comparable traffic patterns and consumer demographics in a timely manner. Furthermore, the advertising space that Vexigo accesses through real-time advertising exchanges may be of low quality or misrepresented to it, despite attempts by Vexigo and its suppliers to prevent fraud and conduct quality assurance checks. In the event Vexigo detects the low quality or fraudulent advertising space, it will lose the funds invested in acquiring such advertising space. In the event Vexigo is not successful in detecting such low quality or fraudulent advertising space and sells it to its customers, Vexigo may become subject to indemnification claims by its customers and its reputation may be harmed, resulting in decreased revenues from, or the cessation of commercial relationships with, the affected advertising agencies, advertisers or their affiliates.

Vexigo relies on “Demand Side Platforms,” or DSPs, and “Video Ad Exchanges” to purchase its solutions on behalf of advertising agencies or advertisers, and incurs the cost of an advertising campaign before it is paid for its services and the advertising space. Such agencies and advertisers may have or develop high-risk credit profiles, which may result in credit risk to Vexigo.

Vexigo must consider the effect of credit risk in transactions with agencies or other third parties and advertisers. A substantial portion of Vexigo’s business is sourced through Video Ad Exchanges and DSPs. These Video Ad Exchanges and DSPs represent advertising agencies and advertisers and payment of fees to Vexigo originates with the advertising agencies or advertisers and is submitted through the Video Ad Exchanges and DSPs. Certain of the advertising agencies or advertisers have or may develop high-risk credit profiles, and to the extent they do, not remit payment or transfer only a portion of the payment due to Vexigo. The credit risk of advertising agencies may vary depending on the nature of an advertising agency’s aggregated advertiser base. There can be no assurances that Vexigo will not experience bad debt expense in the future. Any such write-offs for bad debt could have a materially negative effect on Vexigo’s results of operations for the periods in which the write-offs occur. Even if Vexigo is not paid, Vexigo is still obligated to pay for the media it has purchased for the advertising campaign, and as a consequence, its results of operations and financial condition could be adversely impacted.

Vexigo’s revenue and operating results are highly dependent on the overall demand for advertising, specifically online video advertising.

Vexigo’s business depends on the overall demand for advertising, specifically online video advertising, and on the economic health of its current and prospective publishers and advertisers. If advertisers reduce their overall advertising spending, Vexigo’s revenue and results of operations are directly affected. Economic downturns or instability in political or market conditions generally may cause current or new advertisers to reduce their advertising budgets. Adverse economic conditions and general uncertainty about economic recovery are likely to affect Vexigo’s business prospects.

Legislation and regulation of digital businesses and industry standards adopted by key market players, such as Google, could create unexpected additional costs or termination of services, subject Vexigo to enforcement actions for compliance failures, or cause Vexigo to change its technology solutions or business models, which may have an adverse effect on the demand for Vexigo’s solutions.

In the course of Vexigo’s business, Vexigo collects, stores, transmits, and uses information related to computing and communications devices, user activity on devices, and advertisements placed through Vexigo’s solutions. In addition, the online advertising field is subject to Federal, European and other regulation, including with respect to data protection and targeting minors and children, for example, the Children's Online Privacy Protection Act of 1998. In addition, several governments are considering legislation related to digital advertising and certain media advertising organizations, such as the Network Advertising Initiative and the Interactive Advertising Bureau, adopted “best practice” guidelines with which Vexigo may be required to comply pursuant to current or future contractual undertakings. Such legislation and industry standards adopted by key players in the market, such as Google, could affect the costs of doing business online, and may adversely affect the demand for or effectiveness and value of Vexigo’s solutions.

Widespread blocking or erasing of cookies or limitations on advertisers’ ability to use cookies may diminish the interest of advertisers in online advertising campaigns, resulting in a material adverse effect on Vexigo’s results of operations.

Vexigo’s technology currently does not use cookies, which are small files of information placed on an internet user’s computer, to collect information about the user’s visits to websites, however, Vexigo may wish to use cookies in the future in order to improve and expand its services. In addition, advertisers who place ads using Vexigo’s services do use cookies placed by them on the targeted users’ computers. Third-party software and internet browsers make it easy for users to block or delete cookies and several regulators, currently mainly in Europe, impose restrictions and regulatory requirements on the ability to use and place cookies. Further, several software programs, sometimes marketed as ad-ware or spyware detectors, block cookies by default or prompt users to delete or block cookies. For example, in March 2013 Apple informed developers that starting May 1, 2013 the App Store will no longer accept new apps or app updates that access the device’s unique identifier (UDID). If advertisers are not up to speed with these changes, their ability to benefit from Vexigo’s services may be impaired. If a large proportion of users delete or block cookies, this could undermine the value of the data that advertisers collect and Vexigo’s ability to use cookies for its business purposes. To the extent advertisers will not be able to place cookies or collect information using cookies or any other technology, their interest in online advertising campaigns may diminish, resulting in a material adverse effect on Vexigo’s results of operations.

Vexigo has historically relied, and expects to continue to rely, on one major supplier of its advertising space and a small number of customers for a significant portion of its revenue. The loss of the supplier or any of these customers could significantly harm Vexigo’s business, financial condition and results of operations.

A relatively small number of customers have historically accounted for a majority of Vexigo’s revenue. During 2014, Vexigo’s top three customers accounted for 86% of its revenue. In addition, Vexigo currently relies on one major supplier, AppNexus, for a significant portion of its advertising space (approximately 82% during 2014). While Vexigo expects this reliance to decrease over time, it expects that it will continue to depend upon a relatively small number of suppliers and customers for a significant portion of its advertising space and revenue for the foreseeable future. As a result, if Vexigo fails to successfully attract or retain new or existing suppliers and customers, if the existing major supplier terminates or materially alters its commercial relationship with Vexigo or if existing customers run fewer advertising campaigns with Vexigo, defer or cancel their insertion orders, or terminate their relationship with Vexigo altogether, whether through the actions of their agency representatives or otherwise, Vexigo will be required to compensate for the loss of advertising space or revenue by creating commercial relationships with new suppliers and attracting new customers. If Vexigo is not successful in timely locating quality substitute suppliers or customers, Vexigo’s business, financial condition and results of operations would be harmed.

Vexigo does not have long-term commitments from its advertisers, and it may not be able to retain advertisers or attract new advertisers that provide it with revenue that is comparable to the revenue generated by any advertisers it may lose.

Most of Vexigo’s advertisers do business with it by placing insertion orders for particular advertising campaigns. If Vexigo performs well on a particular campaign, the advertiser or, most often, the advertising agency representing the advertiser, may place new insertion orders with it for additional advertising campaigns. Vexigo rarely has any commitment from an advertiser beyond the campaign governed by a particular insertion order. Vexigo’s insertion orders may also be canceled by advertisers or their advertising agencies prior to the completion of the campaign without penalty. As a result, Vexigo’s success is dependent upon its ability to outperform its competitors and win repeat business from existing advertisers, while continually expanding the number of advertisers for whom Vexigo provide services. In addition, it is relatively easy for advertisers and the advertising agencies that represent them to seek an alternative provider for their advertising campaigns because there are no significant switching costs. Agencies, with whom Vexigo does the majority of its business, often have relationships with many different providers, each of whom may be running portions of the same advertising campaign. Because Vexigo generally does not have long-term contracts, it may be difficult for it to accurately predict future revenue streams. Vexigo cannot provide assurance that its current advertisers will continue to use its solutions, or that it will be able to replace departing advertisers with new advertisers that provide it with comparable revenue.

If Vexigo fails to detect fraud or serve its advertisers’ advertisements on undesirable mobile and online platforms or if Vexigo sells its advertising space in connection with undesirable advertising campaigns, its reputation will suffer and its brand will be harmed, which would negatively impact its business, financial condition and results of operations.

Vexigo’s business depends in part on providing its advertisers with a service that they trust, and Vexigo has contractual commitments to take reasonable measures to prevent advertisers’ advertisements from appearing on undesirable websites, on certain websites that they identify and on websites that are involved in click fraud, bot traffic or similar activities. In addition, Vexigo has contractual commitments to take reasonable measures to prevent undesirable advertising from appearing on the websites that sell the advertising space to Vexigo. Vexigo also uses third-party services in an effort to prevent its advertisers’ advertisements from appearing on undesirable websites or buying fraudulent supply. Preventing and combating fraud requires constant vigilance, and Vexigo may not always be successful in its efforts to do so. In addition, Vexigo may serve advertising on advertising space that is objectionable to its advertisers, and may lose the trust of its advertisers, which would harm its brand and reputation and negatively impact its business, financial condition and results of operations. Vexigo may also purchase advertising space inadvertently that proves to be unacceptable for advertising campaigns, in which case Vexigo is responsible for the cost and cannot bill that cost to any campaign. If Vexigo buys substantial volumes of unusable advertising space, this could negatively impact its results of operations.

If mobile connected devices, their operating systems or content distribution channels, including those controlled by Vexigo's competitors, develop in ways that prevent its advertising campaigns from being delivered to their users, Vexigo's ability to grow its business will be impaired.

Vexigo's success in the mobile channel arena depends upon the ability of its technology platform to integrate with mobile advertising space suppliers and provide advertising for most mobile connected devices, as well as the major operating systems that run on them and the thousands of applications that are downloaded onto them. The design of mobile devices and operating systems is controlled by third parties with whom Vexigo does not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers may also impact the ability to access specified content on mobile devices. If Vexigo's solution was unable to work on these devices or operating systems, either because of technological constraints or because an operating system or app developer, device maker or carrier wished to impair its ability to purchase advertising space and provide advertisements, Vexigo's ability to generate revenue could be significantly harmed.

Vexigo relies heavily on its IT systems and on third party IT support and systems, including communications lines. If Vexigo fails to maintain adequate security and supporting infrastructure, it may experience Cyber-attacks, outages and disruptions of its services which could harm its brand and reputation and negatively impact its revenue and results of operations.

Vexigo relies heavily on IT systems to manage critical functions such as media campaign management and operations, data storage and retrieval, revenue recognition, budgeting, forecasting, financial reporting and other administrative functions. Certain of these IT services are provided by third parties, including communications lines, and certain of Vexigo's data is stored on third parties' servers, which exposes Vexigo to additional risks relating to loss of data and security breaches.

As Vexigo grows its business, it expects to continue to invest in technology services, hardware and software, including data centers, network services, storage and database technologies. Creating the appropriate support for Vexigo's technology platform, including Big Data and computational infrastructure, is expensive and complex, and its execution could result in inefficiencies or operational failures and increased vulnerability to cyber-attacks, which, in turn, could diminish the quality of Vexigo's services and its performance for advertisers. Cyber-attacks could include denial-of-service attacks impacting service availability (including the ability to deliver ads) and reliability; the exploitation of software vulnerabilities in internet facing applications; social engineering of system administrators (tricking company employees into releasing control of their systems to a hacker); or the introduction of computer viruses or malware into Vexigo's systems with a view to steal confidential or proprietary data. Cyber-attacks of increasing sophistication may be difficult to detect and could result in the theft of Vexigo's intellectual property and its data or its advertisers' data. In addition, Vexigo is vulnerable to unintentional errors as well as malicious actions by persons with authorized access to its systems that exceed the scope of their access rights, or unintentionally or intentionally alter parameters or otherwise interfere with the intended operations of its platform. The steps Vexigo takes to increase the reliability, integrity and security of its systems as they scale may be expensive and may not prevent system failures or unintended vulnerabilities resulting from the increasing number of persons with access to its systems, complex interactions within its technology platform and the increasing number of connections with third party partners and vendors' technology. Operational errors or failures or successful cyber-attacks could result in damage to Vexigo's reputation and loss of current and new advertisers and other business partners which could harm its business. In addition, Vexigo could be adversely impacted by outages and disruptions in the online platforms of its key business partners, such as the real-time advertising exchanges, which Vexigo relies upon for access to advertising space.

Errors or failures in Vexigo's software and systems could adversely affect its operating results and growth prospects.

Vexigo depends upon the sustained and uninterrupted performance of its technology platform to operate over 1,000 campaigns at any given time; manage its advertising space supply; bid on advertising space for each campaign; serve or direct a third party to serve advertising; collect, process and interpret data to optimize campaign performance in real time; and provide billing information to its financial systems. If Vexigo's technology platform cannot scale to meet demand, or if there are errors in the execution of any of these functions on its platform, then its business could be harmed. Because Vexigo's software is complex, undetected errors and failures may occur, especially when new versions or updates are made. Vexigo does not have the capability to test new releases or updates to its code on a small subset of campaigns, which means that bugs or errors in code could impact all campaigns on its platform. Despite testing of the optimization platform by Vexigo, errors or bugs in its software may not be found until the software is in its live operating environment. Errors or failures in Vexigo's software could also result in negative publicity, damage to its brand and reputation, loss of or delay in market acceptance of its solutions, increased costs or loss of revenue, loss of competitive position or claims by advertisers for losses sustained by them. In such an event, Vexigo may be required or choose to expend additional resources to help mitigate any problems resulting from errors in its software. Vexigo may make errors in the measurement of its campaigns causing discrepancies with its advertisers' measurements leading to a lack in confidence with Vexigo or, on occasion, the need for advertiser "make-goods", the standard credits given to advertisers for campaigns that have not been delivered properly. Alleviating problems resulting from errors in Vexigo's software could require significant expenditures of capital and other resources and could cause interruptions, delays or the cessation of its business, any of which would adversely impact its financial position, results of operations and growth prospects.

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Vexigo’s proprietary rights may be difficult to enforce, which could enable others to copy or use aspects of its solutions without compensation.

Vexigo’s success depends, in part, on its ability to protect proprietary methods and technologies that it develops or otherwise acquires, so that Vexigo can prevent others from using Vexigo’s inventions and proprietary information. If Vexigo fails to protect its intellectual property rights adequately, its competitors might gain access to its technology, and its business might be adversely affected. Vexigo relies on trademark, copyright and trade secret laws, confidentiality procedures and contractual provisions to protect its proprietary methods and technologies. Vexigo’s patent strategy is still in its early stages and Vexigo does not have any registered patents and has only one pending application for the registration of a patent.

Vexigo generally enters into confidentiality and/or license agreements with its employees, consultants, vendors and advertisers, and generally limits access to and distribution of its proprietary information. However, Vexigo cannot assure you that any steps taken by it will prevent misappropriation of its technology and proprietary information or infringement of its intellectual property rights. Policing unauthorized use of Vexigo’s technology and intellectual property is difficult. Vexigo’s competitors and others could attempt to capitalize on its brand recognition by using domain names or business names similar to Vexigo’s, and Vexigo may be unable to prevent third parties from acquiring or using domain names and other trademarks that infringe on, are similar to, or otherwise decrease the value of its brands, trademarks or service marks. Also, despite the steps Vexigo has taken to protect its proprietary rights, it may be possible for unauthorized third parties to copy or reverse engineer aspects of Vexigo’s technology or otherwise obtain and use information that it regards as proprietary, or to develop technologies similar or superior to its technology or design around its proprietary rights.

Vexigo may be subject to intellectual property rights claims by third parties, which are costly to defend, could require Vexigo to pay significant damages and could limit its ability to use certain technologies and intellectual property.

The digital advertising industry is characterized by the existence of large numbers of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights. Companies in this industry are often required to defend against litigation claims that are based on allegations of infringement or other violations of intellectual property rights. Vexigo’s technologies may not be able to withstand any third-party claims or rights against their use.

Third parties may assert claims of infringement or misappropriation of intellectual property rights in proprietary technology against Vexigo for which Vexigo may be liable or have an indemnification obligation. Vexigo cannot assure you that it is not infringing or violating any third-party intellectual property rights. From time to time, Vexigo may be subject to legal proceedings relating to Vexigo’s solutions or underlying technology and the intellectual property rights of others, particularly as it expands the complexity and scope of its business. As a result of the Vexigo Transaction, Vexigo’s business and financial condition may become more visible, which may result in threatened or actual litigation, including by competitors and other third parties.

Regardless of whether claims that Vexigo is infringing patents or infringing or misappropriating other intellectual property rights have any merit, these claims are time-consuming and costly to evaluate and defend, and can impose a significant burden on management and employees. The outcome of any litigation is inherently uncertain, and Vexigo may receive unfavorable interim or preliminary rulings in the course of litigation. There can be no assurances that favorable final outcomes will be obtained in all cases. Vexigo may decide to settle lawsuits and disputes on terms that are unfavorable to it. Some of Vexigo’s competitors have substantially greater resources than Vexigo does and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than Vexigo could.

Vexigo’s ability to successfully operate and grow its business depends on the efforts of its key personnel and if such key personnel were to cease working for Vexigo without proper replacement, Vexigo’s results of operations could be negatively impacted.

Vexigo's ability to operate and grow its business successfully is highly dependent on the efforts and contribution of its key employees, including Kobi Ram, its chief executive officer, and Amit Reshef, its chief technology officer. Vexigo does not maintain "key person" insurance for these or any other employees. In the event any of these key employees terminates their employment relationship with Vexigo, Vexigo will be required to locate and retain suitable replacements with the requisite knowledge and expertise in Vexigo's business and understanding of Vexigo's solutions. Vexigo may not be able to replace these key employees easily or efficiently, and as a result of their departures, Vexigo's results of operations and business plans could be negatively impacted.

Vexigo's solutions include certain open source software components and failure to comply with the terms of the underlying open source software licenses could restrict Vexigo's ability to use its proprietary software.

Vexigo's platform includes certain software components licensed to Vexigo by third-parties under "open source" licenses. The use of open source software may entail greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that their users make available source code for modifications or derivative works or other compliance requirements. Therefore, if Vexigo combines its proprietary software with open source software subject to certain licenses in a certain manner, it could, under these open source licenses, be required to release the source code of its proprietary software to the public. This would allow Vexigo's competitors to create similar solutions with less development effort and time and ultimately put Vexigo at a competitive disadvantage.

The terms of many open source licenses have not been interpreted by United States courts at this time, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on Vexigo's ability to commercialize its services. Moreover, Vexigo cannot guarantee that it will be able to prevent use of certain open source software subject to restrictive licenses or licenses requiring distribution of its software or that in the future the terms of licenses that apply to open source software will be interpreted in ways that will be harmful to Vexigo. If Vexigo fails to observe the terms of the applicable licenses, it may be subject to litigation, to a demand to make its proprietary software available to the public and to restriction on future use of the relevant open source software, any of which could adversely affect Vexigo's business, financial condition and results of operations.

Vexigo believes that it is entitled to Israeli corporate tax benefits that require Vexigo to meet various conditions. This entitlement may not be approved or may be terminated or reduced, all of which could increase the amount of corporate tax payable in Israel.

Vexigo believes that it is entitled to benefit from a reduced corporate tax rate under the Israeli privileged enterprise program. Under this program, a portion of Vexigo's income is subject to reduced corporate tax rates in Israel. In order to become eligible for the tax benefits for "Privileged Enterprises," Vexigo is required to meet certain conditions stipulated in the Israeli Law for the Encouragement of Capital Investments, 5719-1959, as amended, and the regulations promulgated thereunder. The view of the Israeli Tax Authority, or ITA, may be different and Vexigo's entitlement to the tax benefits can be revoked or reduced with retroactive effect, which would result in adverse tax consequences to Vexigo both for past and future tax years. Further, these tax benefits may be reduced or discontinued in the future and in such case, Vexigo's Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies is 26.5% in 2014 and thereafter.

If we fail to manage our growth, our business could be disrupted and our profitability will likely decline.

We expect to experience significant growth upon the acquisition of Vexigo through both acquisitions and organic growth. Such growth may significantly strain our management and other operational and financial resources. In particular, headcount growth increases the integration challenges involved in:

- recruiting, training and retaining skilled technical, marketing and management personnel;
- maintaining high quality standards;
- preserving our corporate culture, values and entrepreneurial environment;
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal controls; and
- maintaining high levels of customer satisfaction.

Our systems, procedures or controls may not be adequate to support the growth in our operations, and our management may not be able to achieve the execution necessary to exploit the market opportunities for our businesses. Our future operating results will also depend on our ability to expand our development, sales and marketing organizations. If we are unable to manage growth effectively, we may not be profitable.

Risk Factors Related to Our Ordinary Shares

A few of our shareholders are in a position to control matters requiring a shareholder vote.

Mr. Chaim Mer, the Chairman of our Board of Directors, and his wife, Mrs. Dora Mer, currently beneficially own approximately 23.8% of our outstanding ordinary shares, the Info Group, Inc. (formerly AnchorPoint, Inc.) whose principal shareholder, Mr. Roger Challen, is one of our directors, currently beneficially owns 21.3% of our outstanding shares and Mr. Isaac Ben-Bassat, one of our directors, beneficially owns 7.4% of our outstanding ordinary shares. As a result, such shareholders control and will continue to control the election of our entire Board of Directors other than our two outside directors and generally have the ability to direct our business and affairs. For as long as such shareholders have a controlling interest in our company, they will have the ability to exercise a controlling influence over our business and affairs, including any determinations with respect to potential mergers or other business combinations involving us, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional ordinary shares or other equity securities, our repurchase or redemption of ordinary shares and our payment of dividends. This concentration of ownership may also adversely affect our share price, especially if these shareholders sell substantial amounts of our ordinary shares. If the Vexigo Transaction is completed, the holdings of our current principal shareholders will be diluted, but our officers and directors that are currently expected to remain on our Board of Directors and our new directors and officers that will join us after the Closing will own 3,492,707 ordinary shares, or approximately 43.3 percent of our outstanding shares subsequent to the Closing.

If we fail to maintain compliance with NASDAQ's continued listing requirements, our shares may be delisted from the NASDAQ Capital Market.

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol "MTSL." To continue to be listed on the NASDAQ Capital Market, we need to satisfy a number of conditions, including minimum shareholders' equity of at least $2.5 million and a minimum closing bid price per share of $1.00 for 30 consecutive business days. In the past we fell below the minimum $2.5 million shareholders' equity, and we may not be able to maintain such minimum shareholders' equity in the future. If we fail to comply with such requirement, we would have a period of 180 calendar days to achieve compliance by meeting the applicable standard for a minimum of ten consecutive business days. If we are not deemed in compliance before the expiration of the 180 day compliance period, NASDAQ may afford us an additional 180 day compliance period, provided that on the 180th day of the first compliance period we have demonstrated that we meet all applicable standards for initial listing on the NASDAQ Capital Market (except the bid price requirement) based on our most recent public filings and market information. In the past, we received notices from NASDAQ stating that we were not in compliance with NASDAQ Capital Market's continued listing requirements. Although we regained compliance, we cannot be sure that our shareholders' equity, share price or minimum market value of publicly held shares will continue to be in compliance with the requirements for continued listing on the NASDAQ Capital Market, or that any appeal of a decision to delist our ordinary shares will be successful. If we are delisted from NASDAQ, trading in our ordinary shares would be conducted on a market where an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our ordinary shares.

We may be classified as a passive foreign investment company, or PFIC, which will subject our U.S. investors to adverse tax rules.

For U.S. federal income tax purposes, we may be classified as a PFIC for any taxable year in which either: (i) 75% or more of our gross income is passive income or (ii) at least 50% of the average quarterly value of our assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) for the taxable year produce or are held for the production of passive income. As a result of our relatively substantial cash position at this time, we believe that we may be classified as a PFIC in 2014 and future years, including 2015 under a literal application of the asset test described above, which looks solely to the market value of our assets. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares and such U.S. holders could suffer adverse U.S. tax consequences. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. For more information please see "Item 10. Additional Information – E. Taxation - Certain Material U.S. Federal Income Tax Considerations – Passive Foreign Investment Companies."

Our share price has been volatile in the past and may decline in the future.

Our ordinary shares have experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by investors;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- announcements by third parties of significant claims or proceedings against us;
- changes in the status of our intellectual property rights;
- additions or departures of key personnel;
- future sales of our ordinary shares; and
- general stock market prices and volume fluctuations.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could adversely affect the market price of our ordinary shares.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

We do not expect to distribute cash dividends.

We do not anticipate paying cash dividends in the foreseeable future. According to the Israeli Companies Law, a company may distribute dividends out of its profits (within the meaning of the Israeli Companies Law), so long as the company reasonably believes that such dividend distribution will not prevent the company from paying all its current and future debts. The declaration of dividends is subject to the discretion of our Board of Directors and will depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment in our company. The success of your investment will likely depend entirely upon any future appreciation of the market price of our ordinary shares, which is uncertain and unpredictable. There is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which you purchased your ordinary shares.

Risks Relating to Operations in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

We are incorporated under the laws of, and our principal executive offices, production or manufacturing and research and development facilities are located in, the State of Israel. Vexigo is also based in Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations.

In recent years, there have been hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza strip, both of which resulted in rockets being fired into Israel causing casualties and disruption of economic activities. Most recently, in July 2014, an armed conflict commenced between Israel and Hamas. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Also, since 2011, riots and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect our business, financial condition and results of operations in the future.

Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Some of our directors, officers and employees in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces, as well as some of the employees of Vexigo, and they may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

Our financial results may be adversely affected by inflation and currency fluctuations.

We report our financial results in dollars, while a portion of our expenses, primarily salaries, are paid in NIS. Therefore, our NIS related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. The appreciation of the NIS against the U.S. dollar will result in an increase in the U.S. dollar cost of our NIS expenses. We are also influenced by the timing of, and the extent to which, any increase in the rate of inflation in Israel over the rate of inflation in the United States is not offset by the devaluation of the NIS in relation to the dollar. Our dollar costs in Israel will increase if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation in Israel. In the past, the NIS exchange rate with the dollar and other foreign currencies had fluctuated, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the dollar. If the dollar cost of our operations in Israel increases, our dollar measured results of operations will be adversely affected. From time to time, we engage in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our financial position and results of operations. However, any such hedging transaction may not materially reduce the effect of fluctuations in foreign currency exchange rates on such results.

The government programs and tax benefits we currently participate in or receive require us to meet several conditions. Such programs may be terminated or reduced in the future and restrict our ability to transfer technology outside of Israel.

We have benefited from certain Israeli Government grants, programs and tax benefits. In the past, until 2010, we received approvals from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor for grants for our research and development projects. While 2011 was the last year for which we applied for a grant (and were denied), any future grant applications may not be approved by the Office of the Chief Scientist. To remain eligible for these grants, programs and tax benefits, we must comply with certain conditions, including making specified investments in fixed assets from our own equity and paying royalties with respect to grants received. In addition, some of these programs restrict our ability to manufacture particular products and to transfer particular technology outside of Israel. If we do not meet these conditions in the future, the benefits we received could be canceled and we may have to refund payments previously received under these programs or pay increased taxes. The Government of Israel has reduced the benefits available under these programs in recent years and these programs and tax benefits may be discontinued or curtailed in the future.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers, most of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since substantially all of our assets, and the assets of most of our directors and officers, are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those Acts.

Provisions of Israeli law may delay, prevent or make difficult our acquisition by a third-party, which could prevent a change of control and therefore depress the price of our shares.

Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger with us or other acquisition of our shares or assets. This could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

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

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, each shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

As a foreign private issuer, whose shares are listed on the NASDAQ Capital Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ Stock Market Rules regarding the requirement to maintain a majority of independents directors, the director nomination process and the requirement to obtain shareholder approval for certain dilutive events.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. We follow Israeli law and practice instead of the NASDAQ Stock Market Rules regarding the requirement to maintain a majority of independents directors, the director nomination process and the requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). As a foreign private issuer listed on the NASDAQ Capital Market, we may also follow home country practice with regard to, among other things, compensation of officers and quorum at shareholders' meetings. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission, or the SEC, each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our company was incorporated under the laws of the State of Israel in December 1995. We are a public limited liability company under the Israeli Companies Law 5739-1999 and operate under such law and associated legislation. Our registered offices and principal place of business are located at 14 Hatidhar Street, Ra anana 4366516, Israel, and our telephone number is +972-9-7777-555. Our website address is www.mtsint.com. The information on our website is not incorporated by reference into this annual report.

We are a worldwide provider of solutions for TEM and billing solutions. Our TEM solutions assist enterprises and organizations in making smarter choices with their telecommunications spending at each stage of the service lifecycle, including allocation of cost, proactive budget control, fraud detection, processing of payments and spending forecasting. Our converged billing solutions have been successfully implemented worldwide by wireless providers, Voice over Internet Protocol, Internet Protocol Television, mobile virtual network operators, or MVNOs, and content service providers. Our converged billing solutions include applications for charging and invoicing customers, interconnect billing and partner revenue management using pre-pay and post-pay schemes.

On December 30, 2008, we completed the acquisition of certain assets and liabilities of AnchorPoint, a Massachusetts-based provider of TEM solutions. This acquisition has enabled us to expand our product offerings. The aggregate consideration paid for the acquisition at the closing date was the issuance of 24.4% of our outstanding shares on a post-transaction basis.

Our capital expenditures for the years ended December 31, 2012, 2013 and 2014 were approximately $1.5 million, $1.5 million and $1.4 million, respectively. These expenditures were principally for research and development equipment, office furniture and equipment and leasehold improvements.

On February 3, 2014, we announced that we signed a definitive agreement to acquire Vexigo Ltd., a privately-held Israeli-based software company supporting video advertising over the internet and mobile devices, which will continue to operate as our wholly-owned subsidiary.

Under the terms of the agreement, we will acquire 100% of the outstanding shares of Vexigo in consideration of the payment of $3 million at closing and two payments of $500,000 each to be paid three months and six months following the closing date. In addition, at closing, we will issue 40% of our outstanding ordinary shares post-closing to Vexigo's shareholders. The agreement further provides for earnout payments equal to 45% of the EBITDA of the Vexigo product line for up to $16 million over a 5.5 years period from the closing date.

The Vexigo Transaction is expected to close in April 2015, following our scheduled extraordinary general meeting of shareholders on April 1, 2015, when approval of the Vexigo Transaction will be sought. For further details regarding the Vexigo Transaction and its effect on our company, please review the Proxy Statement that furnished to the SEC on Form 6-K for the month of February 2015 and submitted on February 18, 2015.

B. Business Overview

Industry Background

We are a global provider of services and solutions in the Telecom Expense Management (TEM), Cloud Billing, Mobile Virtual Network Enabler (MVNE), M2M/IoT service providers and Mobile Money markets. Our TEM Suite helps organizations reduce operational expenses, improve productivity and optimize networks and services associated with communications networks and information technology. Our MVNE and Mobile Money offerings enable MVNOs and financial service providers to manage their customers' and resellers' lifecycles. Our M2M/IoT Enablement Platform enables Mobile Network Operators (MNO) and MVNOs to create new revenue streams from selling management services in addition to the connectivity to M2M/IoT service providers.

TEM Industry

The advances in communications technologies and the proliferation of mobile devices have greatly increased the financial and personnel resources required by an enterprise to operate and manage its communications environment. The communications industry has also undergone significant regulatory changes that have resulted in the expansion of the number of service providers and available products. Enterprises need to manage an increasing number of service options and a growing volume and complexity of communications contracts and billing arrangements. Inefficient management of these expenses, including overpayments as a result of billing errors, often results in enterprises incurring significant unnecessary expenses.

Enterprises are increasingly seeking solutions to effectively and efficiently manage, control and optimize their expanding communications assets, services, usage and associated expenses. The TEM market provides solutions to help meet this demand. A number of trends have increased the demand for TEM solutions, such as the growing complexity of communications service plans, large volume and complexity of communications bills and the globalization of business that require corporations to manage their communications assets and services in a centralized fashion across carriers, countries of origin and languages.

Call accounting products, which are fundamental management tools, record, retrieve and process data received from a PBX or other telephone switching system. This information provides a telecommunications manager with information on telephone usage and enables the management of internal billing, fraud detection and optimizes an enterprise’s telecommunications resources.

MVNE and Mobile Money Market

We provide services to MVNOs and assist them to reduce their time to market, focus on sales and marketing and reduce their initial capital expenses. An MVNO is a wireless communications services provider that does not own radio spectrum or wireless network infrastructure. An MVNO enters into a business agreement with a mobile network operator with infrastructure to obtain bulk access to network services at wholesale rates, after which the MVNO sets retail plans and prices independently. The emergence of the MVNO model in various markets worldwide is mostly related to changes in regulations and in the ability of MVNOs to address new market segments that may increase their revenue streams.

The mobile money market targets financial service providers and MVNOs in emerging and developing markets that want to provide financial services. Their customers are mainly individuals that have cell phones but no bank accounts. Mobile money solutions provide services such as deposits, withdrawals, person-to-person transfers, bill payments, purchases of goods and more complex banking services over mobile phones.

M2M/IoT Enablement Platform Market

The rise of the Internet of Things (IoT) phenomenon is a direct result of the unprecedented acceleration of connectivity combined with the ability to embed computing into an endless array of objects. IoT is changing the playing field by redefining the “connected” world to extend far beyond the human realm into the world of “things.” IoT is expected be one of the most disruptive technology trends of the next decade with sweeping implications for businesses. The vision is that IoT will provide businesses with the ability to more effectively monitor and control operations while providing them with more information and control. It will offer innovative opportunities for new sources of revenue, intelligent interaction with customers that improve customer experience and greater efficiencies. However, along with the innumerable opportunities created by IoT come a myriad of challenges.

The IoT ecosystem is fragmented and complex and involves many participants using a range of connected devices. These devices are embedded with sensors, modules and SIMs that deliver new solutions and services all operating in various connectivity environments. The result is more of everything: more devices, transactions, services, applications and connections. The challenge for enterprises and IoT service providers offering M2M-based services is to take the complexity out of IoT.

Cloud Billing Industry

With the increase in bandwidth and the higher availability of cloud computing, enterprises and service providers are looking for cloud billing solutions in order to benefit from the flexibility, resiliency and scalability offered by cloud computing. A positive feature of cloud billing solutions is the change in cost structure from a relatively high upfront capital expense to a cost effective monthly operational expense. Cloud billing solutions are easily adaptable to a company's offerings, pricing model, discounts and promotions.

Products and Services

Call Accounting and Telecommunications Expense Management Solutions for Enterprises

TEM Suite

Our TEM Suite is a solution that assists organizations to reduce their telecom spending, manage their telecom assets, bill internal and external customers, and monitor the quality of service of their telecom networks. Our TEM Suite includes several modules that can be delivered as a SaaS. The TEM Suite software platform encompasses the business processes conducted by IT and finance departments in acquiring, provisioning and supporting corporate telecommunications assets. Solutions include software suites and the outsourcing of specific tasks to third-party service providers. At the heart of any TEM offering is an automated software platform used by the business or by an external service provider managing a company's telecom invoices and assets. In February 2014, our TEM Suite won a 2014 Product of the Year Award from TMC's "Internet Telephony" magazine.

Our TEM Suite enables IT managers and finance teams to monitor, control and save IT and communication expenses by utilizing the following features and functions:

- Invoice Management - Provides enterprises with a simplified and automated tool for monitoring, managing, verifying and routing invoices for payment or correction. Invoice items originate from various sources, which include the telecommunication service provider, the devices used such as calling cards, mobile lines, landlines, circuits as well as services and equipment provided. Our solution provides an analysis of all invoice data against the agreement between the enterprise and the service provider, real device usage, online inventory, as well as additional equipment or services. This reduces overhead costs caused by invoice and contract discrepancies, disputes and errors.

- Call Accounting- Collection of call data records directly from PBXs, including rates and pricing of calls, and generation of detailed and summary reports.

Additional features and functions:

- Asset Management
- Cable Management
- Private Calls Management
- My Portal
- VOIP Quality of Service
- Proactive Alerts
- Tenant Resale
- Work Order Management
- Procurement Management

TEM Services

Map-to-WinSM. Customer engagements begin with Map-to-WinSM, which is a strategic consulting approach for our TEM solution. Map-to-WinSM enables organizations to effectively align their business goals with their people, processes and technology investments to assure that their expense management initiatives will be successful. Our proprietary Map-to-WinSM approach ensures that proven business processes are used to define both the customer's and our responsibilities during setup and implementation. This enables our customers to maximize any process improvement opportunities and ensures that nothing is overlooked during this process.

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Consulting Services. Consulting services for our TEM solution are designed to assist companies to develop a strategic telecom plan that is right for their needs and to address their tactical requirements as they arise. Our consulting services work closely with internal IT/telecom and finance teams to ensure a successful TEM solution from start to finish. Our TEM consultants support every stage of the TEM lifecycle, using best-practices-based analysis and processes to help leverage the customers' internal processes and technology. The end result is a long-term, measurable TEM strategy. Our consulting services include:

- invoice and inventory audit and recovery;
- contract negotiations and strategic sourcing;
- discovery and road mapping services;
- process diagnosis and solution design;
- wireless optimization; and
- creation and implementation of IT governance, risk and compliance policies.

MVNE and Cloud Billing Solutions

Our MVNE solution allows MVNOs to reduce their time to market, focus on sales and marketing and reduce their initial capital expenses. Our MVNE solution has the following modules:

- Product Catalog
- Point Of Sale
- Customer Service and Self Care
- Asset management
- Billing (prepaid and postpaid)
- Reseller and distributor management

Mobile Money Solution

Our Mobile Money solution, which can be sold separately or as part of our MVNE solution, allow MVNOs to offer their customers the ability to make deposits, withdrawals, person-to-person transfers, bill payments, purchases of goods and more complex banking services over mobile phones.

MTS CrossTALK M2M/IoT Enablement Platform Solution

CrossTALK is a comprehensive, proven and highly scalable IoT enablement platform covering all the business, operational, management and analytics requirements of IoT service providers. It seamlessly integrates into any MNO operational environment and enables IoT service providers and enterprises, regardless of their size, service offerings or localization requirements, to deploy Internet-connected devices and easily manage all aspects of machine-to-machine (M2M) interactions. CrossTALK provides all the services from a single platform either from the cloud or from a local data center. Our IoT solution has the following modules:

- SIM Management: Full SIM management functionalities accessible from self-care interfaces including MACD (Move, Add, Change, Delete), activation, life-cycle management, suspend/resume and more, as well as notifications and alerts for connectivity, usage, fraud and security.

- Location Management (GIS): Enables the retrieval of geographical information from any SIM or sensor. Capabilities include device virtualization, location historical path, GIS layers management and geo-fencing, as well as notifications and alerts.

- Flexible Billing Engine: Accommodates and processes any type of billing structure. Sophisticated product catalog, Rating, Customer care supporting the full customer life cycle operations, Self care, Partner management for full sales channel operations management, Accounting and dunning, Invoicing and billing.

- Big Data: Enables gathering, filtering, validating, consolidating as well as auditing and controlling of information (records describing usage and performance events) from various data sources of the service delivery platform and application servers automatically or in near real time.

Services

Cloud and Managed Services

Our TEM and MVNE solutions are offered either as a perpetual license or as a managed service. Our operation in the U.S. provides cloud based call accounting, TEM managed services and MVNE. We also provide licenses to our local partners to offer the managed service model in their region.

Implementation and Maintenance Service

We provide customer support to end-users and channels (distributors and business partners) in the United States, Israel and Hong Kong on both a service contract and a per-incident basis. Our technical support engineers answer support calls directly and generally seek to provide same-day responses. We provide updated telephone rate tables to customers on a periodic basis under annual service contracts. The rate tables are obtained from third-party vendors who provide this data for all major long-distance service providers. Our distributors provide a full range of service and technical support functions for our products, including rate tables, to their respective end-user customers.

Sales and Marketing

We rely on business partners, our existing customer base and new direct customers for our sales activities. We believe that partnering with business partners is the most advantageous means to generate new sales of our solutions. In addition, our broad base of previously installed solutions, primarily in the United States, provides us with opportunities to offer and sell any new products, solutions and services.

We sell our solutions worldwide through OEMs, distribution channels and our own direct sales force in the United States, Israel and Hong Kong, and through a network of local distributors in these and various other countries. We employed 12 persons in sales and marketing and 19 persons in support as of December 31, 2014, as compared to 11 persons in sales and marketing and 20 persons in support as of December 31, 2013 and 13 persons in sales and marketing and 33 persons in support as of December 31, 2012.

We conduct a wide range of marketing activities aimed at generating awareness and leads. We maintain our websites (www.mtsint.com and www.mtsbill.com), allowing for correspondence and queries from new potential customers as well as promoting support for our existing customer base. The information on our website is not incorporated by reference into this annual report.

Competition

The Global TEM solution and services market is highly competitive and includes recognized leaders such as Tangoe, Inc. and Emptoris Rivermine (IBM's TEM Solution), covered by industry analysts such as Gartner. As an outcome, we focus on our existing installed base and partnerships to grow our business. We invest in the robustness of our products and the professionalism of our managed service team, to increase our value to our customers. There can be no assurance that we will be able to compete successfully against current or future competitors or that competition will not adversely affect our future revenues and, consequently, on our business, operating results and financial condition.

Our strategy is to focus on selling our M2M/IoT enablement platform to small and medium MNOs and in parallel to M2M/IoT service providers by playing the role of a M2M MVNO that will sell data connectivity with management and billing services. We believe that our principal competitor in this highly competitive market is Jasper Technologies, Inc. The MVNO market is also growing very fast and the principal competitors include Wyless Inc., RacoWireless and Aeris Communications Inc. We believe that our robust solution is a good fit for SMB M2M/IoT service providers. There can be no assurance that we will be able to compete successfully against our current or future competitors.

Intellectual Property Rights

We believe that, because of the rapid pace of technological change in the communication industry, the most significant factors in our intellectual property rights are the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services provided by us. In addition, we rely upon a combination of security devices, copyrights, trademarks, patents, trade secret laws, confidentiality procedures and contractual restrictions to protect our rights in our products. In 2005, we filed an international patent application (PCT application), which is currently pending, relating to a mobile verification technique that verifies mobile phone usage against the bill received from the service provider. Our policy has been to pursue copyright protection for our software and related documentation and trademark registration of our product names. Some of our products have the added protection afforded by a hardware component which has embedded software that it is difficult to misappropriate. In addition, our key employees and independent contractors are required to sign non-disclosure and confidentiality agreements.

Our trademark rights include rights associated with the use of our trademarks and rights obtained by registration of our trademarks in Israel and the United States. We have also acquired rights in certain registered trademarks and common law trademarks and service marks in past acquisitions. The use and registration rights of our trademarks does not ensure that we have superior rights over other third parties that may have registered or used identical related marks on related goods or services. Trademark rights are territorial in nature; therefore we do not have rights in all jurisdictions.

In December 2011, we settled a patent infringement suit filed by Asentinel LLC, or Asentinel, a competitor of our company, against AnchorPoint, Inc., us and our U.S. subsidiary, MTS IntegraTRAK. We made a lump sum payment for past damages to Asentinel and Asentinel granted us a license to use certain of its patents in return for ongoing annual royalty payments for periods subsequent to January 1, 2012.

C. Organizational Structure

Our wholly-owned subsidiaries in the United States, Hong Kong and the Netherlands, MTS IntegraTRAK Inc., MTS Asia Ltd. and Bohera B.V., respectively, act as marketing and customer service organizations in those countries.

D. Property, Plants and Equipment

Our executive offices and research and development facilities are located at 14 Hatidhar Street, Ra'anana, Israel. We lease 5,490 square feet under a lease that expires in February 2016 at an annual rental charge of approximately $127,000.

Our U.S. subsidiary, MTS IntegraTRAK, occupies approximately 2,944 square feet of space in River Edge, New Jersey for a monthly rental fee of approximately $4,800 under a lease terminating in February 2019. We also have an office in Glendale, California, where we occupy approximately 570 square feet of space, under a month-to-month lease for a monthly rental fee of approximately $1,500. In addition, we have an office in Powder Springs, Georgia, where we occupy approximately 4,800 square feet of space under a month-to-month lease for a monthly rental fee of approximately $4,700.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

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. In addition, in the event the Vexigo transaction is completed, our past results may not be indicative of future results. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Background

We were organized under the laws of the State of Israel in December 1995, as a subsidiary of C. Mer Industries Ltd., an Israeli public company (TASE: MER). Since our initial public offering in May 1997, our ordinary shares have been listed on the NASDAQ Stock Market (symbol: MTSL) and are presently listed on the NASDAQ Capital Market.

We have wholly-owned subsidiaries in the United States, Hong Kong and the Netherlands, which act as marketing and customer service organizations in those countries.

Overview

We are a worldwide provider of solutions for TEM and billing solutions. Our TEM solutions assist enterprises and organizations to make smarter choices with their telecommunications spending at each stage of the service lifecycle, including allocation of cost, proactive budget control, fraud detection, processing of payments and spending forecasting. Our converged billing solutions have been successfully implemented worldwide by wireless providers, Voice over Internet Protocol, Internet Protocol Television, MVNO and content service providers. Our converged billing solutions include applications for charging and invoicing customers, interconnect billing and partner revenue management using pre-pay and post-pay schemes.

We operate in two operation-based segments: Enterprise and Service Providers. Our Enterprise segment includes TEM solutions and services and our Service Providers segment includes billing and MVNO services and solutions.

General

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are re-measured into dollars in accordance with the principles set forth in Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 830, “Foreign Currency Translation.” The majority of our sales are made outside Israel in dollars. In addition, substantial portions of our costs are incurred in dollars. Since the dollar is the primary currency of the economic environment in which we and certain of our subsidiaries operate, the dollar is our functional and reporting currency and, accordingly, monetary accounts maintained in currencies other than the dollar are re-measured using the foreign exchange rate at the balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the exchange rate in effect at the date of the transaction. The financial statements of certain subsidiaries, whose functional currency is not the dollar, have been translated into dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss).

Key Factors Affecting Our Business

Our operations and the operating metrics discussed below have been, and will likely continue to be, affected by certain key factors as well as certain historical events and actions. The key factors affecting our business and our results of operations include, among others, competition, government regulation, the build out of infrastructures, macro-economic and political risks, churn, seasonality, impact of currency fluctuations and inflation, effective corporate tax rate, conditions in Israel and trade relations. For further discussion of the factors affecting our results of operations, see "Risk Factors."

MVNO Services

Our improved operations during the last three years have been attributable in great measure to our entry into the MVNO services business. We provide services to MVNOs and assist them to reduce their time to market, focus on sales and marketing and reduce their initial capital expenses. The emergence of the MVNO model in various markets worldwide is mostly related to changes in regulations and in the ability of MVNOs to address new market segments that may increase their revenue streams. Our first MVNO customer was Simple Mobile, a U.S.-based MVNO, for whom we provided MVNE services. In 2012 and 2013, sales attributable to Simple Mobile accounted for approximately 22.8% and 33.3% of our revenues, respectively. During 2012, Simple Mobile was acquired by TracFone and in 2013 TracFone migrated the hosted billing services to their own platform and did not renew their agreement with us. We are continuing our efforts to gain new customers for our MVNO services, but our future success cannot be assured. If we do not replace the revenues generated by Simple Mobile LLC, our operating results and financial condition will be adversely affected.

TEM Call Accounting Solutions

The majority of our revenues are derived from our TEM call accounting solutions, whose revenues declined each year from 2006 through 2014 and revenues for these products may not grow in the future. If the market for our TEM solutions fails to grow or stabilize in the future, our business, operating results and financial condition would be adversely affected. Our future financial performance will be dependent to a substantial degree on the successful introduction, marketing and customer acceptance of our TEM call accounting solutions.

Competition

The market for telemanagement products and invoice management solutions is fragmented and is intensely competitive. Competition in the industry is generally based on product performance, depth of product line, technical support and price. We compete both with international and local competitors (including providers of telecommunications services), many of whom have significantly greater financial, technical and marketing resources than us. We anticipate continuing competition in the telemanagement products and invoice management solution market and the entrance of new competitors into the market. Our existing and potential customers, including business telephone switching system manufacturers and vendors, may be able to develop telemanagement products and services that are as effective as, or more effective or easier to use than, those offered by us. Such existing and potential competitors may also enjoy substantial advantages over us in terms of research and development expertise, manufacturing efficiency, name recognition, sales and marketing expertise and distribution channels. We may not be able to compete successfully against current or future competitors and that competition may adversely affect our future revenues and, consequently, on our business, operating results and financial condition.

Proprietary Rights and Risks of Infringement

We believe that, because of the rapid pace of technological change in the communications industry, the most significant factors in our intellectual property rights are the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services provided by us. We rely upon a combination of security devices, copyrights, trademarks, patents, trade secret laws, confidentiality procedures and contractual restrictions to protect our rights in our products. We try to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. It is possible that others will develop technologies that are similar or superior to our technology. Unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. It is difficult to police the unauthorized use of our products, and we expect software piracy to be a persistent problem, although we are unable to determine the extent to which piracy of our software products exists. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. Our means of protecting our proprietary rights in the United States or abroad may not be adequate or our competition may independently develop similar technology.

It is possible that third parties will claim infringement by us of their intellectual property rights. We believe that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merits, could: (i) result in costly litigation; (ii) divert management's attention and resources; (iii) cause product shipment delays; or (iv) require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. If there is a successful claim of product infringement against us and we are not able to license the infringed or similar technology, our business, operating results and financial condition would be adversely affected. We are not aware that we are infringing upon any proprietary rights of third parties.

Results of Operations

The following table presents certain financial data expressed as a percentage of total revenues for the periods indicated:

	Year Ended December 31,					
	2012		2013		2014	
Revenues:						
Product sales	27.9	%	16.6	%	19.7	%
Services	72.1	%	83.4	%	80.3	%
Total revenues	100.0	%	100.0	%	100.0	%
Cost of revenues:						
Product sales	8.8		6.2		7.2	
Services	25.4		26.1		33.7	
Total cost of revenues	34.2		32.3		40.9	
Gross profit	65.8		67.7		59.1	
Selling and marketing	18.7		17.4		26.4	
Research and development	10.1		11.1		19.6	
General and administrative	21.4		25.5		34.8	
Operating income (loss)	15.6		13.7		(21.7	)
Financial income (expenses), net	0.5		0.5		(1.3	)
Income (loss) before taxes on income	16.0		14.2		(23.0	)
Taxes on income, net	5.6		3.5		0.8	
Net income (loss) from continuing operations	10.4		10.7		(23.8	)
Net income from discontinued operations	-		0.6		1.1	
Net income (loss)	10.4		11.3		(22.7	)

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Revenues from Products and Services. Revenues from products and services consist primarily of software license fees sales and revenues from services, including managed services, hosting, consulting, maintenance, training, professional services and support. Revenues from products and services decreased by 43.2% to $7.1 million for the year ended December 31, 2014 from $12.5 million for the year ended December 31, 2013. Revenues from our Enterprise segment decreased by 15.4% to $6.6 million, or 93.0% of our total revenues, for the year ended December 31, 2014 from $7.8 million, or 62.4% of our total revenues, for the year ended December 31, 2013. Revenues from our Service Providers segment decreased by 89.4% to $0.5 million, or 7.0% of our total revenues, for the year ended December 31, 2014 from $4.7 million, or 37.6% of our total revenues, for the year ended December 31, 2013. Revenues from products and services in the U.S. decreased by 48% to $5.6 million, or 78.9% of our total revenues, for the year ended December 31, 2014 from $10.8 million, or 86.4% of our total revenues, for the year ended December 31, 2013. Our revenues decreased in 2014 primarily as a result of the loss of Simple Mobile as a customer.

Cost of Revenues from Products and Services. Cost of revenues from products and services consists primarily of (i) production costs and payments to subcontractors; (ii) certain royalties and licenses payable to third parties (including Asentinel and the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of the State of Israel, or the OCS), (iii) professional services costs; and (iv) support costs. Cost of revenues from products and services decreased by 27.5% to $2.9 million for the year ended December 31, 2014 from $4.0 million for the year ended December 31, 2013. The decrease in cost of revenues from products and services is primarily attributable to our ceasing to provide services to Simple Mobile during 2013. We expect that our cost of revenues for our legacy business will remain at the same level in 2015 as in 2014.

Research and Development. Research and development expenses consist primarily of salaries of employees engaged in on-going research and development activities, outsourced subcontractor development and other related costs. Research and development expenses remained at $1.4 million for the years ended December 31, 2014 and 2013. We expect that our research and development expenses will decrease in 2015 compared to 2014, but will increase if the Vexigo transaction closes.

Selling and Marketing. Selling and marketing expenses consist primarily of costs relating to sales representatives and their travel expenses, trade shows and marketing exhibitions and presales support. Selling and marketing expenses decreased by 13.6% to $1.9 million for the year ended December 31, 2014 from $2.2 million for the year ended December 31, 2013. We expect to report an increase in our selling and marketing expenses in 2015.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel, professional fees and office maintenance and administrative costs. General and administrative expenses decreased by 22% to $2.5 million for the year ended December 31, 2014 from $3.2 million for the year ended December 31, 2013. We expect an increase in our general and administrative expenses in 2015 compared to 2014.

Financial Income (Expenses), Net. Financial income, net consists primarily of interest income on bank deposits, foreign currency translation adjustments, other interest charges and the financial income (expenses) from option contracts or other foreign hedging arrangements. We recorded $95,000 of financial expenses, net for the year ended December 31, 2014, compared to $61,000 of financial income, net for the year ended December 31, 2013. Our financial expense in 2014 and financial income in 2013 is primarily attributable to exchange rate and foreign currency translation adjustments.

Taxes on Income. We recorded taxes on income of $54,000 for the year ended December 31, 2014, compared to taxes on income of $435,000 for the year ended December 31, 2013. Our taxes on income for the year ended December 31, 2014 are primarily attributable to state income taxes paid by our subsidiary in the U.S.

Net Income from Discontinued Operations. We recorded net income from discontinued operations of $80,000 in the year ended December 31, 2014, compared to net income from discontinued operations of $73,000 in the year ended December 31, 2013. The income from discontinued operations was attributable to the decrease in certain contingent liabilities of our Brazilian subsidiary, TABS Brazil Ltda., whose operations were discontinued in March 2009.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Revenues from Products and Services. Revenues from products and services consist primarily of software license fees sales and revenues from services, including managed services, hosting, consulting, maintenance, training, professional services and support. Revenues from products and services decreased by 4.6% to $12.5 million for the year ended December 31, 2013 from $13.1 million for the year ended December 31, 2012. Revenues from our Enterprise segment decreased by 13.3% to $7.8 million, or 62.4% of our total revenues, for the year ended December 31, 2013 from $9.0 million, or 68.7% of our total revenues, for the year ended December 31, 2012. Revenues from our Service Providers segment increased by 14.6% to $4.7 million, or 37.6 % of our total revenues, for the year ended December 31, 2013 from $4.1 million, or 31.3% of our total revenues, for the year ended December 31, 2012. Revenues from products and services in the U.S. increased by 4.9% to $10.8 million, or 86.4% of our total revenues, for the year ended December 31, 2013 from $10.3 million, or 78.6% of our total revenues, for the year ended December 31, 2012.

Cost of Revenues from Products and Services. Cost of revenues from products and services consists primarily of (i) production costs and payments to subcontractors; (ii) certain royalties and licenses payable to third parties (including Asentinel and the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of the State of Israel, or the OCS), (iii) professional services costs; and (iv) support costs. Cost of revenues from products and services decreased by 11.1% to $4.0 million for the year ended December 31, 2013 from $4.5 million for the year ended December 31, 2012. The decrease in cost of revenues from products and services is primarily attributable to our ceasing to provide services to Simple Mobile during 2013.

Research and Development, Net. Research and development expenses consist primarily of salaries of employees engaged in on-going research and development activities, outsourced subcontractor development and other related costs. Research and development expenses increased by 7.7% to $1.4 million for the year ended December 31, 2013 from $1.3 million for the year ended December 31, 2012.

Selling and Marketing. Selling and marketing expenses consist primarily of costs relating to sales representatives and their travel expenses, trade shows and marketing exhibitions and presales support. Selling and marketing expenses decreased by 12.0% to $2.2 million for the year ended December 31, 2013 from $2.5 million for the year ended December 31, 2012. The decrease in selling and marketing expenses is primarily attributable to a provision we made during 2012 for the repayment of grants received for our foreign marketing expenses in previous years.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel, professional fees and office maintenance and administrative costs. General and administrative expenses increased by 14.3 % to $3.2 million for the year ended December 31, 2013 from $2.8 million for the year ended December 31, 2012.

Financial Income, Net. Financial income, net consists primarily of interest income on bank deposits, foreign currency translation adjustments, other interest charges and the financial income (expenses) from option contracts or other foreign hedging arrangements. We recorded $61,000 of financial income, net for the year ended December 31, 2013, compared to $60,000 of financial income, net for the year ended December 31, 2012. Our financial income in both years is primarily attributable to exchange rate and foreign currency translation adjustments.

Taxes on Income. We recorded taxes on income of $435,000 for the year ended December 31, 2013, compared to taxes on income of $736,000 for the year ended December 31, 2012. Our taxes on income for the year ended December 31, 2013 are primarily attributable to net utilization of a deferred tax asset of $371,000 which we recognized in 2012.

Net Income from Discontinued Operations. We recorded net income from discontinued operations of $73,000 in the year ended December 31, 2013. The income from discontinued operations was attributable to decrease of certain contingent liabilities of our Brazilian subsidiary, TABS Brazil Ltda., whose operations were discontinued in March 2009. We did not record net income or loss from discontinued operations for the year ended December 31, 2012.

Seasonality

Our operating results are generally not characterized by a seasonal pattern except that our volume of sales in Europe is generally lower in the summer months.

Impact of Currency Fluctuation and of Inflation

We report our financial results in dollars and receive payments in dollars for most of our sales, while a portion of our expenses, primarily salaries, are paid in NIS. Therefore, the dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset, or is offset on a lagging basis, by a devaluation of the NIS in relation to the dollar. When the rate of inflation in Israel exceeds the rate of devaluation of the NIS against the dollar, the dollar cost of our operations in Israel increase. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of the devaluation lags behind inflation in Israel.

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

Year ended December 31,	Israeli inflation rate %	NIS devaluation (appreciation) rate %	Israeli inflation adjusted for devaluation (appreciation) %
2010	2.7	(6.0)	8.7
2011	2.2	7.7	(5.5)
2012	1.6	(2.3)	3.9
2013	1.9	(7.0)	8.9
2014	(0.2)	12.1	(12.3)

A depreciation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS, unless those expenses or payables are linked to the dollar. This depreciation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities and also has the effect of decreasing the dollar value of any asset which consists of NIS or receivables payable in NIS, unless the receivables are linked to the dollar. Conversely, any increase in the value of the NIS in relation to the dollar has the effect of increasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses. During 2009 and 2010 the NIS appreciated against the U.S. dollar, which resulted in an increase in the U.S. dollar cost of our NIS expenses. During 2011 the U.S. dollar appreciated against the NIS, which resulted in a decrease in the U.S. dollar cost of our NIS expenses. During 2012 and 2013, the NIS appreciated against the U.S. dollar. While the dollar appreciated relative to the shekel by 12.1% in 2014, eclipsing the 0.2% rate of deflation in Israel in that year, there is no guarantee that the prior trend of dollar devaluation relative to the shekel will not return in the future. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. Our operations also could be adversely affected if we are unable to effectively hedge against currency fluctuations in the future.

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on our profitability and period-to-period comparisons of our results. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations.

In 2014, we entered into forward, call and put option contracts in the amount of $3.4 million that converted a portion of our floating currency liabilities to a fixed rate basis, which reduced the impact of the currency changes on our cash flow. The purpose of our foreign currency hedging activities is to protect us from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the exchange rates. Our put option contracts did not qualify as hedging instruments under ASC 815. Changes in the fair value of put option contracts are reflected in the consolidated statement of comprehensive income as financial income or expense. In 2014, we recorded approximately $79,000 as financial income with respect to such transactions in our consolidated statements of operations.

Conditions in Israel

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. See Item 3D “Key Information – Risk Factors – Risks Relating to Operations in Israel” for a description of governmental, economic, fiscal, monetary or political polices or factors that have materially affected or could materially affect our operations.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. Israel is also a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD's main goal is to promote policies that will improve the economic and social well-being of people around the world. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union Community concluded a Free Trade Agreement in July 1975, which confers certain advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and specified non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as EFTA, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which includes redefinement of rules of origin and other improvements, including providing for Israel to become a member of the research and technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including China, India, Russia, Turkey and other nations in Eastern Europe and Asia.

Effective Corporate Tax Rate

The Israeli corporate tax rate was 25% in 2012 and in 2013. The corporate tax rate increased to 26.5% in 2014.

However, certain of our manufacturing facilities have been granted “Approved Enterprise” status under the Law for the Encouragement of Capital Investments, 1959, as amended, commonly referred to as the Investment Law, and, consequently, are eligible, subject to compliance with specified requirements, for tax benefits beginning when such facilities first generate taxable income. Subject to certain restrictions, we are entitled to a tax exemption in respect of income derived from our approved facilities for a period of two years, commencing in the first year in which such income is earned, and will be entitled to a reduced tax rate of 10%-25% for an additional five to eight years if we qualify as a foreign investors’ company. If we do not qualify as a foreign investors’ company, we will instead be entitled to a reduced rate of 25% for an additional five, rather than eight, years.

In December 2010, the "Knesset" passed the Investment Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among other things, amendments to the Investment Law. The amendment became effective as of January 1, 2011. According to the amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the company's entire preferred income. The company will be able to opt to apply (the waiver is non-recourse) the amendment and from then on it will be subject to the amended tax rates that are: 2011, 2012 and 2013 - 15% (in development area A - 10%); 2014 and 2015 - 16 % (in development area A - 9%).

Our taxes outside Israel are dependent on our operations in each jurisdiction as well as relevant laws and treaties. Under Israeli tax law, the results of our foreign consolidated subsidiaries cannot be consolidated for tax

B. Liquidity and Capital Resources

As of December 31, 2014, we had $4.9 million in cash and cash equivalents, $136,000 in marketable securities and working capital of $2.1 million, compared to $6.4 million in cash and cash equivalents, $153,000 in marketable securities and working capital of $3.5 million as of December 31, 2013. The marketable securities are restricted in order to secure our obligations under one of our lease agreements. The decrease in our working capital at December 31, 2014 was primarily attributable to the net loss we incurred in 2014.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2012	2013	2014
	(in thousands)		

Net cash provided by (used in) operating activities from continuing operations	807	2,147	(1,482)
Net cash used in investing activities	(189)	(58)	(37)
Net cash provided by financing activities from continuing operations	303	90	14
Net increase (decrease) in cash and cash equivalents	921	2,179	(1,505)
Cash and cash equivalents at beginning of period	3,269	4,190	6,369
Cash and cash equivalents at end of period	4,190	6,369	4,864

Net cash used in operating activities from continuing operations was approximately $1.5 million for the year ended December 31, 2014, compared to net cash provided by operating activities from continuing operations of $2.1 million for the year ended December 31, 2013. Net cash used in operating activities from continuing operations was approximately $807,000 for the year ended December 31, 2012. The increase in cash used in operating activities in 2014 compared to cash generated from operating activities in 2013 is primarily attributable to the decrease in our company's net income, mainly as a result of loss of Simple Mobile as a customer at the end of 2013 which significantly affected us in 2014.

Net cash used in investing activities was approximately $37,000 for the year ended December 31, 2014, primarily attributable to purchase of property and equipment. Net cash provided by investing activities was approximately $58,000 and $189,000 for the years ended December 31, 2013 and December 31, 2012, respectively, primarily attributable to purchase of property and equipment.

Net cash provided by financing activities was approximately $14,000 for the year ended December 31, 2014, attributable to the proceeds received from employee stock option exercises. Net cash provided by financing activities was approximately $90,000 and approximately $303,000 for the year ended December 31, 2013 and December 31, 2012, respectively. In 2013 and 2012, net cash provided by financing activities was attributable to the proceeds received from employee stock option exercises.

Under the terms of the Vexigo Transaction, we will acquire 100% of the outstanding shares of Vexigo. We will pay cash consideration of $4 million, consisting of the payment of $3 million at closing and two payments of $500,000 each that will be paid three months and six months following the closing date. In addition, at closing, we will issue 40% of our outstanding ordinary shares post-closing to Vexigo's shareholders. The Vexigo SPA further provides for earnout payments of up to $16 million over a 5.5 year period from the closing date, based on the earnings of the Vexigo product line. Accordingly, the consummation of the Vexigo Transaction will significantly decrease our cash reserves. In the event we are not successful in generating sufficient cash from our current operations or from Vexigo's operations, we may be required to obtain financing from outside sources or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, results of operations and financial condition will be adversely affected.

We anticipate that our cash on hand and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least 12 months.

Discussion of Critical Accounting Policies and Estimations

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the use of different assumptions would likely result in materially different results of operations.

Critical accounting policies are those that are both most important to the portrayal of a company's financial position and results of operations, and require management's most difficult, subjective or complex judgments. Although not all of our significant accounting policies require management to make difficult, subjective or complex judgments or estimates, the following policies and estimates are those that we deem most critical:

Revenue Recognition. We account for our revenue in accordance with the provisions ASC 985-605, "Revenue recognition – Software," as amended, or ASC 985-605. When an arrangement does not require significant production, modification or customization of software or does not contain services considered to be essential to the functionality of the software, revenue is recognized when the following four criteria are met:

- Persuasive evidence of an arrangement exists. We require evidence of an agreement with a customer specifying the terms and conditions of the products or services to be delivered typically in the form of a purchase order or the customer's signature on our proposal;

- Delivery has occurred. For software licenses, delivery takes place when the software is installed on site or remotely or is shipped via mail on a compact disc or server. For services, delivery takes place as the services are provided;

- The fee is fixed or determinable. Fees are fixed or determinable if they are not subject to a refund or cancellation and do not have payment terms that exceed our customary payment terms; and

- Collection is probable. We perform a credit review of all customers with significant transactions to determine whether a customer is credit worthy and collection is probable.

In general, revenue for transactions that do not involve software customization or services considered essential to the functionality of the software is recognized as follows: (i) software license fees for sales through OEMs are recognized upon receipt of license activity reports; (ii) all other software license fees are recognized upon delivery of the software; (iii) software maintenance and technical support are recognized ratably over the contract term; and (iv) consulting, training and other similar services are recognized as the services are performed.

We exercise judgment and use estimates in connection with the determination of the amount of product software license and services revenues to be recognized in each accounting period. If the fee due from the customer is not fixed or determinable, revenue is recognized as payments become due from the customer. If collection is not considered probable, revenue is recognized when the fee is collected.

A limited number of our software arrangements involve multiple elements. Such elements typically include any or all of the following: software licenses, warranty, technical support and training services. For multiple-element arrangements that do not involve significant modification or customization of the software and do not involve services that are considered essential to the functionality of the software, we attempt to allocate value to each undelivered element based on vendor specific objective evidence, or VSOE, of the fair value of each undelivered element in the arrangement, in accordance with the residual method. However, since we have an immaterial number of multiple element arrangements, therefore no VSOE is established.

Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered element and is recognized as revenue when all revenue recognition criteria of ASC 985-605 are satisfied. Under the residual method, any discount in the arrangement is allocated to the delivered element. However, if sufficient specific objective evidence does not exist for all undelivered elements, revenue is deferred for the entire arrangement until all revenue recognition criteria are met for such undelivered elements.

Revenues from maintenance and support services are recognized over the term of the maintenance and support agreement on a straight line basis. Deferred revenues include unearned amounts received under maintenance and support contracts, not yet recognized as revenues.

Revenues for hosting and managed services are recognized based on Staff Accounting Bulletin No. 104 and ASC 605-25, when delivery has occurred or services have been rendered, the fee is fixed or determinable, collectability is probable and persuasive evidence of an arrangement exists. These revenues are recognized as one unit of accounting, on a straight line basis over the term of the last undelivered element.

Allowances for Doubtful Accounts. We perform ongoing credit evaluations of our customers' financial condition and we require collateral as deemed necessary. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including the aging of our receivables, historical bad debt experience and the general economic environment. Management applies considerable judgment in assessing the realization of receivables, including assessing the probability of collection and the current credit worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Income Taxes. Estimates and judgments are required in the calculation of certain tax liabilities and in the determination of the recoverability of certain of the deferred tax assets, which arise from net operating losses tax carryforwards and temporary differences between the tax and financial statement recognition of revenue and expense. FASB ASC Topic 740, “Income Taxes” also requires that the deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis. In determining future taxable income, we are responsible for assumptions utilized, including the amount of Israeli and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Based on estimates of future taxable profits and losses in the tax jurisdictions that we operate, we determined that a valuation allowance of $5.29 million is required for tax loss carryforwards and other temporary differences as of December 31, 2014. If these estimates prove inaccurate, a change in the valuation allowance could be required in the future.

Contingencies. We are involved in legal proceedings and other claims from time to time. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for any contingencies are made after careful analysis of each individual claim. The required reserves may change due to future developments in each matter or changes in approach, such as a change in the settlement strategy in dealing with any contingencies, which may result in higher net loss. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. See “Item 8A. Financial Information – Consolidated Statements and Other Financial Information – Legal Proceedings.”

Goodwill. Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350," Intangibles—Goodwill and Other," goodwill is subject to an annual impairment test, or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. We operate in two reporting units: Enterprise and Service providers. All goodwill balances are assigned to our Enterprise reporting unit.

Under ASU 2011-08, "Intangibles Goodwill and Other" (Topic 350), or ASU 2011-08, which amended the rules for testing goodwill for impairment, an entity 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 amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary.

We have elected to perform an annual impairment test of goodwill as of September 30 of each year, or more frequently if impairment indicators are present. For 2014 we engaged a third party to perform annual impairment tests and did not identify any impairment losses. The company performed its annual impairment tests during the fourth quarter. As of December 31, 2014, in light of the decrease in the market price of the company’s ordinary shares, we performed an additional qualitative assessment for the enterprise reporting unit and concluded that it is more likely than not that no impairment of goodwill exists. No impairment losses were recognized in 2013 and 2014.

Other intangible assets and long-lived assets. Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up in accordance with ASC 350. Our long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with ASC 360 “Property, Plant and Equipment” whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2013 and 2014, no impairment losses were identified.

Developed technology is amortized over a period of six-to-eight years, customer relationships are amortized over a period of five to six years and brand names are amortized over a period of eleven years. During 2012, 2013 and 2014, no impairment losses were identified.

Stock based compensation. We apply ASC 718 "Compensation - Stock compensation," and ASC 505-50 "Equity-Based Payments to Non-Employees," with respect to options and warrants issued to non-employees. ASC 718 requires companies to estimate the fair value of stock-based awards on the date of grant using an option-pricing model, where applicable. Stock-based compensation expense recognized in our consolidated statements of operations for the three years ended December 31, 2014 include compensation expense for stock-based awards granted based on the grant date fair value estimated in accordance with the provisions of ASC 718.

We recognize these compensation costs net of a forfeiture rate and recognize the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period for each separately vesting portion of the award, which is the option vesting term of four years. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We estimate the fair value of stock options granted using the Black-Scholes-Merton option pricing model. Stock-based compensation expense recognized under ASC 718 and ASC 505-50 were approximately $44,000, $107,000 and $69,000 for the years ended December 31, 2012, 2013 and 2014, respectively.

Recently Issued Accounting Standards

In April 2014, the FASB issued amended guidance related to discontinued operations. The new guidance limits the presentation of discontinued operations to business circumstances when the disposal of the business operation represents a strategic shift that has had or will have a major effect on operations and financial results. This guidance is effective for fiscal years beginning January 1, 2015. We believe that the adoption of this new standard will not materially impact our consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. We are currently evaluating the potential effect of the amended guidance on our consolidated financial statements.

In August 2014, the FASB issued amended guidance related to disclosure of uncertainties about an entity’s ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity’s ability to continue as a going concern and, as necessary, to provide related footnote disclosures. The guidance has an effective date of December 31, 2016. We believe that the adoption of this new standard will not have a material impact on our consolidated financial statements.

C. Research and Development

Our product development plans are market-driven and address the major, fast-moving trends that are influencing the telecommunications industry. We intend to expand upon our existing family of TEM solutions by adding new features and functions to address evolving market needs.

Our research and development staff is evaluating approaches to solutions which will permit an information technology manager to effectively measure the quality of the services received from their service providers and to ensure that the users within the organization received such services according to their needs and the overall policy and priorities of the organization.

We work closely with our customers and prospective customers to determine their requirements and design enhancements and new releases to meet their needs. Research and development activities take place in our facilities in Israel. We employed 10 persons in research and development as of December 31, 2014, as compared to 12 persons in research and development as of December 31, 2013 and December 31, 2012.

We have committed substantial financial resources to research and development for our TEM and billing solution activities. Among our various development plans, our roadmap includes the integration of our TEM products with our other complementary TEM products within the next few years. During 2012, 2013 and 2014, our net research and development expenditures were $1.3 million, $1.4 million and $1.4 million, respectively. In the past, we received funding from the OCS for selected research and development projects.

Under the terms of research and development grants that we have received from the OCS, we are required to pay royalties on the revenues derived from products incorporating know-how developed with such grants and ancillary services in connection therewith, up to 100% to 150% of the dollar-linked value of the total grants, plus interest. We are required to pay royalties at a rate of 3%-5%. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required. Since June 1997, we have paid the OCS royalties on all call accounting product sales at the applicable rates at the time of payment. See Item 10E. "Additional Information - Taxation - Grants under the Law for the Encouragement of Industrial Research and Development, 1984." As of December 31, 2014, we had a contingent obligation to pay royalties to the OCS in the amount of approximately $8.5 million plus interest at a rate equal to the 12 month LIBOR rate for grants received after January 1999.

Our quality management system has been ISO 9001:2000 certified since the beginning of 2006, and prior thereto was ISO 9001:1994 certified.

D. Trend Information

As a result of a less predictable business environment and the decline in worldwide sales of PBX systems, we are unable to provide any guidance as to current sales and profitability trends. We expect that our results will continue to be impacted by a shift to a new line of products and increased cost of services and selling and marketing expenditures.

E. Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations and commercial commitments as of December 31, 2014 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(U.S. dollars in thousands)				
Operating lease obligations	385	185	132	68	-
Accrued severance pay*	712	--	--	--	712
Total	1,097	185	132	68	712

* See Item 6D. "Directors, Senior Management and Employees - Employees."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

Name	Age	Position with the Company
Chaim Mer	67	Chairman of the Board of Directors
Lior Salansky	50	Chief Executive Officer
Alon Mualem	48	Chief Financial Officer
Josef Brikman	57	President, North America Operations
Nir Flatau	45	Executive Vice President, Business Development
Isaac Ben-Bassat	61	Director
Eytan Barak (1) (2)	70	Outside Director
Roger Challen	69	Director
Steven J. Glusband	68	Director
Yaacov Goldman (1) (2)	59	Director
Varda Trivaks (1) (2)	58	Outside Director

(1) Member of our audit committee
(2) Member of our compensation committee

Messrs. Mer, Ben-Bassat, Challen, Glusband and Goldman will serve as directors until our 2015 Annual General Meeting of Shareholders. All of such persons were elected to serve as directors by our shareholders at our 2014 Annual General Meeting of Shareholders. We expect that Mr. Isaac Ben-Bassat will resign his position as a member of our Board of Directors effective as of the closing of the Vexigo Transaction. Mr. Barak and Ms. Trivaks serve as outside directors pursuant to the provisions of the Israeli Companies Law for their third three-year terms until December 2016 and August 2017, respectively. Lior Salansky, who was a member of our board of directors since April 2008, resigned his position as a director in January 2014 and was appointed as our Chief Executive Officer in January 2015, replacing Mr. Alon Mualem, our CFO, who served as our CEO on an interim basis since May 2014.

Chaim Mer has served as the Chairman of our Board of Directors and a director since our inception in December 1995. Mr. Mer has served as the Chairman of the Board of Directors of C. Mer Industries Ltd., a publicly traded company, since 1988 and served as its President and Chief Executive Officer from 1988 until January 2005. Mr. Mer holds a B.Sc. degree in Computer Sciences and Mathematics from the Technion - Israel Institute of Technology.

Lior Salansky has served as our Chief Executive Officer since January 2015. Mr. Salansky served as a director of our company from April 2008 to January 2014 and as our President from February 2008 until June 2010. In 1991, Mr. Salansky founded MIND C.T.I. Ltd. (NASDAQ: MNDO), a global provider of real-time, product-based mediation, billing and customer care solutions for voice, data, video and content services, where he served until February 2000 in a number of positions, including Co-Chief Executive Officer, Vice President of Business Development and Research and Development Manager and also served as a director from its inception until 2004. Mr. Salansky holds a B.Sc. degree in Computer Science from the Technion - Israel Institute of Technology and an MBA degree from Tel Aviv University.

Alon Mualem has served as our Chief Financial Officer since September 2007. Prior to joining our company and from June 2005, Mr. Mualem held the responsibilities of chief financial officer at Xfone, Inc. (AMEX and TASE: XFN), an international communications services company and its subsidiary, Xfone 018 Ltd. Prior to that, Mr. Mualem served as chief financial officer of CheckM8, Ltd., a high-tech Internet advertising firm located in Israel. From 1998 to 2004, Mr. Mualem served as the corporate controller of RADVISION Ltd. (NASDAQ: RVSN) and from 1996 to 1998, Mr. Mualem served as a deputy controller of RAD Data Communication Ltd. From 1992 to 1996, Mr. Mualem served as a certified public accountant at Somekh Chaikin, a member firm of KPMG International. Mr. Mualem holds a B.A. degree in Economics and Accounting from Tel Aviv University and is Certified Public Accountant (Israel).

Josef Brikman has served as our President of North America operations since May 2011. Mr. Brikman also currently serves as President of MER Security Inc., which he joined in 2008. From 2006 to 2008, Mr. Brikman was a co-founder of a financial consulting company. Mr. Brikman had previously served our company as Chief Financial Officer from 1998 to 2004. Previously, Mr. Brikman was co-founder and co-manager of STS Software Systems Ltd. Mr. Brikman holds a B.Sc. degree from Fairleigh Dickenson University and a B.A. degree from Haifa University.

Nir Flatau has served as our Executive Vice President, Business Development since November 2014. Before joining us, Mr. Flatau held various senior executive positions with a number of high-tech companies. He served as Vice President Marketing and Business Development of the telecom division of the MER Group from April 2013 until November 2014 and Vice President Marketing and Business Development of Comverse Ltd. from March 2011 until April 2013. From February 2008 until March 2011 he served as Senior Account Director for Pontis Ltd. and previously served as Vice President EMEA Marketing, Sales and Business Development for Clarizen Ltd. Mr. Flatau obtained his B.A. degree in Computer and Political Science from the Tel Aviv University.

Isaac Ben-Bassat has served as a director since our inception in December 1995. Mr. Ben-Bassat has been Executive Vice President and a director of C. Mer since 1988. Mr. Ben-Bassat holds a B.Sc. degree in Civil Engineering from the Technion - Israel Institute of Technology.

Eytan Barak has served as an outside director of our company from August 2007 and is a member of our audit committee. Mr. Barak is joint owner and chief executive officer of Dovrat - Barak, Investments in Advanced Technologies Ltd., which provides financial resources and management assistance to start-up companies. Mr. Barak also served as a member of the board of directors, audit committee and investment committee of Eltek Ltd, Spectronix Ltd. and Menorah-Mivtachim Mutual Funds Ltd. Mr. Barak serves as a member of the board of directors, audit committee and investment committee of various Israeli companies, including Meshulam Levinstein Construction and Engineering Ltd., Yuval Education Ltd., Tel-Aviv National Sport Center Ltd. and Ben Gurion university Sport Center. From 1973 to 1997, Mr. Barak was with Israel Corporation, initially serving as its corporate controller and thereafter as its chief financial officer, and also served as chairman or member of the board of directors of some of its subsidiaries. From 1967 until 1973, Mr. Barak was associated with Kesselman & Kesselman, the Israeli member firm of PricewaterhouseCoopers International Limited. Mr. Barak holds a B.A. degree in accounting from Tel Aviv University and has been a certified public accountant (Israel) since 1971.

Roger Challen has served as a director since April 1, 2009. Mr. Challen co-founded The Info Group, Inc. (formerly AnchorPoint, Inc.), a company that developed and provided licensed software and managed services of telecommunications expense management solutions. Mr. Challen is an accomplished entrepreneur with a proven track record of founding, managing and developing companies in the software, telecommunications and information services fields. Mr. Challen has founded or co-founded and been an active executive of several privately held companies in the software and IT services market. Mr. Challen is currently a director of The Info Group, Inc., Image Data, Inc and Data Distributors, Inc., all of which are private companies. Mr. Challen began his career with IBM Corporation, in Waltham, Massachusetts, where he served as a systems engineer and then as a marketing representative. During his tenure with IBM, Mr. Challen won several awards for outstanding technical and sales achievements. Mr. Challen holds a B.A. in Economics and Mathematics from Yale University.

Steven J. Glusband has served as a director since August 1, 1996. Mr. Glusband has been a partner with Carter Ledyard & Milburn LLP, our U.S. counsel, since March 1987. Mr. Glusband holds a B.B.A. degree from the City College of the City University of New York, a J.D. degree from Fordham University School of Law and an L.L.M. degree from the New York University School of Law.

Yaacov Goldman has served as a director since May 2004 and is a member of our audit committee. Mr. Goldman provides consulting services to companies in strategic-financial areas, through his wholly owned company, Maanit-Goldman Management & Investments (2002) Ltd. Mr. Goldman also serves as a director of Golden House Ltd., Cellect Biomed Ltd., Isrotel Ltd., Meitav Dash Investments Ltd., Medi Power (Overseas) Public Co. Limited and IceCure Medical Ltd. Until March 2012, Mr. Goldman served as a director of Elron Electronic Industries Ltd. and Negev Ceramics Ltd. Until July 2010, Mr. Goldman served as a director of Bank Leumi Le'Israel Ltd. and until June 2009 as Chairman of ITGI Medical Ltd. Until December 2014, he served as a director of Proteologies Ltd. Mr. Goldman served as the Professional Secretary of the Peer Review Institute of the Certified Public Accountants

Institute in Israel from October 2004 until September 2008. Commencing in 1981, Mr. Goldman worked for Kesselman & Kesselman (Israeli member firm of PricewaterhouseCoopers) for 19 years, and from 1991 until 2000, as a partner and then senior partner of such firm. From September 2000 until November 2001, Mr. Goldman served as managing director of Argoquest Holdings, LLC. From March 2002 until October 2002, Mr. Goldman acted as a consultant to a private equity initiative with Poalim Capital Markets & Investments Ltd. Mr. Goldman holds a B.A. degree in Economics and Accounting from Tel Aviv University and is a Certified Public Accountant (Israel).

Varda Trivaks has served as an outside director since August 2008 and is a member of our audit committee. Ms. Trivaks serves as the Managing Director and is one of the two founding partners of Mimtar Business Consulting, established in 2001. In that position, Ms. Trivaks acts as an advisor to companies on investments, mergers, spin-offs, valuation, control, budgeting, with a special focus on advising global companies and management of companies during times of restructuring and recovery. Ms. Trivaks serves as a member of the audit committee, board of directors and/or financial committee of Ginegar Plastic Products Ltd., Halamish - Municipal Government company for housing and neighborhood renewal in Tel Aviv Jaffa Ltd. and E. Schnapp & Co. Works Ltd. From 1998 to 2004, Ms. Trivaks was a member of the Israel Accounting Institute's communications committee for Capital Markets and Insurance. From 1998 to 2001, Ms. Trivaks was a partner with the accounting and consulting firm, Shlomo Ziv and Co. - BDO, and served as the managing director of one of its subsidiaries. Ms. Trivaks is a Certified Public Accountant (Israel) since 1987 and holds a B.A. degree in Economics and Accounting from Tel Aviv University and a Master of Science in Management from Boston University.

If the Vexigo Transaction is approved by our shareholders on April 1, 2015 and the Vexigo Transactions closes, we expect that Messrs. Tzvika Friedman and Adi Orzel will be elected to the Board and that Mr. Isaac Ben-Bassat will resign from the Board. The biographies Messrs. Friedman and Orzel are below.

Tzvika Friedman (53) is an active investor and coach for companies in the area of on-line advertising, social recommendation, smart acquiring solutions, messaging, homeland security, home networking, Smart meeting application, mobile networks optimization and Algo-Trading. Mr. Friedman served as Alvarion Ltd.'s Chief Executive Officer and President from 2005 through December 2009 and was a member of Alvarion's board of directors from July 2005 through August 2008. Mr. Friedman joined Floware Wireless Systems Ltd. in October 2000 as its President and Chief Operating Officer and served in this capacity in Alvarion since its merger with Floware. From 1998 to 2000, Mr. Friedman served as Corporate Vice President and General Manager of the DCME division at ECI Telecom Ltd. From 1992 to 1996, Mr. Friedman served as Vice President Marketing and Sales of ECI Telecom's SDH division. Mr. Friedman holds a B.S. and M.S. in Electrical Engineering, summa cum laude, from the Tel Aviv University, and graduated with distinction with an M.S. from the Sloan Program of Management of the London Business School.

Adi Orzel (43) has served as the Chairman of the Board of Vexigo Ltd. since April 2012. Mr. Orzel is also the co-founder & CEO of Warlock Analytics Ltd. Prior to that he was the CEO of Way Better Ltd. Mr. Orzel is a co-founder of Matomy Media Group (MTMY.L), a global performance media company, and served as the CEO of its display division (Matomy Media) from 2006 to 2012 and as the CEO of the performance division (Matomy Market) from October 2010 to March 2012. In 2005-2006 Mr. Orzel served as VP Business Development for Soho Digital International and from 2003-2005 Mr. Orzel was the Executive Director of Advertising at 888.com (888.L). Mr. Orzel holds a B.A., cum laude, in Economics from the Tel Aviv University.

B. Compensation

The aggregate compensation paid and share-based compensation and other payments expensed by us and our subsidiaries to our directors and executive officers with respect to the year ended December 31, 2014 was $909,715. This amount includes approximately $85,834 set aside or accrued to provide pension, severance, retirement or similar benefits or expenses, but does not include business travel, relocation, professional and business association dues and expenses reimbursed to office holders, and other benefits commonly reimbursed or paid by companies in our industry. As of December 31, 2014, options to purchase 202,500 ordinary shares granted to our current directors and executive officers were outstanding under our equity incentive plans at a weighted average exercise price of $1.69 per share.

For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement to disclose information concerning the amount and type of compensation paid to its chief executive officer, chief financial officer and the three other most highly compensated executive officers. Nevertheless, a recent amendment to the regulations promulgated under the Israeli Companies Law requires us to disclose the annual compensation of our five most highly compensated officers (or all the named executive officers if there are less than five) on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. Under the Companies Law regulations, this disclosure is required to be included in the notice of our annual meeting of shareholders each year or in a public document that accompanies such notice, which we furnish to the SEC under cover of a Report of Foreign Private Issuer on Form 6-K. The Companies Law regulations permit us to refer to a report filed pursuant to the laws of the country in which our shares are listed for trading that includes the required information in lieu of its inclusion in the notice of annual meeting. Because of that disclosure requirement under Israeli law, we are including such information in this annual report, pursuant to the disclosure requirements of Form 20-F.

The table below reflects the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2014. All amounts reported in the table reflect the cost to the company, as recognized in our financial statements for the year ended December 31, 2014.

Name and Position	Salary & Social Benefits (1)	Bonus	Share-Based Payment (2)	Other Compensation (3)	Total
			(U.S. Dollars) (4)		
Eytan Bar, Chief Executive Officer(5)	239,577	-	17,354	-	256,931
Alon Mualem, Chief Financial Officer	195,068	-	23,664	28,484	247,216
Josef Brikman, President, North America Operations (6)	214,722	-	10,059	-	224,781
Chaim Mer, Chairman of the Board of Directors (7)	84,000	-	-	-	84,000
Nir Flatau, Executive Vice President, Business Development (8)	34,475	--	-	2,508	36,983

(1) Represents the office holder's gross salary or consulting fees plus payment of mandatory social benefits made by the company on behalf of such office holder, to the extent applicable. Such benefits may include, to the extent applicable to the 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, risk insurances (e.g., life, or work disability insurance), payments for social security, tax gross-up payments, vacation, car, phone, convalescence pay and other benefits and perquisites consistent with our policies.

(2) Represents the equity-based compensation expenses recorded in the company's consolidated financial statements for the year ended December 31, 2014 based on the options' grant date fair value in accordance with accounting guidance for equity-based compensation.

(3) Represents the other benefits to such officer, which includes car expenses, including lease costs, gas and maintenance, provided to the officers.

(4) Translated (i) from NIS into U.S. dollars at the rate of NIS 3.6 = $1.00, based on the average representative rate of exchange between the NIS and the U.S. dollar as reported by the Bank of Israel in the year ended December 31, 2014.

(5) Represents compensation granted to Mr. Bar until November 2014. Our Board of Directors approved the appointment of Mr. Lior Salansky as our CEO, succeeding Mr. Eytan Bar, on January 18, 2015, replacing Mr. Alon Mualem, our CFO, who served as CEO on an interim basis since May 2014, when Mr. Bar resigned. Our Compensation Committee and Board of Directors approved the proposed terms of employment of Mr. Salansky at their meetings held on January 11, 2015 and January 18, 2015. These terms, subject to shareholder approval, are described in the Proxy Statement furnished to the SEC on Form 6-K for the month of February 2015 and submitted on February 18, 2015. If the Vexigo Transaction closes in April 2015, further changes are expected to be made to the compensation table which will be adapted to include Vexigo's chief executive officer. For further details on the Vexigo Transaction, please consult the Proxy Statement furnished to the SEC on Form 6-K for the month of February 2015 and submitted on February 18, 2015.

(6) Represents compensation of Mr. Josef Brikman who devotes 80% of his time to our company.

(7) Mr. Chaim Mer, the Chairman of our Board of Directors, devotes approximately 20% of his time to the management of our company in consideration of which we pay him a monthly salary of $7,000.

(8) Represents compensation of Mr. Nir Flatau since he joined the company on October 22, 2014.

With respect to Messrs. Ben-Bassat, Challen, and Glusband, in 2014 we paid each of them an annual fee of approximately $8,400 and a per meeting attendance fee of $300.

With respect to Mr. Goldman and our outside directors, we pay an annual fee, payable quarterly, of NIS 30,500 (currently equivalent to approximately $7,800) and a per meeting attendance fee of NIS 1,700 (currently equivalent to approximately $440).

As of December 31, 2014, our three executive officers, Mr. Alon Mualem, Mr. Josef Brikman and Mr. Nir Flatau, held options to purchase an aggregate of 202,500 ordinary shares with exercise prices ranging from $1.44 to $2.26 per share and a vesting period of four years commencing on the respective grant dates of the options. Of such options, options to purchase 112,500 ordinary shares will expire in August 2016, options to purchase 50,000 ordinary shares will expire in November 2016 and options to purchase 40,000 ordinary shares will expire in May 2018. Such options were granted under our 2003 Israeli Share Option Plan and 2006 Stock Option Plan. In 2014, no such options were exercised. However, a former officer exercised options to purchase 2,078 ordinary shares during 2014.

At the 2013 Annual General Meeting, our shareholders approved the grant of options to Mr. Lior Salansky to purchase 40,000 ordinary shares. On January 29, 2014, we received notice from Mr. Lior Salansky that he was resigning as a director of our company effective January 31, 2014 and all of the options granted to Mr. Salansky subsequently expired. As mentioned above, Mr. Salansky's proposed terms of employment as our company's new Chief Executive Officer are discussed in the Proxy Statement furnished to the SEC on Form 6-K for the month of February 2015 and submitted on February 18, 2015.

See Item 6E., "Directors, Senior Management and Employees - Share Ownership – Stock Option Plans."

C. Board Practices

Election of Directors

Our Articles of Association provide for a Board of Directors consisting of up to twelve members or such other number as may be determined from time to time at a general meeting of shareholders. Our Board of Directors is currently composed of seven directors.

Pursuant to our articles of association, all of our directors (except the outside directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual general meeting of shareholders and until their successors have been elected. The Board of Directors, may, at any time from time to time, appoint any other person as a director, whether to fill a casual vacancy or to add to their number. All the members of our Board of Directors (except the outside directors) may be reelected upon completion of their term of office. All of our current directors (including one outside director) were elected by our shareholders at our annual general meeting of shareholders held in August 2014.

We do not follow the requirements of the NASDAQ Stock Market Rules with regard to the nomination process of directors, and instead, we follow Israeli law and practice, in accordance with which our directors are recommended by our board of directors for election by our shareholders. See below in this Item 16G. "Corporate Governance."

Outside and Independent Directors

Outside Directors. Under the Israeli Companies Law, companies incorporated under the laws of the State of Israel whose shares have been offered to the public are required to appoint at least two outside directors. The Israeli Companies Law provides that a person may not be appointed as an outside director if the person is a relative of the controlling shareholder of the company, or if the person, the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, the controlling shareholder of the company or its relative, or any entity controlling, controlled by or under common control with the company. The term "relative" means a spouse, sibling, parent, grandparent, child or child, sibling or parent of a spouse or spouse of any of the foregoing. The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;

- control; and

- service as an officer holder, excluding service as an outside director of a company that is offering its shares to the public for the first time.

In addition, no person may serve as an outside director if the person's position or other activities create, or may create, a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director. If, at the time an outside director is appointed all members of the board of directors are of the same gender, then that outside director must be of the other gender. A director of one company may not be appointed as an outside director of another company if a director of the other company is acting as an outside director of the first company at such time.