MER TELEMANAGEMENT SOLUTIONS LTD
Form 20-F
April 30, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

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

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 0.03 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 0.03 per share…… 3,120,684
(as of December 31, 2017)

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

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

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

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

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

Item 17 Item 18

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

Yes No

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 global provider of solutions for telecommunications expense management, or TEM, enterprise mobility management, or EMM, and for online and mobile video advertising.Our TEM solutions allow 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 include applications for charging and invoicing customers, interconnect billing and partner revenue management using pre-pay and post-pay schemes, as well as managed services for mobile virtual network operators in the United States and worldwide.

The online video advertising solution is provided through Vexigo, a wholly-owned subsidiary of our company. The Vexigo solution for online and mobile platforms supports multiple ad formats and interactive ad units.

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, and “Vexigo” means Vexigo Ltd., our wholly-owned Israeli subsidiary.

We own U.S. trademark rights for 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.

On September 6, 2017, we effected a one-for-three reverse split of our ordinary shares. The reverse split entailed the exchange of one ordinary share, NIS 0.03 nominal value per share for three ordinary shares, NIS 0.01 nominal value. No fractional shares were issued as a result of the reverse split. The reverse split reduced the number of outstanding ordinary shares from 9,356,566 ordinary shares to 3,120,684 ordinary shares. Unless explicitly stated otherwise, all share prices and amounts are adjusted to account for the reverse split.

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 statement 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, 2017 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, 2017 and as of December 31, 2016 and 2017 appear elsewhere in this annual report. Our selected consolidated financial data as of December 31, 2013, 2014 and 2015 and for the years ended December 31, 2013 and 2014 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,				
	2017	2016	2015	2014	2013
	(U.S. dollars in thousands, except share and per share data)				
Revenues	$8,626	$14,052	$14,712	$7,066	$12,472
Cost of revenues	3,511	6,913	8,414	2,893	4,024
Gross profit	5,115	7,139	6,298	4,173	8,448
Selling and marketing	1,829	2,343	2,225	1,868	2,164
Research and development	2,145	2,763	1,805	1,387	1,389
General and administrative	3,009	3,472	3,459	2,459	3,188
Goodwill and technology impairment, net of change in contingent earn-out consideration	-	4,245	3,514	--	--
Operating income (loss)	(1,868)	(5,684)	(4,705)	(1,541)	1,707
Financial (expenses) income, net	144	(17)	(17)	(95)	61
Income (loss) before taxes on income	(1,724)	(5,701)	(4,722)	(1,636)	1,768
Taxes on income (benefit), net	(9)	(507)	194	54	435
Net income (loss) from continuing operations	(1,715)	(5,194)	(4,916)	(1,690)	1,333
Net income (loss) from discontinued operations	(53)	(27)	177	80	73
Net income (loss)	(1,768)	(5,221)	(4,739)	(1,610)	1,406
Basic and diluted net income (loss) per share from continuing operations	$(0.57)	$(1.84)	$(2.05)	$(1.08)	$0.84
Basic and diluted net income (loss)per share from discontinued operations	$(0.02)	$(0.01)	$0.07	$0.06	$0.06
Basic and diluted net income (loss) per share	$(0.59)	$(1.85)	$(1.98)	$(0.14)	$0.90
Weighted average number of ordinary shares used in computing basic net income (loss) per share	2,991,547	2,817,427	2,391,664	1,556,988	1,553,230
	2,991,547	2,817,427	2,391,664	1,556,988	1,573,655

Weighted average number of ordinary shares used
in computing diluted net income (loss) per share

Balance Sheet Data:

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Working capital (deficiency)[1]	$(1,409)	$(1,552)	$(438)	$2,090	$3,455
Total assets	8,646	12,288	22,024	10,892	12,629
Shareholders' equity	1,712	1,860	6,149	5,632	7,161

1. Working capital (deficiency) excludes discontinued operations.

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

Our auditors have expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain further financing.

Our audited financial statements for the year ended December 31, 2017, were prepared under the assumption that we would continue our operations as a going concern. Our independent registered public accounting firm has included a "going concern" explanatory paragraph in its report on our financial statements for the year ended December 31, 2017, indicating that we have suffered recurring losses from operations and have a net capital deficiency, which raises substantial doubt about our ability to continue as a going concern. The inclusion of this "going concern" paragraph in our financial statements and the uncertainty concerning our ability to continue as a going concern may adversely affect our ability to obtain future financing and, if obtained, the terms of such financing. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. As of December 31, 2017, we had cash and cash equivalents of $1.3 million and a working capital deficiency of $1.4 million. We expect to report a loss for the first quarter of 2018 and that our cash position will be reduced further. Without additional funds from private or public offerings of debt or equity securities, sales of assets, sales or licenses of intellectual property or technologies, or other transactions, we will exhaust our resources and will be unable to continue operations. If we cannot continue as a viable entity, our shareholders would likely lose most or all of their investment in us.

We have incurred operating losses in each of the past four years and may not regain profitability in the future. We anticipate that we will need additional funding. If we are unable to raise capital, we will be forced to reduce or eliminate certain of our operations.

We have incurred operating losses in each of the last four years and may not be able to regain profitable operations in the future or generate positive cash flows from operations. Our continued losses have resulted in our having a working capital deficiency in the past three years. 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, and as a result, there is substantial doubt about our ability to continue as a going concern. During 2017, we had negative operating cash flows and as of December 31, 2017, our cash and cash equivalents declined to $1.3 million and we had a working capital deficiency of $1.4 million. We anticipate that we will be required to obtain financing from outside sources or further reduce our level of expenditures. Such financing may not be available to us, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our results of operations and financial condition will be adversely affected and we will be forced to reduce the scope of, or eliminate certain of our operations. Even if we are able to continue to finance our business, the sale of additional equity will result in dilution to our current shareholders and the incurrence of debt could require us to grant a security interest in our assets. If we raise additional funds through the issuance of debt securities, these securities may have rights senior to those of our ordinary shares and could contain covenants that could restrict our operations. In addition, we may require additional capital beyond our currently forecasted amounts to achieve profitability.

Our efforts to reduce expenses, could disrupt our business and may not be successful.

As part of our strategy to return to profitable operations, we have determined to reduce our operational expenses across the company and to eliminate our non-profitable operations. We are now focused on our core businesses, TEM, call accounting and to a lesser degree, video advertising. We must manage our employees, operations, finances, research and development and capital investments efficiently. If we fail to appropriately coordinate across our executive, engineering, finance, human resources, legal, marketing, sales, operations and customer support teams, our productivity and the quality of our solutions may be adversely affected and our results of operation will be negatively impacted.

We would be adversely affected if we are unable to attract and retain key personnel.

Our success depends in part on key management, sales, marketing and development personnel and our continuing ability to attract and retain highly qualified personnel. There is competition for the services of such personnel. The loss of the services of key personnel, and the failure to attract highly qualified personnel in the future, may have a negative impact on our business. Moreover, our competitors may hire and gain access to the expertise of our former employees or our former employees may compete with us. In the last year a number of our key personnel have resigned from our company or have been dismissed, including our former CEO, our current chief financial officer, the Chairman of our Vexigo subsidiary, the CEO of Vexigo and the President of our North America operations. While we have successfully replaced our former CEO, who also currently heads our North America operations, in a timely manner and believe that we have a qualified successor to our CFO in-house, there is no assurance that any of the associated risks will not be realized in the future.

We derive a significant portion of our revenues from TEM call accounting solutions, whose revenues have declined in recent years.

A significant portion of our revenues is derived from our TEM call accounting solutions, whose revenues declined each year from 2006 through 2014 and from 2016 through 2017. Revenues for these products may not grow or stabilize 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 current and future TEM call accounting solutions.

The operating expenses associated with our TEM call accounting solutions are mostly fixed expenses. If our TEM call accounting revenues decline, our operating results will be adversely affected.

Our expense levels are substantially based on our expectations for future revenues and are therefore relatively fixed. 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.

Our quarterly and annual results have fluctuated significantly in the past and are likely to fluctuate significantly in the future.

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.

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.

We are subject to risks associated with rapid technological change and risks associated with new versions, offerings, products and industry standards.

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 degree 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.

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 our business and our financial performance.

The market for our TEM and call accounting solutions may be adversely affected by intense competition.

The market for TEM and call accounting 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 TEM and call accounting markets 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 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, our business, operating results and financial condition.

The impairment of intangible assets and goodwill arising from our acquisitions could continue to negatively impact our net income and shareholders' equity.

When we acquire a business, a substantial portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. The current accounting standards require that goodwill and intangible assets should be deemed to have indefinite lives, which should be tested for impairment at least annually (or more frequently if impairment indicators arise). Other intangible assets are amortized over their useful lives. In light of changes that occurred in the online advertising market during the latter part of 2015 and during 2016, which resulted in reduced revenues and gross margins, we performed an impairment analysis in accordance with ASC 350 and re-evaluated the contingent consideration payable to the former shareholders of Vexigo as of the end of 2015 and as of the end of 2016. As a result of these analyses and reevaluations, we recorded in 2015 a non-cash impairment of goodwill of $3.5 million, net of the re-evaluation of the contingent consideration payable to the former shareholders of Vexigo, and in 2016 we recorded a non-cash impairment of goodwill and technology of $4.2 million, net of a $4.3 million re-evaluation of the contingent consideration payable to the former shareholders of Vexigo resulting in the impairment of the entire amount recorded as goodwill and technology in connection with our acquisition of Vexigo.

Based on the impairment analysis, we did not identify any impairment losses for the goodwill assigned to the Enterprise reporting unit. We may not be able to achieve our business targets for our acquired businesses, which could result in our incurring additional goodwill and other intangible assets impairment charges. Further declines in our market capitalization increase the risk that we may be required to perform another goodwill impairment analysis, which could result in an impairment of up to the entire balance of our goodwill and other identifiable intangible assets.

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.

The online advertising field is highly competitive and is increasingly dominated by large players, diminishing access and opportunities for smaller players like our company. The increased cost of online advertising space decreased Vexigo’s gross margin.

The online advertising field has undergone significant changes in recent years, resulting from, among other factors, the increased significance and scope of the mobile advertising segment and from consolidation in the ad exchange and ad network markets. Two of the largest online services providers, Google and Facebook, derive the significant majority of their revenues in the online advertising market and control a substantial portion of the supply chain for online advertising spots. The smaller players, including Vexigo, compete for the remaining market share, including the remaining placement inventory and advertising customers. This competitive field requires Vexigo and its competitors to continuously advance technologically and develop or locate technological and other solutions to stay competitive. If Vexigo will be unsuccessful in obtaining and maintaining a competitive position, its results of operations will be adversely affected and our results of operations and financial condition will be adversely affected. During recent years, the cost of online advertising space significantly increased, resulting in a lower gross margin for Vexigo’s operations. In the event Vexigo will not be successful in y generating higher revenues for its online advertising space inventory, Vexigo’s gross margin may not recover to its historic levels and may further decline, adversely affecting Vexigo’s results of operations.

Vexigo’s reliance on a small number of suppliers and customers, places our business, financial condition and results of operations at risk.

A relatively small number of customers have historically accounted for a majority of Vexigo's revenue. During 2016, Vexigo's top three customers accounted for 50% of its aggregate revenues. In addition, until January 2016 Vexigo relied on one major supplier, AppNexus, for a significant portion of its advertising space (approximately 54% during 2015). Vexigo's activity with AppNexus was reduced significantly in early 2016 and we expect that Vexigo 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. During January 2017, Brightroll, which was acquired by Yahoo and which Vexigo used for purchasing media, switched to a different platform and significantly reduced its activity with Vexigo. During 2017, Vexigo faced significant difficulties in its efforts to work with different platforms and therefore Vexigo's activity declined. If Vexigo fails to compensate for the loss of advertising space or revenue by creating commercial relationships with new suppliers and attracting new customers, or fails to retain new or existing suppliers and customers, or if existing suppliers terminate or materially alter their commercial relationships 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, our business, and results of operations and financial condition will be further adversely affected.

Vexigo has experienced fluctuations and material declines in its operating results, which make its future results difficult to predict and could cause its operating results to continue to decline in the future.

Vexigo's operating results have fluctuated in the past and will likely fluctuate in the future, while experiencing a steady decline since its acquisition in 2015, due to a variety of factors, many of which are not readily discernible and are beyond Vexigo's control. Vexigo's fluctuating results could cause its performance to fall below our expectations and adversely affect our operating results. Factors that may increase the volatility of and adversely affect Vexigo's operating results include the following:

- changes and new measures implemented by internet browsers and manufacturers of mobile devices limiting the scope and type of advertising that can be placed using Vexigo's solutions;
- consolidation of Vexigo's competitors and the entry into the advertising sales market of the major players and web services providers;
- increases in the percentage of advertising space that Vexigo acquires but does not sell, thereby increasing its operating costs without a parallel increase in its revenues;
- Vexigo's ability to obtain quality advertising space;
- developments in technology or new devices that enable users to block advertising;
- the addition or loss of media affiliates;
- changes in demand and pricing for Vexigo's solutions and the overall reduction in the prices of online advertising placements;
- Vexigo's inability to obtain long-term commitments from advertisers;
- changes in the way advertisers verify safe video impressions;
- changes in publishers' policy for running in-banner video advertising, preventing Vexigo from utilizing its media assets;
- changes in video platforms regulation, preventing Vexigo from selling its inventory to its advertisers;
- 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 ad-exchanges that may prevent running rotating advertisements;
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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; and

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

Vexigo has encountered and will continue to encounter risks and difficulties frequently experienced by companies in rapidly changing industries, including challenges related to layoffs, recruiting, integrating and retaining qualified employees, making effective use of limited resources, achieving market acceptance of its existing and future offerings, as well as 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. 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, our operating results, may from time to time fall below our estimates or the expectations of investors.

If Vexigo acquires low quality advertising space, or if fraud content or views are detected in connection with the placement of advertisements by Vexigo or if Vexigo sells advertising space in connection with undesirable advertising campaigns, Vexigo's revenues may decrease and its reputation may be harmed.

The instances of fraudulent content and fraudulent views of online advertising (using bots or other technologies) increased during recent years and pose a significant threat to the online advertising market. 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 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. In the event Vexigo detects the low quality or fraudulent advertising space or problematic campaign, it will lose the funds invested in acquiring the relevant advertising space. In the event Vexigo is not successful in detecting such low quality or fraudulent advertising space or problematic campaign and sells it to its customers or places it on advertising space, these customers may refuse to pay for their ad placement or cease working with Vexigo and Vexigo, and we, may become subject to indemnification claims by Vexigo's customers or from the publishers and Vexigo's 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, may 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 or deferred revenues in the future. Any such write-offs for bad debt or deferrals of revenues 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, our results of operations and financial condition could be adversely impacted.

Legislation and regulation of digital businesses and industry standards or technical measures 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 conducting its 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. The online advertising field is subject to federal, European and other regulation, including with respect to privacy and data protection and targeting minors and children, for example, the Children's Online Privacy Protection Act of 1998. 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. Key market players, such as Google, have in the past and may in the future implement technical measures in their products that limit the options, opportunities and access of online advertisers. Such legislation, technical measures and industry standards could affect the costs of doing business online, and may adversely affect the demand for or effectiveness and value of Vexigo's solutions. If future regulation, industry standards or consumer preferences make the collection or use of such data more difficult or impracticable, the value of online advertising could be adversely affected which, in turn, could impact the demand for our products. The costs of compliance with privacy and other laws and regulations are high and are likely to increase in the future and any failure on Vexigo's part to comply with laws and regulations may expose Vexigo to significant liabilities.

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, which makes it easier to block ads and introduce ad blocking applications that are compatible with their devices. Network carriers may also impact the ability to access specified content on mobile devices or even block such access. 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, our ability to generate revenue could be significantly harmed.

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

Due to the rapid pace of technological change in the communications industry, we believe that 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.

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, whose patent strategy is still in its early stages, has one registered 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 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 and expensive. 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.

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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.

It is possible that third parties will claim infringement by us of their intellectual property rights regarding both the telecommunications industry and the advertising industry. We believe that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segments grows and the functionality of products in different industry segments overlaps. As a result of the Vexigo acquisition, 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 we are 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 we 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. Any such litigation could also cause product set-up or maintenance delays, expose us to indemnification claims by our customers or 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. Some of Vexigo's competitors for example have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. 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 cannot assure you that we are not infringing or violating any third-party intellectual property rights.

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.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum (Brexit). The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could continue for a few years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, and has given rise to calls for certain regions within the United Kingdom to preserve their place in the European Union by separating from the United Kingdom as well as for the governments of other EU member states to consider withdrawal.

These developments, or the perception that any of them could occur, could have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility.

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.

Notably, 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.

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 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 77.8%, 48.8% and 76.1% of our total revenues for the years ended December 31, 2015, 2016 and 2017, 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;

·foreign currency exchange rate fluctuations

·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.

The foregoing factors may adversely affect our future revenues from international operations and, as a result, adversely affect our business, operating results and financial condition.

The base erosion and profit shifting, or BEPS, project undertaken by the Organization for Economic Cooperation and Development, or OECD, may have adverse consequences on our tax liabilities. The BEPS project contemplates changes to numerous international tax principles, as well as national tax incentives, and these changes, if adopted by individual countries, could adversely affect our provision for income taxes. It is hard to predict how the principles and recommendations developed by the OECD in the BEPS project will translate into specific national laws, and therefore we cannot predict at this stage the magnitude of the effect of such rules on our financial results.

In the United States, the new Trump Administration has called for substantial change to fiscal, tax and trade policies that may adversely affect our business. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business.

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We may be adversely affected by fluctuations in currency exchange rates.

While our revenues are generally denominated in U.S. dollars and Euros, a significant portion of our expenses, primarily salaries, is 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.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business. Vexigo, in particular, relies heavily on its IT systems and on third party IT support and systems, including communications lines.

Cyber-attacks or other breaches of network or information technology, or 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 TEM and call accounting 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.

Vexigo and our TEM services, in particular, rely 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.

We are subject to risks arising from product defects and potential product liability. Errors or failures in Vexigo's software and systems could adversely affect its operating results and growth prospects.

In the TEM business, 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 depend upon the continued retention of certain key personnel. Turnover in recent years in the position of our chief executive officer could adversely affect our growth strategy and the execution of our business plans.

We depend to a significant extent on the efforts and abilities of our senior management team and 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. 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. In addition, the loss, for any reason, of the services of any of these key individuals and any negative market or industry perception arising from such loss, could damage our business and harm our reputation.

In October 2017, we announced the appointment of Roy Hess as our chief executive officer. Mr. Hess replaced Mr. Alon Mualem who served as interim chief executive officer since February 2017. In February 2017, we announced the departure of Orey Gilliam as our chief executive officer and the appointment of Alon Mualem as interim chief executive officer. In June 2016, Mr. Gilliam replaced Lior Salansky, who had served as our chief executive officer since January 2015. Mr. Salansky replaced Alon Mualem who served as interim chief executive officer after the departure of Eytan Bar in May 2014. This turnover in the position of our chief executive officer and any future turnover in this position could hinder our strategic planning, execution and future performance.

We have encountered difficulties in realizing any financial or strategic benefits from the Vexigo acquisition and may be unable to realize any benefits from the Vexigo acquisition 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. To date we have not been able to capitalize on our acquisition of Vexigo and have been required to record impairments of substantially all of our investment. 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.

Actual results could differ from the estimates and assumptions that we use to prepare our financial statements.

In order to prepare our financial statements in conformity with accounting principles generally accepted in the United States, or U.S. GAAP, our management is required to make estimates and assumptions, as of the date of the financial statements, which affect the reported values of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Areas that require significant estimates by our management include contract costs and profits, application of percentage-of-completion accounting, provisions for uncollectible receivables and customer claims, impairment of long-term assets, goodwill impairment, valuation of assets acquired and liabilities assumed in connection with business combinations, accruals for estimated liabilities, including litigation and insurance reserves, and stock-based compensation. Our actual results could differ from, and could require adjustments to, those estimates.

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.

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 the source

code available 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, we cannot guarantee that Vexigo 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 our business, financial condition and results of operations.

The earn-out payments pursuant to the Vexigo acquisition will reduce our ability to use cash generated from Vexigo's operations in order to fund our operations.

The terms of the Vexigo stock purchase agreement, or the Vexigo SPA, require us to pay the former Vexigo shareholders earn-out payments, or the Earnout 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 the closing date of the acquisition, subject to certain limitations and up to a cap of $16 million. The Earnout Payment in connection with fiscal years 2015, 2016 and 2017 (commencing on April 1, 2015, the date we acquired Vexigo) amounted to $0. As the Earnout 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, if any, generated by Vexigo's operations that we will be able to use to fund our operations and growth. In the event we require additional funds for our ongoing operations beyond the funds remaining after deduction of the Earnout Payments, we may be required to raise funds by means of an equity financing, which will dilute the holdings of our current shareholders or loans from financial institutions. Such equity or debt financings may not be available on terms acceptable to us, or at all, which would have an adverse effect on our operations and business.

Risk Factors Related to Our Ordinary Shares

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 a minimum closing bid price per share of $1.00 for 30 consecutive business days and shareholders' equity of at least $2.5 million. On February 22, 2017, we were notified that that we were not in compliance with NASDAQ's requirement that listed securities maintain a minimum bid price of $1.00 per share. As a result of our reverse split in September 2017, we were able to achieve compliance by meeting the applicable standard for a minimum of ten consecutive business days.

In addition, as of December 31, 2016 our shareholders' equity was $1.9 million. On April 3, 2017 we received a NASDAQ Staff Determination letter indicating that we failed to comply with the continued listing requirement that we maintain either a minimum of $2,500,000 in stockholders' equity or $35,000,000 market value of listed securities or $500,000 of net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years, as set forth in NASDAQ Marketplace Rule 4320(e)(2)(B), and that the Staff is therefore reviewing our eligibility for continued listing on The NASDAQ Capital Market. In accordance with NASDAQ Marketplace Rule 4320(e)(2)(D), we received 45 calendar days, or until May 18, 2017, to submit a plan to regain compliance. On May 17, 2017, we submitted our plan to regain compliance with the minimum stockholders' equity requirement), which included a proposed debt conversion of the outstanding debt owed to the former shareholders of Vexigo that was recorded in our balance sheet in the amount of approximately $1.2 million and a proposed private placement of our ordinary shares in consideration for an aggregate amount of $400,000. On August 14, 2017, following the implementation of the Vexigo debt conversion and a private placement of our ordinary shares, we regained compliance with the NASDAQ's minimum stockholders' equity requirement and accordingly we received a conditional notice of regaining listing compliance from the NASDAQ. As of December 31, 2017, our shareholders' equity was $1.83 million. Therefore, we expect to receive a NASDAQ Staff determination letter indicating that we again failed to comply with the continued listing requirement that we maintain a minimum of $2.5 million in stockholders' equity. We may not be able to reach the minimum shareholders' equity required for continued listing by NASDAQ in the timeframe that will be prescribed by NASDAQ and, even if we do regain compliance, we could in the future fail to meet this or other NASDAQ continued listing requirements and fail to cure such noncompliance, resulting in the delisting of our ordinary shares from NASDAQ. 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.

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A few of our shareholders who are also members of our Board, may have a significant influence over our business prospects. Future disagreements among these Board members may delay or prevent certain business developments.

Mr. Haim Mer, the Chairman of our Board of Directors, and his wife, Mrs. Dora Mer, currently beneficially own approximately 17.3% 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 14% of our outstanding shares. Mr. Tzvika Friedman, who is one of our directors, currently beneficially owns 5.8% of our outstanding shares. As a result, each of these shareholders has a significant influence over the election of our Board of Directors and over our business and affairs. Any future disagreements between these board members in connection with our business and affairs, including with respect to any determinations relating 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, may delay or prevent certain of these developments and thereby harm our future prospects and results of operations. This concentration of ownership may also adversely affect our share price, especially if these shareholders sell substantial amounts of our ordinary shares. Our current officers and directors beneficially own, collectively, 1,244,814 ordinary shares, or approximately 39.6% of our outstanding shares.

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, 1999-5759, or the Israeli Companies Law, a company may generally distribute dividends only out of its retained earnings (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 and there is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which you purchased your 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. We believe that we were not a PFIC in 2016 and we do not expect to become a PFIC in future years. 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 - United States Federal Income Taxation – Passive Foreign Investment Companies.”

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. 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. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Also, in recent years 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 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 significant 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 U.S. 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.

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 limited 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 and the director nomination process. Although we have on occasion sought and obtained shareholder approval as required under NASDAQ Stock Market Rules 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), we may in the future exercise our right to follow Israeli law and practice in connection with these matters. 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 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 TEM and billing tools and solutions and of solutions for video advertising over the internet and mobile devices. 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 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.

In April 2015, we acquired 100% of the outstanding shares of Vexigo, a privately-held Israeli-based software company supporting video advertising over the internet and mobile devices, which continues to operate as our wholly-owned subsidiary. Due to the continued weakness in Vexigo's business, during April 2018 our board of directors decided that we will either sell the Vexigo business or discontinue its operations in the near term.

B. Business Overview

Industry Background

We are a global provider of solutions for telecommunications expense management (TEM), enterprise mobility management (EMM) and online and mobile video advertising. Our TEM Suite helps organizations reduce operational expenses, improve productivity and optimize networks and services associated with communications networks and information technology.

Through Vexigo, we offer many advertising solutions, including delivery of video advertising campaigns to relevant, brand-receptive digital audiences. Vexigo manages and optimizes its customers' digital marketing campaigns assisting them to maximize the effectiveness of every advertisement delivered to its target audience. Vexigo is able to perform accurate analysis of video campaigns across different devices and ad exchanges, managing a significant amount of campaigns, while driving monetization for the digital media property owner.

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. Public cloud IaaS (Infrastructure as a Service) consumption and spending continue to grow. Cloud leaders responsible for IaaS spending need to get ahead of spending and waste through the emerging practice of cloud service expense management, and to take advantage of the emerging tools. 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, get visibility and control over resources for expense reduction which 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.

Unified Communication & Collaboration products, which are fundamental management tools, record, retrieve and process data received from a PBX or other Unified Communication and Collaboration, or UC&C, systems. This information provides a telecommunications manager with information on telephone usage, instant messaging, application sharing, presence, video and enables the management of internal billing, fraud detection, compliance and optimizes an enterprise's telecommunications resources.

Digital Advertising Industry

Google and Facebook dominate the US digital ad market. The advertising market is generally divided into two broad categories: direct response and branding. Direct response advertising is designed to induce specific action, while brand advertising is designed to establish a long-term, positive consumer attitude toward a company or its product or service without a specific call to action. While direct response advertisers measure campaign effectiveness against consumer response to an advertisement's call to action, brand advertisers measure campaign effectiveness against metrics such as reach (how many consumers within the advertiser's target audience were exposed to the advertisement) and frequency (how many times was the consumer within the target audience exposed to the advertisement). Brand advertisers may conduct post-campaign surveys with their target audience to measure how well a campaign increased brand-relevant metrics, such as brand awareness, message recall, brand favorability and purchase intent.

Currently, direct response campaigns, such as search engine marketing, click-through banners and digital coupons, account for the majority of digital advertising. Historically, brand advertisers have relied on television, print and other traditional media to promote their brands, and we believe that digital video advertising remains underpenetrated by brand advertisers compared to traditional media. Brand advertisers' target audiences are spending less time watching traditional television and more time viewing video entertainment on internet connected devices.

Vexigo expects that television brand advertisers will in the future follow their target audiences onto digital video and allocate more of their budgets to digital video advertising. As new solutions address the challenges advertisers face with deploying digital video brand campaigns in a fragmented ecosystem, Vexigo believes this market is poised to capture increasing amounts of advertising dollars.

Products

Call Accounting and Telecommunications Expense Management Solutions for Enterprises

TEM Suite

Our TEM Suite is a solution that assists organizations to reduce their telecom and cloud spending, manage their IT assets, bill internal and external customers, and monitor the quality of service of their telecom and cloud 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 2017, our TEM Suite won a 2017 award from TEMIA, Communications Solutions Products of the Year Award from TMC, and from Internet Telephony.

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.

- UC&C Analytics (eXsight)- Collection of call data records, Instant messaging, app sharing, video, presence information directly from the UC&C provider, including rates and pricing of calls, serviceability, employee productivity, and generation of insights.

Additional features and functions:

- Asset Management
- Cable Management
- Private Calls Management
- Quality of Service
- Contact Center Analysis
- Provision Engine
- VOIP Quality of Service
- Proactive Alerts
- Tenant Resale

· Work Order Management

· Procurement Management

Cloud Expense Management – Empowers organizations to monitor cloud spend, optimize cloud efficiency, resource re-sizing recommendations, cost allocation, cloud governance for eliminates barriers without sacrificing control.

TEM Services

Map-to-Win[s]. Customer engagements begin with Map-to-Win[s], which is a strategic consulting approach for our TEM solution. Map-to-Win[s] 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-Win[s] 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.

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.

Cloud and Managed Services

Our Call Accounting and TEM 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 services.

Implementation and Maintenance Service

We provide customer support to end-users and channels (distributors and business partners) through support centers located 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.

Vexigo's Solutions

Vexigo's solutions are built for brand advertisers and professional digital media property owners that produce content and applications. Vexigo built its data-science capabilities to deliver reliable campaign results for brand advertisers and monetization for digital media property owners. Vexigo's ads run when users choose to view video content on their internet-connected devices and platforms. Vexigo delivers video advertisements, largely on a pre-roll basis, meaning that the advertisements are prominently displayed before the chosen video content is displayed. Utilizing

campaign management platform, Vexigo’s advertiser customers reach large-scale, brand-receptive audiences, and digital media property owners capture brand advertising revenue with their content and applications.

Vexigo utilizes optimization technology which is capable of simultaneously analyzing a high number of single impressions, effectively and efficiently determining each impression's quality and matching relevant advertiser to it. Vexigo believes that this leads to high user engagement, higher CPMs and better monetization on an uninterrupted basis.

The solutions offered by Vexigo to digital media property owners and advertisers provide the following benefits:

- Utilization of a wide range of digital media properties on a 24/7 basis;

- Digital media property owners enjoy Vexigo's solutions to effectively verify, validate, filter and sift through large quantities of media, thus obtaining high quality media that is appropriate to the nature of their properties, with lower quality or fraudulent media being eliminated by Vexigo's technology in the process; and

- Vexigo offers digital advertisers a package of advertising opportunities by aggregating digital media property categories, providing an optimized solution and avoiding the need to manually select relevant media properties for advertising;

Vexigo's Strategy

Vexigo intends to pursue its business model by, among other things:

- continuing to leverage its business model as its customers allocate their digital marketing expenditure towards higher quality and more personalized exposures. Vexigo aims to attract new customers to its business, as well as capture a bigger share of its existing customers' advertising budgets by providing optimized results for advertisers and higher revenue sharing arrangements for digital property owners; and

- increasing the number of digital advertising sources in its network to ensure its customers have access to a large and diversified supply of advertisements across a wide variety of media channels. This includes plans to strengthen Vexigo's relationships with advertising exchanges and direct advertisers. By expanding its network of digital advertisers, Vexigo believes it will strengthen its market profile as an independent digital marketing company with low dependency on any one advertising source and attract additional customers seeking a large and diversified network of digital media.

In 2017, Vexigo focused its activity on premium advertisers. Vexigo has served over 200 advertisers and advertising agencies in over 20 countries with more than 8,000 domains, and ads served by it have generated over 2 billion video impressions around the world.

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 10 persons in sales and marketing and 27 persons in support as of December 31, 2017, as compared to 14 persons in sales and marketing and 26 persons in support as of December 31, 2016 and 14 persons in sales and marketing and 26 persons in support as of December 31, 2015.

Online Advertising Solutions' marketing strategy is focused on increasing awareness of its platform and monetization tools in order to expand its customer base and increase advertiser and digital media owner loyalty. Vexigo sells to its customers primarily through its sales and media personnel, who have established relationships with major ad agencies and direct relationships with advertisers, as well as digital media platform owners.

We conduct a wide range of marketing activities aimed at generating awareness and leads. We maintain our websites (www.mtsint.com and www.vexigo.com), allowing for correspondence and queries from new potential customers as well as promoting support for our existing customer base. The information on our websites is not incorporated by reference into this annual report. In addition, we participate in certain tradeshows in order to increase our exposure to other market participants and potential customers.

Competition

Telecommunications Solutions

The global TEM solution and services market is highly competitive and includes recognized leaders such as Tangoe, Inc. and Calero Software LLC that are 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.

Online Advertising Solutions

Vexigo operates in a dynamic and competitive market, influenced by trends in both the overall advertising industry as well as the digital video advertising market. Vexigo competes with networks such as Matomy, Brightcom, and Web3, as well as other ad networks. Vexigo also faces competition from direct response advertising providers who seek to target brands. Some large advertising agencies, which may represent Vexigo's current customers, build their own relationships with digital media properties and can directly connect advertisers with digital media properties. Other companies that offer analytics, mediation, exchange or other third party solutions are or may become intermediaries between advertisers and digital media properties and thereby compete with Vexigo.

In addition, many of the players in the digital advertising market also compete in the performance-based segment including:

• large and well-established technology companies, such as Facebook, Google, Twitter and Yahoo!;

• advertising agencies, such as Omnicom, Publicis and WPP;

• digital marketing companies, such as Conversant, Criteo, Millennial Media, Rocket Fuel, XL Marketing, YuMe and Zanox; and

• other players, including Vexigo's existing digital media sources, who also compete in the digital performance-based marketing segment through their relationships with advertisers.

We believe that the principal competitive factors in the industry in which Vexigo operates include effective audience targeting capabilities, brand-oriented tools and user interface, multi-device campaign delivery capability, platform independence, proven and scalable technologies, audience scale and reach, relationships with leading brand advertisers and their respective agencies, brand awareness and reputation. Vexigo believes that it competes favorably with respect to all of these factors and that it is well-positioned as an independent provider of digital video brand advertising solutions.

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), 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.

Vexigo has one registered patent in the United States. Vexigo's management believes that, while a patent may provide it with a competitive advantage, its success depends primarily on its marketing, business development, applications and know-how. There can be no assurance that Vexigo's future patents or other intellectual property rights will afford it a meaningful competitive advantage.

Government Regulation

The online advertising field is subject to federal, European and other regulation, including with respect to privacy and data protection and targeting minors and children, for example, the Children's Online Privacy Protection Act of 1998. 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. Key market players, such as Google, have in the past and may in the future implement technical measures in their products that limit the options, opportunities and access of online advertisers. 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 order to enhance the accuracy of our demographic categorization of websites and Internet users. In addition, Vexigo's customers may elect to use their own data about target audiences collected by them or by third-party data companies to target advertisements to particular audiences. Although Vexigo does not use data that can be used to identify specific people, the definition of personally identifiable information, or personal data, varies by country and is evolving, and therefore could be exposed to claims based on local current or future privacy regulation. The collection and use of data about Internet users has come under scrutiny by consumer advocacy organizations and regulatory agencies in various countries, including the U.S., that focus on online privacy.

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. Various advocacy and consumer protection groups have in recent years voiced concern about the use of cookies and other online tools to record users' browsing history, and the use of that information to deliver advertisements online based on inferred interests of each user.

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. Vexigo Ltd. is our wholly-owned subsidiary in Israel which provides our video advertising business. We hold Vexigo's shares partially directly and also indirectly through our 100% ownership of FPSV, who's only material asset is its holdings in Vexigo.

D. Property, Plants and Equipment

Our executive offices and research and development facilities are located at 14 Hatidhar Street, Ra'anana, Israel. In February 2018, we entered into an extension of a lease for 4,583 square feet that expires in February 2019 at an annual rental charge of approximately $93,000. In January 2018, Vexigo downsized the space it leased in Nes Ziona, Israel

due to the significant reduction in personnel that was effected in December 2017. Vexigo now occupies approximately 600 square feet under a month-to-month basis lease, for which the aggregate monthly rental charge is approximately $2,500.

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 $5,100 under a lease terminating in February 2019. We also have an office in Glendale, California, where we occupy approximately 400 square feet of space, under a month-to-month lease for a monthly rental fee of approximately $750. 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. 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.

During 2017 we operated in three business segments. Our Telecom Business operates in two operation-based segments: Enterprise (TEM) Division and Service Providers (Billing) Division. Our Enterprise segment includes TEM solutions and services and our Service Providers segment includes billing services and solutions. Due to the significant decline of our Billing business and our focus on the TEM business, at the beginning of 2018 we decided that our remaining billing activity will be part of the telecommunication business going forward. Following the acquisition of Vexigo in April 2015, we operate in another operation-based segment of Video Advertising. We have wholly-owned subsidiaries in Israel, the United States, Hong Kong and the Netherlands, which act as marketing and customer service organizations in those countries. We also operate the Vexigo business as a wholly-owned subsidiary in Israel.

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).

Our audited financial statements for the year ended December 31, 2017, were prepared under the assumption that we would continue our operations as a going concern. Our independent registered public accounting firm has included a

“going concern” explanatory paragraph in its report on our financial statements for the year ended December 31, 2017, which raises substantial doubt about our ability to continue as a going concern. The inclusion of this “going concern” paragraph in our financial statements and the uncertainty concerning our ability to continue as a going concern may adversely affect our ability to obtain future financing and, if obtained, the terms of such financing. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. Without additional funds from private or public offerings of debt or equity securities, sales of assets, sales or licenses of intellectual property or technologies, or other transactions, we will exhaust our resources and will be unable to continue operations. If we cannot continue as a viable entity, our shareholders would likely lose most or all of their investment in us.

Overview

Telecom Business: TEM (Enterprise) and Billing (Service Providers) Divisions

We are a worldwide provider of TEM solutions which 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 implemented worldwide by wireless providers, Voice over Internet Protocol, or VOIP, Internet Protocol Television, or IPTV, 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.

Video Advertising

Vexigo, which we acquired on April 1, 2015, is a provider of digital video advertising solutions for large and small brand advertisers, advertising agencies and for other businesses around the world that promote or sell products and/or services to consumers through digital media, such as websites, mobile apps and social media networks and digital media properties, Vexigo delivers video advertising campaigns to relevant, brand-receptive digital audiences.

Vexigo generates revenue by delivering digital video advertisements on internet-connected devices. Vexigo's ads run when users choose to view video content on their devices. Advertising customers submit ad insertion orders to Vexigo and Vexigo fulfills those orders by delivering the customers' digital video advertisements to audiences available through digital media properties, a process referred to as an advertising campaign. Vexigo is typically paid on a cost per thousand advertising impressions basis, or CPM. In certain cases Vexigo pays the publishers a fixed price for advertising space, however in other cases Vexigo agrees on a revenue share arrangement with publishers where the payment to the publishers is based on CPM or a fixed price deducted from payment received from advertisers.

Key Factors Affecting Our TEM and Billing Businesses

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."

TEM Call Accounting Solutions

The majority of the TEM (Enterprise) Division revenues are derived from our TEM call accounting solutions, whose revenues have declined each year since 2006 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.

Key Factors Affecting Our Video Advertising Business

Video advertising Solutions

The majority of this division's revenues are derived from delivery of video advertising campaigns to relevant, brand-receptive digital audiences. Vexigo manages and optimizes its customers' digital marketing campaigns to maximize the effectiveness of every advertisement to its target audience. However, Vexigo relies on "Supply Side Platforms," or SSPs, and "Video Ad Exchanges" to purchase its solutions on behalf of advertising agencies and/or DSPs (Demand Side Platforms) or advertisers and expects to continue to rely on a few major suppliers of its advertising space and a small number of customers for a significant portion of its revenue. 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, delay or decline payments based on claims of fraudulent or otherwise insufficient advertising space, 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 negatively affected. Vexigo's ability to receive payment from its customers is also dependent on the financial stability of its customers or any third parties that represent such customers, such as ad agencies, and of the other market participants who are part of the chain of acquisition and supply in the online advertising market. In the event any of the relevant market participants cannot meet its financial obligations, the other members of this supply chain, including Vexigo, risk losing their portion of the relevant income and revenues.

Competition

Vexigo operates in a dynamic and competitive market, influenced by trends in both the overall advertising industry as well as the digital video advertising market. Vexigo competes with networks such as Matomy, Brightcom, and Web3 , as well as other ad networks. Vexigo also faces competition from direct response advertising providers who seek to target brands. Some large advertising agencies, which may represent Vexigo's current customers, build their own relationships with digital media properties and can directly connect advertisers with digital media properties. Other companies that offer analytics, mediation, exchange or other third party solutions are or may become intermediaries between advertisers and digital media properties and thereby compete with Vexigo. Two of the largest online service providers, Google and Facebook, account for the significant majority of the revenues in the online advertising market, and control a substantial portion of the supply chain for online advertising spots. The smaller players, including Vexigo, compete over the remaining market share, including the remaining placement inventory and advertising customers. This competitive field requires Vexigo and its competitors to continuously advance technologically and develop or locate technological and other solutions

Proprietary Rights and Risks of Infringement

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 solution 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.

Seasonality

Vexigo's online advertising business is affected by the seasonality in the advertising market, with higher revenue in the summer months (June-August), in connection with special summer campaigns, and winter months (November-December), when many advertisers spend the largest proportion of their advertising budgets in anticipation of the holiday shopping season. The increase in the winter months is usually followed by a decrease in revenue in the first calendar quarter. Our operating results from our TEM and Billing Division are generally not characterized by a seasonal pattern except that our volume of sales in Europe is generally lower in the summer months.

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,		
	2017	2016	2015
Revenues:			
Telecom Product sales	15.1 %	11.1 %	11.4 %
Telecom Services	63.4	42.6	40.9

Video Advertising, net	21.5	46.3	47.7
Total revenues	100.0%	100.0%	100.0%
Cost of revenues:			
Telecom Product sales	4.8	3.3	3.6
Telecom Services	19.1	16.0	17.3
Video Advertising	16.8	29.9	36.3
Total cost of revenues	40.7	49.2	57.2
Gross profit	59.3	50.8	42.8
Selling and marketing	21.2	16.6	15.1
Research and development	24.9	19.7	12.3
General and administrative	34.9	24.7	23.5
Goodwill and technology impairment, net of evaluation of contingent consideration	-	30.2	23.9
Operating loss	(21.7)	(40.4)	(32.0)
Financial expenses, net	(1.7)	(0.1)	(0.1)
Loss before taxes on income	(20.0)	(40.5)	(32.1)
Taxes on income (tax benefit)	(0.1)	(3.6)	1.3
Loss from continuing operations	(19.9)	(36.9)	(33.4)
Net income (loss) from discontinued operations	(0.6)	(0.2)	1.2
Loss	(20.5)	(37.1)	(32.2)

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Revenue. Revenues from products and services consist primarily of software license fees, advertising campaigns sales and revenues from services, including managed services, hosting, consulting, maintenance, training, professional services and support. Revenues decreased by 39% to $8.6 million for the year ended December 31, 2017 from $14.1 million for the year ended December 31, 2016. Revenues from our Enterprise (TEM) segment decreased by 9.0% to $6.1 million, or 71% of our total revenues, for the year ended December 31, 2017 from $6.7 million, or 47.5% of our total revenues, for the year ended December 31, 2016. Revenues from our Service Providers (Billing) segment decreased by 27.8% to $0.6 million, or 7.0% of our total revenues, for the year ended December 31, 2017 from $0.9 million, or 6.4% of our total revenues, for the year ended December 31, 2016. Revenues from products and services from our wholly-owned U.S. subsidiary, MTS IntegraTrak decreased by 10.2% to $5.3 million, or 60.2% of our total revenues, for the year ended December 31, 2017 from $5.9 million, or 41.8% of our total revenues, for the year ended December 31, 2016. Revenues from video advertising segment decreased by 69.2% to $1.9 million, or 22.1% of our total revenues, for the year ended December 31, 2017 from $6.5 million, or 46.3% of our total revenues, for the year ended December 31, 2016. This decrease in video advertising segment revenues is mainly attributable to the increased competition in the ad-tech market dominated by a few large companies during 2017.

Cost of revenues. Cost of revenues decreased by 49.3% to $3.5 million for the year ended December 31, 2017 from $6.9 million for the year ended December 31, 2016. Cost of revenues of our Enterprise (TEM) and Service Providers (Billing) segments consist primarily of (i) production costs and payments to subcontractors; (ii) certain royalties and licenses payable to third parties (including Asentinel and the Israel Innovation Authority, formerly known as the Office of the Chief Scientist, of the Ministry of Industry, Trade and Labor of the State of Israel, or the IIA), (iii) professional services costs; and (iv) support costs. Cost of revenues of our Enterprise (TEM) and Service Providers (Billing) segments decreased by 22.2% to $2.1 million for the year ended December 31, 2017, compared to $2.7 million for the year ended December 31, 2016, mainly due to reduced revenues in 2017. Cost of revenues of our video advertising segment consist primarily of cost of advertising spaces and salaries of employees engaged in on-going media activities. In the year ended December 31, 2017, the cost of revenues of our video advertising segment decreased by 64.2% to $1.5 million, compared to $4.2 million for the year ended December 31, 2016 due to the significant reduction in video advertising revenues during 2017.

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 decreased by 25% to $2.1 million for the year ended December 31, 2017 from $2.8 million for the year ended December 31, 2016. The decrease in research and development expenses is primarily attributable to a cost reduction plan that we implemented during 2017 in our video advertising segment, which included a reduction in the number of research and development personnel. Research and development expenses are presented net of $380,000 capitalized expenses for the year ended December 31, 2016. No research and development expenses were capitalized in 2017. As a result of additional cost-cutting measures implemented during 2017, we expect that our research and development expenses will decrease in 2018 compared to 2017.

Selling and Marketing. Selling and marketing expenses consist primarily of costs relating to sales representatives, their travel expenses, trade shows and marketing exhibitions and presales support. Selling and marketing expenses decreased by 21.7% to $1.8 million for the year ended December 31, 2017 from $2.3 million for the year ended December 31, 2016. We expect that our selling and marketing expenses during 2018 will remain at the same level they were during 2017.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administrative, finance and general management personnel, professional fees and office maintenance and administrative costs. General and administrative expenses decreased by 14.3% to $3.0 million for the year ended December 31, 2017 from $3.5 million for the years ended December 31, 2016. The decrease in general and administrative expenses is primarily attributable to decrease in management personnel during 2017.

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Goodwill and Technology Impairment, Net of Evaluation of Contingent Consideration. Based on the impairment analysis conducted by management, we did not identify any impairment losses for the goodwill assigned to the Enterprise (TEM) reporting unit in 2017. In 2016, following an annual impairment test of goodwill and other intangible assets that we performed, and in light of the significant changes in the video advertising market, the reduced gross margins we experienced in the last months in 2016 and the decrease in the market price of our ordinary shares, we recognized $4.8 million of goodwill impairment and $3.7 million of technology impairment. We also reduced the contingent consideration payable to the former shareholders of Vexigo by $4.3 million following a re-evaluation of such commitment.

Financial Income (Expenses), Net. Financial income (expenses), 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 financial income of $144,000 for the year ended December 31, 2017 as compared to financial expenses of $17,000 for the year ended December 31, 2016. Our financial income in 2017 and financial expenses in 2016 were primarily attributable to exchange rate and foreign currency translation adjustments.

Taxes on Income. We recorded a tax benefit of $(9,000) for the year ended December 31, 2017, compared to a tax benefit of $(507,000) for the year ended December 31, 2016. Our tax benefit for the year ended December 31, 2017 is primarily attributable to changes in deferred tax liability related to our US subsidiary. Our tax benefit for the year ended December 31, 2016 is primarily attributable to the realization of deferred tax liability related to the video advertising technology that was impaired on that year.

Net Income (Loss) from Discontinued Operations. We recorded expenses from discontinued operations of $(53,000) in the year ended December 31, 2017, compared to expenses from discontinued operations of $(27,000) in the year ended December 31, 2016.

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Revenue. Revenues from products and services consist primarily of software license fees and advertising campaigns sales and revenues from services, including managed services, hosting, consulting, maintenance, training, professional services and support. Revenues decreased by 4% to $14.1 million for the year ended December 31, 2016 from $14.7 million for the year ended December 31, 2015. Revenues from video advertising segment decreased by 7.1% to $6.5 million, or 46.4% of our total revenues, for the year ended December 31, 2016 from $7.0 million, or 47.6% of our total revenues, for the year ended December 31, 2015. This decrease in video advertising segment revenues is mainly attributable to the increased competition in the ad-tech market during 2016. Revenues from our Enterprise (TEM) segment decreased by 2.9% to $6.7 million, or 47.9% of our total revenues, for the year ended December 31, 2016 from $6.9 million, or 46.9% of our total revenues, for the year ended December 31, 2015. Revenues from our Service Providers (Billing) segment increased by 12.5% to $0.9 million, or 6.4% of our total revenues, for the year ended December 31, 2016 from $0.8 million, or 5.4% of our total revenues, for the year ended December 31, 2015. Revenues from products and services from our wholly-owned U.S. subsidiary, MTS IntegraTrak decreased by 1.7% to $5.9 million, or 42.1% of our total revenues, for the year ended December 31, 2016 from $6.0 million, or 40.8% of our total revenues, for the year ended December 31, 2015.

Cost of revenues. Cost of revenues decreased by 17.9% to $6.9 million for the year ended December 31, 2016 from $8.4 million for the year ended December 31, 2015. Cost of revenues of our video advertising segment consists primarily of cost of advertising spaces and salaries of employees engaged in on-going media activities. In the year ended December 31, 2016, the cost of revenues of our video advertising segment decreased by 20.8% to $4.2 million, compared to $5.3 million for the years ended December 31, 2015 due to the reduction in video advertising revenues during 2016 and the presentation of more transactions on a net basis. Cost of revenues of our Enterprise (TEM) and Service Providers (Billing) segments consist primarily of (i) production costs and payments to subcontractors; (ii) certain royalties and licenses payable to third parties (including Asentinel and the Israel Innovation Authority,

formerly known as the Office of the Chief Scientist, of the Ministry of Industry, Trade and Labor of the State of Israel, or the IIA), (iii) professional services costs; and (iv) support costs. Cost of revenues of our Enterprise (TEM) and Service Providers (Billing) segments decreased by 12.9% to $2.7 million for the year ended December 31, 2016, compared to $3.1 million for the years ended December 31, 2015, mainly due to reduced payments to subcontractors in 2016.

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 increased by 55.6% to $2.8 million for the year ended December 31, 2016 from $1.8 million for the year ended December 31, 2015. The increase in research and development expenses is primarily attributable to additional research and development personnel and subcontractor expenses related mainly to Vexigo. Research and development expenses are presented net of capitalized expenses in the amount of $380,000 for the year ended December 31, 2016, compared to $411,000 capitalized expenses for the year ended December 31, 2015.

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 increased by 4.5% to $2.3 million for the year ended December 31, 2016 from $2.2 million for the year ended December 31, 2015.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administrative, finance and general management personnel, professional fees and office maintenance and administrative costs. General and administrative expenses were $3.5 million for each of the years ended December 31, 2016 and 2015.

Goodwill and Technology impairment, net of evaluation of contingent consideration. In 2016, following an annual impairment test of goodwill and other intangible assets that we performed, and in light of the significant changes in the video advertising market, the reduced gross margins we experienced in the last months in 2016 and the decrease in the market price of our ordinary shares, we recognized $4.8 million of goodwill impairment and $3.7 million of technology impairment. We also reduced the contingent consideration payable to the former shareholders of Vexigo by $4.3 million following a re-evaluation of such commitment. In 2015, Following an annual impairment test of goodwill and other intangible assets that we performed, and in light of the significant changes in the video advertising market, the reduced gross margins in the video advertising business we experienced in the last months of 2015 and the decrease in the market price of our ordinary shares, we recognized $6.3 million of goodwill impairment and reduced the contingent consideration payable to the former shareholders of Vexigo by $2.8 million.

The terms of the Vexigo SPA, require us to pay the former Vexigo shareholders 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 the closing date of the acquisition of Vexigo, subject to certain limitations and up to a cap of $16 million. Under ASC 805-30-35-1, consideration transferred that is accounted for as part of the business combination transaction is adjusted for changes in the fair value of contingent consideration during the measurement period. As noted above, we performed a valuation study as of December 31, 2016 and December 31, 2015, and as a result, we reduced the contingent earn-out liability by $4.3 million and $2.8 million, respectively. Contingent consideration is classified as a liability and may be adjusted to fair value at each reporting date through the statements of operations, until the contingency is resolved and may therefore affect our results in the future.

Financial Income (Expenses), Net. Financial income (expenses), 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 $17,000 of financial expenses, net for each of the years ended December 31, 2016 and 2015. Our financial expenses in 2016 and 2015 are primarily attributable to exchange rate and foreign currency translation adjustments.

Taxes on Income. We recorded a tax benefit of $(507,000) for the year ended December 31, 2016, compared to taxes on income of $194,000 for the year ended December 31, 2015. Our tax benefit for the year ended December 31, 2016 is primarily attributable to the realization of deferred tax liability related to the video advertising technology that was impaired in 2016. Our taxes on income for the year ended December 31, 2015 are primarily attributable to Vexigo's income taxes and changes in deferred tax liability.

Net Income (Loss) from Discontinued Operations. We recorded expenses from discontinued operations of $27,000 in the year ended December 31, 2016, compared to net income from discontinued operations of $177,000 in the year ended December 31, 2015.

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) %
2013	1.9	(7.0)	8.9
2014	(0.2)	12.0	(12.2)
2015	(1.0)	0.3	(1.3)
2016	(0.2)	(1.5)	1.3
2017	0.4	(9.0)	9.4

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 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. The NIS depreciated relative to the dollar by 0.3% in 2015 and appreciated by 1.5% in 2016 and by 9.0% in 2017. 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 will not be materially adversely affected by currency fluctuations.

In 2017, we entered into forward call and put option contracts in the amount of $1.9 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 the 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 2017, we recorded approximately $84,000 of financial income with respect to such transactions in our consolidated statements of operations.

In 2016, we entered into forward, call and put option contracts in the amount of $4.8 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 the 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 2016, we recorded approximately $6,000 of 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 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 re-defining 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 which was 25% in 2013, increased to 26.5% in 2014 and 2015 and was reduced to 25% as of January 1, 2016. The Israeli Parliament on December 22, 2016, approved the Israeli Budgetary Law for 2017 and 2018, or the Budget Law. The Budget Law reduces the regular corporate tax rate from 25% to 24% in 2017 and 23% in 2018. The Budget Law also introduces two new tax incentive regimes for companies with qualifying operations under the Investment Law in addition to several changes to the current tax incentive regimes.

Certain of our activities 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. Vexigo chose to adopt this amendment and we believe it is entitled to benefit from a reduced corporate tax rate under the amendment. 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 thereafter - 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 purposes.

B. Liquidity and Capital Resources

As of December 31, 2017, we had $1.3 million in cash and cash equivalents and a working capital deficiency of $(1.4) million, compared to $1.5 million in cash and cash equivalents, $136,000 in marketable securities and a working capital deficiency of $(1.6) million as of December 31, 2016. Our marketable securities were pledged to secure future rent payments for our facilities in Israel. The decrease in our working capital deficiency at December 31, 2017 was primarily attributable to the conversion of approximately $1.2 million of debt incurred in connection with the acquisition of Vexigo Ltd. into warrants to acquire 400,000 of our ordinary shares during August 2017 and our operating results in 2017.

Cash Flows

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

	Year ended December 31,		
	2017	2016	2015
	(in US$ thousands)		
Net cash provided by (used in) operating activities from continuing operations	(668)	(726)	818
Net cash provided by (used in) investing activities	88	(1,910)	(2,789)
Net cash provided by financing activities	400	700	551
Net (decrease) in cash and cash equivalents	(180)	(1,936)	(1,420)
Cash and cash equivalents at beginning of period	1,508	3,444	4,864
Cash and cash equivalents at end of period	1,328	1,508	3,444

Net cash used in operating activities from continuing operations was approximately $668,000 for the year ended December 31, 2017, compared to net cash used in operating activities from continuing operations of $726,000 for the year ended December 31, 2016. The cash used in operating activities in 2017 is primarily attributable to the loss incurred during the year offset by a decrease in trade receivables. The cash used in operating activities in 2016 is primarily attributable to the loss incurred during the year and to the increase in trade receivables. Net cash used in operating activities from continuing operations was approximately $726,000 for the year ended December 31, 2016, compared to net cash provided by operating activities from continuing operations of $818,000 for the year ended December 31, 2015. The cash used in operating activities in 2016 is primarily attributable to the increase in trade receivables, compared to cash provided by operating activities in 2015 that is primarily attributable to the expenses and losses that are not cash based such as amortization and impairment of goodwill.

Net cash provided by investing activities was approximately $88,000 for the year ended December 31, 2017, primarily attributable to proceeds from sales of marketable securities. Net cash used in investing activities was approximately $1.9 for the year ended December 31, 2016, primarily attributable to cash paid to Vexigo's former shareholders and capitalization of software development costs. Net cash used in investing activities for the year ended December 31, 2015 was approximately $2.8 million, primarily attributable to the acquisition of Vexigo.

Net cash provided by financing activities was approximately $400,000 for the year ended December 31, 2017, which is attributable to proceeds from the private placement consummated in August 2017. Net cash provided by financing activities was approximately $700,000 for the year ended December 31, 2016, which is attributable to proceeds from the private placement consummated in May 2016. Net cash provided by financing activities was approximately $551,000 for the year ended December 31, 2015, attributable to the proceeds from the private placement consummated in May 2015 and proceeds received from employee stock option exercises.

In April 2015, we acquired 100% of the outstanding shares of Vexigo, a privately-held Israeli-based software company supporting video advertising over the internet and mobile devices, which continues to operate as our

wholly-owned subsidiary. We paid cash consideration of $3 million at closing. According to the original terms of the Vexigo SPA, we agreed to pay the former Vexigo shareholders two installments of $500,000 each on July 1, 2015 (that was initially postponed to August 15, 2015) and on October 1, 2015 and to distribute to the former shareholders the net working capital of Vexigo as of the closing of the acquisition. In September 2015, the former Vexigo shareholders agreed that payment of the two remaining installments would be postponed until January 1, 2016, conditioned on the payment to the former Vexigo shareholders of $200,000 in September 2015 and of $100,000 on the 10th day of each of October, November and December 2015, or $500,000 in the aggregate, on account of the pre-closing obligation of Vexigo to pay the previously declared dividend to its shareholders. The Vexigo SPA also provides for earn-out payments equal to 45% of the EBITDA from the Vexigo Products Line, over a 5.5 year period from the closing date, up to a cap of $16 million.

In February 2016, we renegotiated and extended again the payment schedule for the consideration due to be paid to the former shareholders of Vexigo. The agreed upon extension provides for the payment of $400,000 in February 2016, additional payments of $100,000 on the 10th day of each month commencing in April 2016 and ending in March 2017 ($1.2 million in the aggregate), a payment of $300,000 on May 10, 2017, a payment of $400,000 on July 10, 2017, and the remaining balance, including a final payment of $300,000 and any earn out payment on October 10, 2017. In addition, in the event that we will have a cash balance (not including any draw down from our bank credit line) as of July 10, 2016, or on the 10th day of any succeeding month, in excess of: (i) $3.3 million, we will pay a one-time pre-payment of $300,000 on account of the payments scheduled to be made in 2017; or (ii) if the cash balance is equal to or exceeds $4.0 million, we will pay a one-time pre-payment of the lesser of $900,000 or the remaining balance that is owed to the former Vexigo shareholders. The parties also agreed that if, at any time, our cash balance is lower than $2.5 million, we shall stop all payments until our cash balances return to that level.

Under the Vexigo Payment Plan, a payment of $400,000 was made in February 2016, and additional payments of $100,000 were scheduled to be paid on the 10th day of each month commencing in April 2016 and ending in March 2017 ($1.2 million in the aggregate). In addition, the Vexigo Payment Plan contemplated a payment of $300,000 on May 10, 2017, a payment of $400,000 on July 10, 2017, and a payment of the remaining balance, including a final payment of $300,000 and any earn out payments, on October 10, 2017.

As part of our efforts to improve our financial position, we included an option in the Vexigo Payment Plan for the former Vexigo shareholders to participate in a private placement of our ordinary shares, or the 2016 Private Placement. The Vexigo Payment Plan provided that in the event the 2016 Private Placement was consummated, we would accelerate the payment of $500,000 to the former Vexigo shareholders on account of the pre-closing obligation of Vexigo and FPSV to pay a previously declared dividend to them. The former Vexigo shareholders participating in the 2016 Private Placement agreed to immediately invest the net amount (after tax deductions in accordance with applicable law) of that payment in the 2016 Private Placement.

Following our discussions with the former Vexigo shareholders concerning the Vexigo Payment Plan and the terms of the 2016 Private Placement, they requested that other members of management also participate in the 2016 Private Placement as a vote of confidence in our company. Mr. Haim Mer, our Chairman of the Board, Mr. Roger Challen, a member of our Board of Directors, and Mr. Lior Salansky, our former CEO, agreed to participate in the 2016 Private Placement, under the same terms negotiated by us and the former Vexigo shareholders. In May 2016, we completed the 2016 Private Placement consisting of 216,158 ordinary shares, constituting approximately 7.5% of our then outstanding ordinary shares, for an aggregate investment of approximately $700,000. The price paid per share of $3.24 was equal to the closing price of an ordinary share on the NASDAQ Capital Market on Tuesday, May 17, 2016. The 2016 Private Placement was approved by our shareholders at the Extraordinary General Meeting of Shareholders held on May 16, 2016. The shares were sold to the former shareholders of Vexigo and to Mr. Haim Mer, (our Chairman of the Board), Mr. Roger Challen (a member of the Board) and Mr. Lior Salansky (our former CEO). The proceeds from the 2016 Private Placement provided us with additional working capital and were used to reduce the amounts due to the former shareholders of Vexigo.

During 2016 (through August 10, 2016), we paid $900,000 to the former Vexigo shareholders in accordance with the Vexigo Payment Plan. In addition, during May 2016, $400,000 (net amount after tax of an aggregate amount of $500,000 owed to the former Vexigo shareholders) was invested in MTS shares, as part of the 2016 Private Placement. In September, 2016, we informed the former Vexigo shareholders that we are stopping payments under the Vexigo Payment Plan as, pursuant to the terms of such plan, we are entitled to stop all payments in the event our cash balance is lower than $2.5 million.

In August 2017, we converted approximately $1.2 million of debt incurred in connection with the acquisition of Vexigo into warrants to acquire 400,000 of our ordinary shares. The warrants have a term of five years and are exercisable without any additional consideration commencing on the second anniversary of their issuance. During the two year period following issuance, we have an option to purchase all or a portion of such warrants at a price per share

of $3. Following such conversion, we currently do not have any outstanding debt in connection with the Vexigo acquisition.

In August 2017, we also completed a private placement of 200,803 ordinary shares, constituting approximately 6.4% of our then outstanding ordinary shares, for an aggregate investment of approximately $400,000, or the 2017 Private Placement. The price paid per share paid in the 2017 Private Placement was $1.992, which is equal to the average closing price of our ordinary shares on the NASDAQ Capital Market during the 30 trading days prior to the date of the Audit Committee and Board of Directors' meetings that approved the 2017 Private Placement (held on June 21, 2017), plus a premium of 20%. The ordinary shares issued in connection with the 2017 Private Placement were issued to: (1) certain of the former shareholders of Vexigo and FPSV Holdings, including Mr. Tzvika Friedman, a member of our Board of Directors and Mr. Kobi Ram, the former CEO of Vexigo Ltd., (2) Mr. Haim Mer, our Chairman of the Board, (3) Mr. Roger Challen, a member of our Board of Directors, and (4) Mr. Lior Salansky, our former CEO.

We were introduced to Vexigo by an independent business consultant. In connection with the execution of the Vexigo acquisition, we agreed to pay the consultant 2% of the consideration paid or issued by us in connection with the Vexigo acquisition. Accordingly, upon closing of the Vexigo acquisition and payment of the consideration, we paid the consultant 2% of the cash consideration, and 2% of the equity consideration (20,767 ordinary shares, representing approximately 0.8% of our outstanding shares following the closing, which was made by the issuance of a five-year warrant having a $0 exercise price). We have also undertaken to pay the consultant 2% of any future Earn-out Payments.

In addition, Mr. Lior Salansky, our former chief executive officer who acted as a consultant to our Board of Directors in connection with prospective acquisitions, received a warrant to acquire 2% of our outstanding ordinary shares (based on the number of shares outstanding prior to the closing of the Vexigo acquisition), with an exercise price equal to the market price of our ordinary shares at the signing of the Vexigo SPA ($2.88 per share), having a term five years and which may be exercised on a cashless basis.

The consummation of the Vexigo acquisition significantly decreased our cash reserves. As we were not successful in generating sufficient cash from our current operations or from Vexigo's operations, we will be required to obtain financing from outside sources. 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 and as a result, there is substantial doubt about our ability to continue as a going concern.

Our capital expenditures for the years ended December 31, 2015, 2016 and 2017 were approximately $1.9 million, $2.9 million and $2.2 million, respectively. These expenditures were principally for research and development equipment, office furniture and equipment and leasehold improvements.

The Company expects to explore various financing alternatives to raise additional funds to support its operations in 2018. There can be no assurance that additional financing will be available on satisfactory terms, or at all. If the Company is unable to secure needed financing, management may be forced to take additional actions, which may include significantly reducing its anticipated level of expenditures and might not have sufficient resources to enable it to continue as a going concern.

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 renewals 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, as stated above, when 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.

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.

Advertising Revenues - Vexigo specializes in video advertising solutions for online and mobile platforms, engaging multiple ad formats and interactive ad units. Vexigo recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists, services are rendered, the fee or price charged is fixed or determinable and collectability is reasonably assured. Revenues for video advertising are recognized based on SAB 104 and ASC 605-45 "Principal Agent Considerations". ASC 605-45 addresses whether a company should recognize revenue based on (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or services or (b) the net amount retained (that is, the amount billed to a customer less the amount paid to a publishers) because it has earned a commission or fee. The determination of whether revenues should be reported on a gross or net basis is based on an assessment of whether the company is acting as the principal or an agent in the transaction. In determining whether the company acts as the principal or an agent, Vexigo follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance is individually considered presumptive or determinative, Vexigo has determined that in certain transactions, Vexigo is the primary obligor and has a structured inventory risk resulting from the fact that not all purchased ad spaces will be sold. Accordingly, revenue from this activity should recorded as the gross amount billed to a customer because Vexigo has earned revenue from the sale of the services. On the other hand, in arrangements that Vexigo is not the primary obligor in the transaction and has no inventory risk, due to the fact that Vexigo has the right to return ad spaces that it can't sell, revenues are recognized on the net amount retained.

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.

Contingent earn-out consideration. The terms of the Vexigo SPA, require us to pay the former Vexigo shareholders Earn-out Payments, equal to 45% of the EBITDA from the Vexigo Products Line for a period of 5.5 years from the closing date of the Vexigo acquisition, subject to certain limitations and up to a cap of $16 million. We performed a valuation study as of December 31, 2016 and December 31, 2015 and as a result, we reduced the contingent earn-out liability by $4.3 million and $2.8 million, respectively, resulting in the write-off/elimination of the entire amount recorded as contingent earn-out in connection with our acquisition of Vexigo.

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 $6.3million is required for tax loss carryforwards and other temporary differences as of December 31, 2017. If these estimates prove inaccurate, a change in the valuation allowance could be required in the future.

Business Combinations. We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management perform significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from developed technology; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 3 of the Financial Statements.

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. All goodwill balances are assigned to our Enterprise and Video Advertising reporting units.

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 operate in three operating segments, which also comprise our reporting units: Enterprise, Service Providers and Video Advertising. Our goodwill balance is assigned to our Enterprise reporting units.

In light of the decrease in our share price in the NASDAQ Capital Market and negative changes in the Video Advertising market through 2016 that continued into the first months of 2017, we performed an impairment test as of December 31, 2016. Consequently, we concluded that the carrying value of the Video Advertising reporting unit exceeded its fair value, and therefore, an impairment of goodwill existed and the second step of the goodwill impairment test was required. As a result of the impairment test to the Video Advertising reporting unit, we recorded an impairment charge of technology of $3.7 million (before tax affect) and a goodwill impairment charge of $4.8 million in 2016 (before a $4.3 million decrease in contingent consideration payable to the former shareholders of Vexigo following a re-evaluation of this contingent liability). As a result of our impairment testing of our Video Advertising reporting unit as of December 31, 2015, we recorded a goodwill impairment charge in the amount of $6.3 million in 2015 (before a $2.8 million decrease of the contingent consideration payable to the former shareholders of Vexigo following a re-evaluation of this contingent liability).

Based on our annual impairment tests of our Enterprise reporting unit in 2017, 2016 and 2015, we did not identify any impairments. However, based upon the 2017 annual impairment analysis of the Enterprise reporting unit using the income approach with five (5) years of projected cash flows and a discount rate of 19.0%, the estimated fair value of the reporting unit was not substantially in excess of its carrying value. Accordingly, in the event of unfavorable changes in forecasted cash flows, terminal value multiples and/or weighted-average cost of capital, the Enterprise reporting unit will be at risk of failing step one of the goodwill impairment test.

Critical estimates in valuing our reporting units include, but are not limited to, future expected cash flows from each reporting unit and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other intangible assets and long-lived assets. We are required to assess the impairment of tangible and intangible long-lived assets subject to amortization, under ASC 360 "Property, Plant and Equipment", on a periodic basis and when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable, but these estimates are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets subject to amortization. During 2015 no impairment losses were identified. During 2016, as a result of the impairment test to the Video Advertising reporting unit, we recorded an impairment charge of technology of $3.7 million (before tax affect). During 2017 we did not identify any impairments in our Enterprise reporting unit.

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.”

Capitalized development costs. We recognize capitalized development costs in accordance with ASC 350-40 "Capitalized Development Costs". Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend to and have sufficient resources to complete development and use or sell the asset. The expenditures capitalized include the direct labor costs that are directly attributable to preparing the asset for its intended use. Other development expenditure are recognized in profit or loss as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses. In light of the decrease in our share price in NASDAQ Capital Market and negative changes in the Video Advertising market through the year end that continued into the first months of 2017, we performed an impairment test as of December 31, 2016. As a result of the impairment test to the Video Advertising reporting unit, our total capitalized development costs was fully impaired as of December 31, 2016.

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, 2017 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 $170,000, $205,000 and $1,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016 02—Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right of use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales type leases, direct financing leases and operating leases. The ASU is expected to impact our consolidated financial statements as we have certain operating lease arrangements. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. We are currently in the process of evaluating the impact

of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 "Improvements to Employee Share-Based Payment Accounting". This ASU affects entities that issue share-based payment awards to their employees. The ASU is designed to simplify several aspects of accounting for share-based payment award transactions which include the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. ASU 2016-09 will become effective for us in the annual period ending August 31, 2018. Early adoption is permitted in any interim or annual period. We are currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 covers two specific topics: performance obligations and licensing. This amendment includes guidance on immaterial promised goods or services, shipping or handling activities, separately identifiable performance obligations, functional or symbolic intellectual property licenses, sales-based and usage-based royalties, license restrictions (time, use, geographical) and licensing renewals. In addition, in May 2016, FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Accordingly, the updated standard is effective for the Company in the first quarter of 2018 and the Company does not plan to early adopt. The Company will adopt the Standard using the modified retrospective approach in the first quarter of fiscal 2018 and expects that the potential effect, which relates to the Company's accounting for arrangements that include software licenses bundled with maintenance and support, to be approximately $230,000.

We currently believes the most significant impact relates to the Company's accounting for arrangements that include software licenses bundled with maintenance and support. Under current GAAP, the revenue attributable to these software licenses is recognized ratably over the term of the arrangement because VSOE does not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue for the delivered software licenses is eliminated under the new standard. Accordingly, under the new standard the Company will be required to recognize as revenue a portion of the arrangement fee upon delivery of the software license. Except of the changes above, we currently expect revenue related to the product, services and cloud offerings will remain substantially unchanged. However, the Company is still in the process of evaluating the impact of the new standard on these arrangements and additional changes may be identified. Due to the complexity of certain of our contracts, the actual revenue recognition treatment required under the new standard for these arrangements may be dependent on contract-specific terms and may vary in some instances.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively as of the earliest date practicable. The standard is effective on January 1, 2019. We are currently assessing the impact of the adoption of this standard on its consolidated financial statements and footnote disclosures.

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 evaluates approaches to solutions that 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 develop new releases to meet their needs. Research and development activities take place in our facilities in Israel. We employed 9 persons in research and development as of December 31, 2017, compared to 29 persons as of December 31, 2016 and 22 persons as of December 31, 2015.

We have committed substantial financial resources to research and development for our TEM and billing 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. Development activities included a plan or design for the production of new or substantially improved products and processes. Development expenditure were capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials and direct labor costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. During 2015, 2016 and 2017, our research and development expenditures were $1.8 million, $2.8 million and $2.1 million, respectively. Research and development expenses are presented net of capitalized expenses in the amount of $0 for the year ended December 31, 2017, compared to $380,000 for the year ended December 31, 2016 and $411,000 for the year ended December 31, 2015.

In light of the decrease in our share price and negative changes in the Video Advertising market in 2016 that continued into the first months of 2017, we performed an impairment test as of December 31, 2016. Consequently, we concluded that the carrying value of the Video Advertising reporting unit exceeded its fair value, and therefore, an impairment of goodwill and technology existed. As a result of the impairment test to the Video Advertising reporting unit, we recorded a technology impairment loss in the amount of $3.7 million (before tax affect) that includes the acquired technology as well as capitalized technology. In the past, we received funding from the IIA for selected research and development projects. During January and February 2017 and during December 2017, due to the slow activity Vexigo had at the beginning of 2017 and at the later stage of the year, we decided to downsize Vexigo's ongoing research and development program.

Under the terms of research and development grants that we have received from the IIA, 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 IIA 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, 2017, we had a contingent obligation to pay royalties to the IIA in the amount of approximately $8.4 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 video advertising business and sales of PBX systems, we are unable to provide any guidance as to current sales and profitability trends for our Video

Advertising, TEM and Billing solutions. We expect that our results will continue to be impacted by a shift to telecom services and increased cost of services and selling and marketing expenditures which are associated with such services. Vexigo's future operating results are expected to fluctuate due to a variety of factors, many of which are beyond Vexigo's control. Because Vexigo's business is changing and evolving rapidly, its historical operating results may not be useful in predicting its future operating results. In addition, because Vexigo generally does not have long-term contracts, it is difficult to predict future revenue stream, the related cost of revenues and operating results trend. Due to the continued weakness in Vexigo's business, during April 2018 our board of directors decided that we will either sell the Vexigo business or discontinue its operations in the near term.

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, 2017 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	221	196	25	-	-
Accrued severance pay*	1,073	-	-	-	1,073
Total	1,294	203	25	-	1,073

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* 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
Haim Mer	70	Chairman of the Board of Directors
Roy Hess	56	Chief Executive Officer
Alon Mualem	51	Chief Financial Officer
Roger Challen	72	Director
Tzvika Friedman	56	Director
Steven J. Glusband	71	Director
Yaacov Goldman (1) (2)	62	Director
Eytan Barak (1) (2)	73	Outside Director
Varda Trivaks (1) (2)	61	Outside Director

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

Messrs. Mer, Challen, Glusband, Goldman and Friedman will serve as directors until our 2018 Annual General Meeting of Shareholders. All of such persons were elected to serve as directors by our shareholders at our 2017 Annual General Meeting of Shareholders. Mr. Barak and Ms. Trivaks will serve as outside directors pursuant to the provisions of the Israeli Companies Law at least through the conclusion of their fourth three-year terms in August 2019 and August 2020, respectively.

Haim 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.

Roy Hess has served as our Chief Executive Officer since October 2017. Mr. Hess is a seasoned executive with over 20 years of experience building successful global businesses in the telecom and communication solutions and services sector. Prior to joining MTS, Mr. Hess served as the General Manager of Bioness Neuromodulation Ltd., a provider of medical devices, from 2012. Prior to that, Mr. Hess served as the CEO of Gilat Satcom Systems Ltd., a publicly traded company from 2007 until 2011, as the VP Business Development of C. Mer Industries Ltd. and the CEO of Mer Inc. from 2003 until 2007 and as the President of Mer Telemanagement Solutions Inc. from 1996 until 2003. Mr. Hess holds a B.Sc. degree in Physics and Computer Science from Ben Gurion University and M.B.A. 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).

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. Earlier this year Mr. Challen received a Governor’s Citation from Massachusetts Governor Charlie Baker for outstanding contribution to the Commonwealth of Massachusetts, enabling the Commonwealth to continue to provide food for 17,500 people. Mr. Challen holds a B.A. degree in Economics and Mathematics from Yale University.

Tzvika Friedman has served as a director since April 1, 2015. Mr. Friedman 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, satellite communication, 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. degree and M.S. degree in Electrical Engineering, summa cum laude, from the Tel Aviv University, and graduated with distinction with an M.S. degree from the Sloan Program of Management of the London Business School.

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 and compensation 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., Collect Biomed Ltd., Isrotel Ltd., Meitav Dash Investments Ltd., Medi Power (Overseas) Public Co. Limited, IceCure Medical Ltd. And Fattal Properties (Europe) 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, Mr. Goldman served as a director of Proteologics Ltd. Until May 2016, Mr. Goldman served as a director of Isrotel Ltd. and Cellect Biomed 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. Mr. Goldman holds a B.A. degree in Economics and Accounting from Tel Aviv University and is a Certified Public Accountant (Israel).

Eytan Barak has served as an outside director since August 2007 and is the chairman of our audit committee and a member of our compensation committee. Mr. Barak was joint owner and chief executive officer of Dovrat - Barak, Investments in Advanced Technologies Ltd., which provided 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., Menorah-Mivtachim Mutual Funds Ltd. and Yuval Education 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., 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 is a member of The Olympic Committee of Israel and of the Ben-Gurion University Board of Governors. Mr. Barak holds a B.A. degree in accounting from Tel Aviv University and has been a certified public accountant (Israel) since 1971.

Varda Trivaks has served as an outside director since August 2008 and is the chairwoman of our compensation committee and 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 financial committee of Halamish - Municipal Government Company for housing and neighborhood renewal in Tel Aviv Jaffa Ltd. Previously served as a member of the board of directors and audit, balance sheet and compensation committees of E. Schnapp & Co. Works and of Ginegar Plastic Products 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, 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 degree from Boston University.

On October 2, 2017, we announced the appointment of Mr. Roy Hess as our CEO, replacing Mr. Alon Mualem, our CFO, who also acted as our interim CEO commencing February 2017. In addition, as of April 25, 2018, Mr. Kobi Ram and Mr. Josef Brikman ceased to serve as the CEO of Vexigo and as the President of our North America operations, respectively.

On March 29, 2018, we announced that Mr. Adi Orzel resigned from the Board of Directors of MTS, as well as from the position of Chairman of the Board of Vexigo effective March 31, 2018. Adi Orzel joined the Board of MTS on April 1, 2015 in conjunction with our acquisition of Vexigo.

On April 30, 2018, we announced that Alon Mualem, our Chief Financial Officer, will leave the Company in the coming months. The Board has named Ofira Bar to fill the role of Chief Financial Officer on an interim basis, effective following the filing of our 2017 annual report.

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, 2017 was $999,000. This amount includes approximately $163,000 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, 2017, options to purchase 204,715 ordinary shares granted to our current directors and executive officers were outstanding under our equity incentive plans at a weighted average exercise price of $3.27 per share.

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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 our chief executive officer, chief financial officer and the three other most highly compensated executive officers. Nevertheless, Israeli Companies Law requires us to disclose the annual compensation of our five most highly compensated officers and directors on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. Under the Israeli 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 Israeli 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, 2017. All amounts reported in the table reflect the cost to the company, as recognized in our financial statements for the year ended December 31, 2017.

Name and Position	Salary & Social Benefits [1]	Bonus	Share-Based Payment [2]	Other Compensation [3]	Total
	(U.S. Dollars) [4]				
Roy Hess, Chief Executive Officer[5]	82,098	-	25,254	-	107,352
Alon Mualem, Chief Financial Officer	263,937	-	1,216	18,341	283,494
Josef Brikman, Former President, North America Operations [6]	269,523	-	-	-	269,523
Koby Ram, Former Chief Executive Officer of Vexigo [7]	132,929	-	9,857	-	142,786
Haim Mer, Chairman of the board of directors [8]	80,500	-	-	-	80,500

(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, 2017 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 from NIS into U.S. dollars at the rate of NIS 3.615 = $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, 2017.

(5) Reflects that period from October 1, 2017 through December 31, 2017.

(6) Mr. Josef Brikman devoted 80% of his time to our company. As of April 25, 2018, Mr. Brikman ceased to serve in this position. The salary and social benefits includes accruals related to Mr. Brikman remaining notice period in

2018.

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(7) Represents full time employment until March 31, 2017 and, starting April 1, 2017 and through December 31, 2017, a 50% position. As of April 25, 2018, Mr. Ram ceased to serve in this position. The salary and social benefits include accruals related to Mr. Ram remaining notice period in 2018.

(8) In 2017, we paid Mr. Mer a monthly fee of $7,000 for his services as the Chairman of the Board. Mr. Mer devotes 20% of his time to our company. Commencing in December 2017, Mr. Mer on a voluntarily basis temporarily deferred 50% of his monthly fee and is currently being paid a monthly fee of $3,500.

In 2017, we paid each of Messrs. Challen and Glusband an annual fee of approximately $8,400 and a per meeting attendance fee of $300.

In 2017, Messrs. Friedman and Goldman, and our outside directors, Mr. Barak and Ms. Trivaks, received an annual fee, payable quarterly, of NIS 30,500 (approximately $8,700) and a per meeting attendance fee of NIS 1,700 (approximately $490).

Vexigo paid Mr. Orzel, its former Chairman of the Board, a monthly fee of $4,000 until November 2016. Commencing December 2016, Mr. Orzel voluntarily waived 50% of his monthly fee and was paid a monthly fee of $2,000 in consideration for his services to Vexigo as Chairman of the Vexigo Board. During this period, Mr. Orzel did not receive additional compensation due to his service on our Board of Directors. In April 2017, Mr. Orzel waived his then monthly fee of $2,000 and commenced receiving cash compensation due to his role as a board member on our Board of Directors that is equal to the fees paid to our outside directors.

In September 2017, our Compensation Committee and Board of Directors approved the terms of employment of Mr. Roy Hess, our CEO. These terms include:

- Monthly Salary and Benefits: A base monthly salary of NIS 75,000 (approximately $21,500) In addition, Mr. Hess is entitled to twenty-four (24) vacation days per year and to sick leave and recuperation pay in accordance with applicable law. Mr. Hess agreed to be subject to Section 14 of the Israeli Severance Pay Law and in connection with this arrangement we will contribute: (a) an amount equal to 8.33% of Mr. Hess's fixed monthly salary towards severance pay liability in lieu of paying the full amount of severance pay upon termination of employment, (b) an amount equal to 5% of Mr. Hess's fixed monthly salary towards manager's insurance, and (c) the lower of: (i) up to 2.5% of Mr. Hess's fixed monthly salary or (ii) an amount required in order to ensure 75% of Mr. Hess's salary for disability insurance. MTS will also contribute 7.5% Mr. Hess's fixed monthly salary, up to the tax ceiling, to an education fund;

- Travel and other Expenses: Mr. Hess is entitled to reimbursement of travel and other business expenses based on our policies and to NIS 300 per month for travel expenses;

- Option Grant: Mr. Hess received a grant of options to acquire 116,667 ordinary shares under our 2003 Israeli Share Option Plan. These options vest over a period of four years (25% vesting on October 1, 2018 and an additional 12.5% vesting every six months for the following three years), subject to the fulfillment of a condition to vesting. The condition to vesting will be fulfilled in the event the closing price of our ordinary shares is equal to or higher than a price per share of $4.5 for a consecutive period of three months. The exercise price per share of the options is equal to $2.16 (the closing price per share of our ordinary shares on the NASDAQ Capital Market on September 28, 2017, the date of our Board of Directors' approval of the terms). In addition, in the event of an M&A or reverse merger transaction (where current shareholders will hold less than 50% of the shares of the company) and if Mr. Hess will not continue to serve as the CEO of the company (or is released during the six month period following the closing of the transaction), 50% of all of Mr. Hess's unvested options will become vested. The options are due to expire on October 1, 2027, unless earlier terminated pursuant to the terms of our 2003 Israeli Share Option Plan.

- Term and Termination: During the first six months of employment, Mr. Hess is required to provide, and will be entitled to receive, a two-month prior resignation or termination notice, as the case may be; provided, however, that under certain circumstances, including a material breach by Mr. Hess of his employment agreement, we may terminate the employment agreement without notice. Following the first six months of employment, such period will be extended to three months; and

- Indemnification and Liability Insurance: Mr. Hess will be entitled to receive an indemnification letter in the form identical to the form provided to our other officers and directors, attached as Annex A to the proxy statement distributed to our shareholders in connection with our 2011 annual general meeting of shareholders and to be included in our directors and officers liability insurance policy, whose terms were recently approved in connection with our 2014 annual general meeting of shareholders.

Our Compensation Committee and Board of Directors approved the terms of employment of Mr. Hess and resolved to utilize a relief provided by Regulation 1B4 under the Israeli Companies Regulations (Relief in Related Party Transactions), 5760-2000, providing that Israeli public companies will be exempt from the requirement to approve the terms of employment of a CEO by the company's general meeting during the period from the commencement of employment of the CEO and the date of the next general meeting of the company's shareholders. This relief is subject to the following conditions: (1) the employment terms were approved by the compensation committee and the board of directors pursuant on the requirements of the Israeli Companies Law, (2) the employment terms are in accordance with the company's compensation policy, and (3) the employment terms are not beneficial compared to the employment terms of the person previously serving in the position or there is no real change in the employment terms and the relevant circumstances, including the scope of employment, between the two.

As of December 31, 2017, our then executive officers, Mr. Roy Hess, Mr. Alon Mualem, Mr. Josef Brikman and Mr. Koby Ram (Vexigo's former CEO), held options to purchase an aggregate of 194,715 ordinary shares with exercise prices ranging from $2.16 to $6.78 per share and a vesting period of four years commencing on the respective grant dates of the options, except for Mr. Hess's options that are scheduled to vest as described above. Of such options, options to purchase 20,000 ordinary shares expired in April 2018 due to the departure of Mr. Ram, options to purchase 37,500 ordinary shares are expected to expire in July 2018 due to the departure of Mr. Brikman. In addition, options to purchase 13,333 ordinary shares will expire in May 2018, options to purchase 7,215 ordinary shares will expire in November 2021 and options to purchase 116,667 ordinary shares will expire in October 2027. Such options were granted under our 2003 Israeli Share Option Plan and 2006 Stock Option Plan. In 2017, no options were exercised.

For more information, 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 whose re-election is governed by specific terms of the Israeli Companies Law) may be re-elected upon completion of their term of office. All of our current directors (except Mr. Barak) were elected by our shareholders at our annual general meeting of shareholders held in August 2017.

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 and are held by 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.

At least one of the outside directors elected must have "accounting and financial expertise" and any other outside director must have "accounting and financial expertise" or "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law.

Outside directors are elected by shareholders. In general, outside directors serve for a three-year term, which may be renewed for only two additional three-year term. However, Israeli companies listed on certain stock exchanges outside Israel, including the NASDAQ Capital Market, such as our company, may appoint an outside director for additional terms of not more than three years each, subject to certain conditions. Such conditions include the determination by the audit committee and board of directors that in view of the outside director's professional expertise and special contribution to the company's board of directors and its committees, the appointment of the outside director for an additional term is in the best interest of the company. Based on this provision of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000, or the Relief Regulations, our Board of Directors recommended the election of Mr. Eytan Barak and of Ms. Varda Trivaks for a fourth three-year term at the annual general meetings of shareholders held in August 2016 and 2017, respectively.

The election of an outside director for the initial three-year term requires the affirmative vote of a majority of the shares present, in person or by proxy, and voting on the matter, provided that either: (i) at least a majority of the shares of non-controlling shareholders and shareholders who do not have a personal interest in the resolution (excluding a personal interest that is not related to a relationship with the controlling shareholders) are voted in favor of the election of the outside director, or (ii) the total number of shares of non-controlling shareholders and of shareholders who do not have a personal interest in the resolution (excluding a personal interest that is not related to a relationship with the controlling shareholders) voted against the election of the outside director does not exceed 2% of the outstanding voting power in the company.

An outside director may be re-elected to serve for additional three-year terms in one of the two following methods: (i) the board of directors proposed the nomination of the outside director for an additional term and her or his appointment is approved by the shareholders in the manner required to appoint outside directors for an initial term as set forth above, or (ii) in the event a shareholder holding 1% or more of the voting rights nominates the outside director for an additional term or if the outside director nominated her or himself for an additional term, the nomination is required to be approved by a majority of the votes cast by the shareholders of the company; provided that: (x) the votes of controlling shareholders, the votes of shareholders who have a personal interest in the approval of the appointment of the outside director, other than a personal interest that is not as a result of such shareholder's connections to the controlling shareholder, and abstaining votes are excluded from the counting of votes and (y) the aggregate votes cast by shareholders in favor of the nomination that are counted for purposes of calculating the majority exceed 2% of the voting rights in the company. The outside director nominated by shareholders may not be a related or competing shareholder or a relative of such shareholder at the date of appointment and may not have an

affiliation to a related or competing shareholder at the date of appointment or for the two year period prior to the appointment. A “related or competing shareholder” is defined by the Israeli Companies Law as the shareholder that proposed the nomination or a significant shareholder (a shareholder holding five percent or more of the outstanding shares of a company or of the voting rights in a company), provided that at the date of appointment of the outside director such shareholder, its controlling shareholder or a corporation controlled by either of them, have business connections with the company or are competitors of the company. The term “affiliation” is defined as set forth above.

Outside directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the outside directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company.

Any committee of the board of directors exercising powers delegated by the Board must include at least one outside director and the audit committee and compensation committee must include all of the outside directors. An outside director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

The Relief Regulations provide that a public company with securities listed on certain foreign exchanges, including the NASDAQ Capital Market, that has no controlling shareholder and satisfies the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees, is permitted not to comply with the requirements in connection with external directors, as well as the audit committee and compensation committee composition requirements set forth in the Israeli Companies Law. As we do not currently comply with some of the NASDAQ Stock Market Rules set forth in the Relief Regulations, this relief is not currently applicable to our company. However, we may in the future elect to rely on this relief.

Independent Directors. In general, NASDAQ Stock Market Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors, within the meaning of the NASDAQ Stock Market Rules, and our audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective "independence" requirements of the SEC and NASDAQ. However, foreign private issuers, such as our company, may follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of such 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. On March, 31, 2009, we provided NASDAQ with a notice of non-compliance with respect to the requirement to maintain a majority of independent directors, within the meaning of the NASDAQ Stock Market Rules. Instead, under Israeli law and practice, we are required to appoint at least two outside directors, within the meaning of the Israeli Companies Law, to our Board of Directors. In addition, in accordance with the rules of the SEC and NASDAQ, our audit committee is composed of three independent directors, as defined by the rules of the SEC and NASDAQ.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an outside director; or (ii) a director that serves as a board member less than nine years (subject to the right to extend such period for additional three-year terms granted to certain companies, including companies whose shares are listed on NASDAQ) and the audit committee has approved that he or she meets the independence requirements of an outside director. A majority of the members serving on the audit committee must be independent under the Israeli Companies Law. In addition, a publicly traded company may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors will be independent. We have not included such a provision in our articles of association.

Our Board of Directors has determined that our outside directors, Mr. Eytan Barak and Ms. Varda Trivaks, both qualify as independent directors under the rules of the SEC and NASDAQ. Our Board of Directors has further determined that Mr. Yaacov Goldman qualifies as an independent director under the requirements of the SEC, NASDAQ and the Israeli Companies Law.

Audit Committee

Our audit committee, which was established in accordance with Section 114 of the Israeli Companies Law and Section 3(a)(58)(A) of the Exchange Act, assists our board of directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent public accountants' qualifications and independence, the performance of our internal audit function and independent public accountants, finding any defects in the business management of our company and proposing to the board of directors ways to correct such defects, and such other duties as may be directed by our board of directors. The Israeli Companies Law provides that the roles of an audit committee are: (i) monitoring deficiencies in the business management of a company, including by consulting with the internal auditor or independent accountants and suggesting methods of correction of such deficiencies to the board of directors, (ii) determining whether or not certain related party actions and transactions and actions taken by office holders that are "material actions" or "extraordinary transactions" in connection with their approval procedures as more fully described above, (iii) determining in connection with transactions with the controlling shareholder or with a third party in which the controlling shareholder has a personal interest (event if they are not extraordinary transactions) and in connection with transactions with the controlling shareholder or its relative, directly or indirectly, for the receipt of services or in connection with terms of employment or service, a duty to conduct a competitive process, supervised by the audit committee or anyone else appointed by the audit committee and based on criteria determined by the audit committee, or to determine that other procedures determined by the audit committee will be conducted, prior to execution of such transactions, all based on the type of the transaction (the audit committee is permitted to determine criteria for this matter once a year in advance), (iv) determining whether to approve actions and transactions that require audit committee approval under the Israeli Companies Law, (v) determining the method of approval of non-negligible transactions (i.e. transactions of a company with a controlling shareholder or with a third party in which the controlling shareholder has a personal interest that the audit committee determined are not extraordinary but are non-negligible), including to determine types of such transactions that will require the approval of the audit committee (the audit committee is permitted to determine a classification of transactions as non-negligible based on criteria determined once a year in advance), (vi) in a company in which the work plan of the internal auditor is approved by the board – examining the work plan before it is submitted to the board and suggesting revisions, (vii) assessing the company's internal audit system and the performance of its internal auditor and whether the internal auditor has the resources and tools required for the performance of its role, taking into account, among others, the special needs and size of the company, (viii) examining the scope of work and compensation of the company's independent auditor and (ix) setting procedures in connection with the method of dealing with complaints of employees regarding defects in the management of the company's business and with the protection provided to such employees. Under Israeli law an audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two outside directors are serving as members of the audit committee and it otherwise meets the composition requirements of the Israeli law.

Our audit committee is currently composed of Messrs. Eytan Barak and Yaacov Goldman and Ms. Varda Trivaks, all of whom satisfy the "independence" requirements of the SEC, NASDAQ and the Israeli Companies Law for audit committee members. Our Board of Directors has determined that Mr. Goldman qualifies as an audit committee financial expert. Our audit committee meets at least once each quarter.

Compensation Committee

In accordance with the Israeli Companies Law, our compensation committee's role is to: (i) recommend a compensation policy for office holders and to recommend to the board, once every three years, concerning the approval of the continued validity of a compensation policy that was determined for a period exceeding three years; (ii) recommend an update to the compensation policy from time to time and to examine its implementation; (iii) determine whether to approve the terms of service or employment, including the grant of an exemption, insurance, undertaking to indemnify or indemnification, retirement bonuses and any other benefit, payment or undertaking to pay any such amounts, given due to service or employment, or, together, the Terms of Service and Employment, of office

holders that require the committee's approval; and (iv) determine whether certain transactions related to the Terms of Service and Employment of office holders is exempt from the requirement for shareholders' approval. The compensation committee also has oversight authority over the actual Terms of Service and Employment of directors and officers and may make recommendations to the board of directors and the shareholders (where applicable) with respect to deviation from the compensation policy that was adopted by a company.

In accordance with the Israeli Companies Law, our compensation committee must consist of no less than three members, including all of our outside directors (who must constitute a majority of its members of the committee), and the remainder of the members of the compensation committee are required to be directors whose terms of service and employment were determined pursuant to the regulations applicable to the terms of service of outside directors. Similar restrictions to the restrictions on the actions and membership in the audit committee, as discussed above under "Audit Committee", are imposed on the compensation committee, with respect to, among other things, the requirement that an outside director serve as the chairman of the committee and the list of persons who may not serve on the committee. We have established a compensation committee that is currently composed of our outside directors, Ms. Varda Trivaks, and Mr. Eytan Barak, and Mr. Yaacov Goldman. The Israeli Companies Law provides that an audit committee that meets the criteria for the composition of a compensation committee, such as our Audit Committee, can also act as the compensation committee.

Compensation Policy

In accordance with the Israeli Companies Law, in August 2013, our shareholders approved a compensation policy. The Israeli Companies Law requires that a compensation policy must be approved at least once every three years.

The approval of the compensation policy by shareholders requires the affirmative vote of the holders of a majority of the shares present, in person or by proxy, and voting on the matter provided that at least one of the following conditions is met: (i) the shares voting in favor of the matter include at least a majority of the shares voted by shareholders who are not controlling shareholders and who do not have a personal interest in the approval of the compensation policy or (ii) the total number of shares voted against the compensation policy by shareholders referenced under (i) does not exceed 2% of the company's outstanding voting rights. We may approve a compensation policy even in the event it is rejected by the shareholders; provided that the compensation committee and thereafter the board of directors resolve that the approval of the compensation policy is for the benefit of our company.

The board of directors is required to periodically examine the compensation policy and the need for adjustments based on the considerations in determining a compensation policy in the event of a material change in the circumstances prevailing during the adoption of the compensation policy or for other reasons.

Our compensation policy is intended to assist our company to achieve its goals and its work plans with a long term view and to ensure that:

- The interests of the directors and officers of our company will be as close as possible and in the closest possible conformity to the interests of our shareholders.

- We will be able to recruit and retain senior managers who have the ability to lead our company to business success and to confront the challenges we face.

- Our directors and officers will be motivated to achieve a high level of business performance without taking unreasonable risks;

- An appropriate balance will be created between the various components of compensation - fixed components vs. variable components, short-term vs. long-term, and compensation in cash vs. equity based compensation.

- The overall compensation of each employee and especially of our officers is based on a number of components, so that each component rewards the employee for a different aspect of his contribution to the company.

- Fixed base salary - intended to compensate the employee for the time spent in carrying out his work for the company and for execution of the ongoing tasks of his position on a daily basis. The base salary represents the employees' skills on one hand (such as: experience, job knowledge, expertise, education, professional qualifications, etc.) and on the other hand, the job requirements and the scope of authority and responsibilities of the employee.

- Social and Incidental Benefits - some of which are statutorily defined (pension savings, severance contributions, loss of work capacity insurance, vacation, sick leave, etc.), some of which reflect standard work market practice (such as savings in education funds in Israel while maximizing the inherent advantages for the employee in the tax benefits offered by the State of Israel) and some of which are intended to supplement the fixed salary and to compensate the employee for expenses incurred in the performance of his work (such as travel costs).

- Variable, Performance Based Rewards (Annual Bonus, Commissions and Grants) - Is intended to compensate the employee for his achievements and contribution to our company's goals during the period for which the variable compensation is paid. In general, the weight ascribed to this component as a part of the total compensation package increases as the employee is in a more senior position.

- Equity based compensation - is intended to tie between the maximization of shareholders' value as expressed in the value of our shares in the long-term and the compensation given to managers and employees of our company. We believe that this compensation creates proximity between the interests of our employees and managers and our shareholders, and thus assists in motivating and retaining the key positions holders in our company.

In order to ensure consistency between all of the compensation components, in their approval deliberations for each of the components of compensation for an office holder, the Compensation Committee and the Board of Directors will be presented with the entire compensation package of the office holder.

Our shareholders approved updated compensation policies on April 1, 2015 and on August 8, 2016. The changes in August 2016 allowed us to base the annual bonuses of directors and CEO on non-measurable criteria up to the cap determined in the Israeli Companies Law and to base the bonuses of officers (other than the CEO) on non-measurable criteria. In addition, we adjusted the range of the appropriate ratio between the components of the compensation package for a given year for our CEO.

Internal Audit

Under the Israeli Companies Law, the board of directors of a public company must appoint an internal auditor nominated by the audit committee. A person who does not satisfy the Israeli Companies Law's independence requirements may not be appointed as an internal auditor. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Mr. Doron Cohen of Fahn Kanne & Co., the Israeli member firm of Grant Thornton International Ltd., serves as our internal auditor.

Directors' Service Contracts

There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Approval of Related Party Transactions Under Israeli Law

Fiduciary Duties of Office Holders

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An "office holder" is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty includes (i) avoiding any conflict of interest between the office holder's position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company's business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received due to his position as an office holder.

Disclosure of Personal Interests of an Office Holder

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any material documents in their possession, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or that may have a material impact on the

company's profitability, assets or liabilities, the office holder must also disclose any personal interest of the office holder's "relative" (as defined above), or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Approval of Transactions with Office Holders

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has a personal interest) must be approved by the board of directors and, in some cases, by the audit committee and by the board of directors, and under certain circumstances shareholder approval may also be required, provided, however, that each such transaction is required also to be for the benefit of the company. A director who has a personal interest in a transaction may not be present during the discussions and may not vote on the transaction, unless the transaction does not pertain to Terms of Service and Employment and is not an extraordinary transaction or unless the majority of the members of the board or the relevant committee has a personal interest. In the event the majority of the members of the board of directors or relevant committee have a personal interest, they are entitled to participate in the meeting but the approval of the general meeting of shareholders is also required.

Approval Process of Terms of Service and Employment of Office Holders

The process for approval of Terms of Service and Employment of office holders is as follows:

- With respect to our chief executive officer, a controlling shareholder or a relative of a controlling shareholder, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with the "special majority" described above (in that order). Subject to certain conditions, the Israeli Companies Law provides an exemption from the shareholder approval requirement in connection with the approval of the Terms of Service and Employment of a CEO candidate or a temporary exemption as described above in connection with the terms of service of Mr. Hess, our current CEO.

- With respect to a director, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with a regular majority (in that order).

- With respect to any other office holder, approval is required by the Compensation Committee and the board of directors (in that order); however, in the event of an update of existing Terms of Service and Employment, which the Compensation Committee confirms is not material, Compensation Committee approval is sufficient.

In the event the transaction with any office holder is not in accordance with the compensation policy, the approval of the company's shareholders, by "special majority," is also required. In the event the company's shareholders do not approve the compensation of the CEO or other office holders (who are not directors, controlling shareholders or relatives of the controlling shareholders), the compensation committee and board of directors may, in special situations, approve the transaction, subject to their providing detailed reasons and after discussion and examination of the rejection by the company's shareholders.

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders

The disclosure requirements that apply to an office holder also apply to a transaction in which a controlling shareholder of the company has a personal interest. The Israeli Companies Law provides that an extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in which the controlling shareholder has a personal interest or a transaction with a controlling shareholder or his relative regarding Terms of Service and Employment, must be approved by the audit committee or the compensation committee, as the case may be, the board of directors and shareholders. The shareholders' approval of such a transaction requires a simple majority approval and the fulfillment of one of the following conditions: (i) at least a majority of the votes cast by shareholders who have no personal interest in the transaction and who vote on the matter are voted in favor of the transaction, or (ii) the votes cast by shareholders who have no personal interest in the transaction voted against the transaction do not represent more than two percent of the voting rights in the company. In addition, any such transaction with a term that exceeds three years requires approval as described above every three years, unless (with respect only to extraordinary transactions and not to other transactions that require the special approval process) the

audit committee approves that a longer term is reasonable under the circumstances.

Under the Companies Regulations (Relief from Related Party Transactions), 5760-2000, promulgated under the Israeli Companies Law, as amended, certain extraordinary transactions between a public company and its controlling shareholder(s) do not require shareholder approval. In addition, under such regulations, directors' compensation and employment arrangements in a public company do not require the approval of the shareholders if both the compensation committee and the board of directors agree that such arrangements are solely for the benefit of the company or if the directors' compensation does not exceed the maximum amount of compensation for outside directors determined by applicable regulations.

Exculpation, Indemnification and Insurance of Directors and Officers

Exculpation of Office Holders. The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care in connection with distributions.

Insurance of Office Holders. Israeli law provides that a company may, if permitted by its articles of association, enter into a contract to insure its office holders for liabilities incurred by the office holder with respect to an act or omission performed in his or her capacity as an office holder, as a result of: (i) a breach of the office holders duty of care to the company or another person; (ii) a breach of the office holders duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that the act would not prejudice the company's interests; and (iii) a financial liability imposed upon the office holder in favor of another person.

Indemnification of Office Holders. Under Israeli law a company may, if permitted by its articles of association, indemnify an office holder for acts or omissions performed by the office holder in such capacity for (a) monetary liability imposed upon the office holder in favor of another person pursuant to a court judgment, including a settlement or an arbitration award approved by a court; (b) reasonable litigation expenses, including attorney's fees, actually incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without the filing of an indictment against the office holder and a monetary liability was imposed on him or her in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and (c) reasonable litigation expenses, including attorneys' fees, actually incurred by the office holder or imposed upon the office holder by a court: (i) in an action, suit or proceeding brought against the office holder by or on behalf of the company or another person, (ii) in connection with a criminal action in which the office holder was acquitted, or (iii) in connection with a criminal action in which the office holder was convicted of a crime that does not require proof of criminal intent.

Israeli law provides that a company's articles of association may permit the company to (a) indemnify an office holder retroactively, following a determination to this effect made by the company after the occurrence of the event in respect of which the office holder will be indemnified; and (b) undertake in advance to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of the undertaking, foreseeable due to the company's activities and to an amount or standard that the board of directors has determined is reasonable under the circumstances.

Limitations on Exculpation, Insurance and Indemnification. The Israeli Companies Law provides that a company may not exempt or indemnify an office holder nor enter into an insurance contract which would provide coverage for liability incurred as a result of any of the following: (a) a breach by the office holder of his or her duty of loyalty (however, a company may insure and indemnify against such breach if the office acted in good faith and had

reasonable cause to assume that his act would not prejudice the company's interests); (b) a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly, unless made in negligence only; (c) any act of omission done with the intent to derive an illegal personal benefit; or (d) any fine, civil fine, monetary sanction or penalty levied against the office holder.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our compensation committee and our board of directors and, if the office holder is a controlling shareholder, director or a chief executive officer, also by our shareholders.

Our Articles of Association allow us to insure, indemnify and exempt our office holders, to the fullest extent permitted by the provisions of the Israeli Companies Law. We maintain a directors' and officers' liability insurance policy with a per claim and aggregate coverage limit of $5 million, including legal costs. We have provided several of our directors and officers a letter of indemnification for liabilities or expenses incurred as a result of their acts in their capacity as directors and officers of our company, in an aggregate amount not to exceed $3 million.

Administrative Sanctions. The Israeli Securities Authority is authorized to impose administrative sanctions against companies like ours and their office holders for certain violations of the Israeli Securities Law or the Israeli Companies Law. These sanctions include monetary sanctions and certain restrictions on serving as a director or senior officer of a public company for certain periods of time. The maximum amount of the monetary sanctions that could be imposed upon individuals is a fine of NIS 1.0 million (currently equivalent to approximately $285,000), plus the greater of the following amounts payable to persons who suffered damages as a result of the violation: (i) the amount of profits earned or losses avoided by the violator as a result of the violation, up to the amount of the applicable fine, or (ii) compensation for damages suffered by the injured persons, up to 20% of the fine imposed on the violator.

Only certain types of liabilities may be reimbursed by indemnification and insurance. Specifically, legal expenses (including attorneys' fees) incurred by an individual in the applicable administrative enforcement proceeding and any compensation payable to injured parties for damages suffered by them (as described in clause (ii) of the immediately preceding paragraph) are permitted to be reimbursed via indemnification or insurance, provided that such indemnification and insurance are authorized by the company's articles of association.

D. Employees

On December 31, 2017, we and our consolidated subsidiaries employed 65 persons, of which 9 persons were employed in research and development, 27 in media, professional services and technical support, 10 in sales and marketing and 19 in operations and administration. As of December 31, 2017, 30 of our employees were located in Israel, 33 of our employees were located in the United States and 2 of our employees were located in Hong Kong.

On December 31, 2016, we and our consolidated subsidiaries employed 93 persons, of which 29 persons were employed in research and development, 31 in media, professional services and technical support, 13 in sales and marketing and 20 in operations and administration. As of December 31, 2016, 61 of our employees were located in Israel, 30 of our employees were located in the United States and 2 of our employees were located in Hong Kong.

On December 31, 2015, we and our consolidated subsidiaries employed 82 persons, of which 22 persons were employed in research and development, 26 in professional services and technical support, 14 in sales and marketing and 20 in operations and administration. As of December 31, 2015, 47 of our employees were located in Israel, 33 of our employees were located in the United States and 2 of our employees were located in Hong Kong.

As part of our continued cost-cutting measures in 2018, we reduced our headcount to 49 employees as of April 25, 2018 from 65 persons as of December 31, 2017.

Certain provisions of the collective bargaining agreements between the General Federation of Labor in Israel, or the Histadrut, and the Coordination Bureau of Economic Organizations (including the Industrialists Association) are applicable to our employees by order of the Israeli Ministry of Labor. These provisions concern mainly the length of the workday, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the minimum requirements.

Cost of living adjustment of employees' wages is determined on a nationwide basis and is legally binding, if and when applied. Israeli employers and employees are required to pay predetermined amounts to the National Insurance Institute, which is similar to the United States Social Security Administration and additional sums towards compulsory health insurance. In 2017, payments to the National Insurance Institute amounted to approximately 15% of wages, of which approximately two-thirds was contributed by employees with the balance contributed by the employer.

Pursuant to Israeli law, we are required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. The severance pay obligation generally requires the payment of severance pay equal to one month's salary, based on the most recent salary, for each year of employment or a prorated portion thereof upon the termination of employment of an employee. Pursuant to an order issued in December 2007 by the Israeli Minister of Industry, Trade and Labor, new provisions relating to pension arrangements in the collective bargaining agreements between the Histadrut and the Coordination Bureau of Economic Organizations apply to all employees in Israel. According to such provisions, all employees employed in Israel for at least six months are entitled to pension benefits to be funded by preset monthly contributions of the employee and the employer and to certain severance benefits regardless of whether they or we terminated their employment. We partly satisfy this obligation by contributing approximately 8.3% of the employee's gross salary to a fund known as "Managers' Insurance" or to pension fund. This fund provides a combination of savings plans, insurance and severance pay benefits to the employee, giving the employee a lump sum payment upon retirement and a severance payment, if legally entitled, upon termination of employment. The remaining part of this obligation is presented in our balance sheet as the difference between the "accrued severance pay" and "severance pay fund."

Certain employment agreements executed with some of our Israeli employees provide that the provisions of Section 14 of the Israeli Severance Pay Law, 1963, or the Severance Pay Law, will apply to such employee. This section provides that our contributions for severance pay are in lieu of our severance liability and the relevant employee is entitled to receive such contributions whether her or his employment is terminated by us or she or he resigns. Therefore, upon fulfillment of our obligation to make a monthly contribution to the managers' insurance policies or similar financial instruments in the amount of 8.33% of the employee's monthly salary and of the other terms of the relevant governmental permit issued with respect to this arrangement, including monthly contributions to pension funds and/or managers' insurance and disability insurance, no additional payments must later be made to the employee on account of severance pay upon termination of the employment relationship. Under these circumstances, the related obligation and amounts deposited on behalf of the employee for such obligation are not stated on the balance sheet, as we are released from the obligation to the employees once the amounts deposited have been paid.

E. Share Ownership

The following table sets forth certain information as of April 25, 2018 regarding the beneficial ownership of our ordinary shares by each of our directors and all of our executive officers and directors as a group:

Name	Number of Ordinary Shares Beneficially Owned [1]		Percentage of Outstanding Ordinary Shares [2]	
Haim Mer and Dora Mer	540,641	[3]	17.3	%
Roger Challen	437,068	[4]	14.0	%
Tzvika Friedman	180,653	[5]	5.8	%
Steven J. Glusband	1,168		*	
Yaacov Goldman	--		--	
Eytan Barak	--		--	
Varda Trivaks	--		--	
All directors and executive officers as a group (10 persons)	1,180,078	[6]	37.6	%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or

exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 3,118,884 ordinary shares (excluding 1,800 ordinary shares held as treasury stock) issued and outstanding as of April 25, 2018.

(3) Based upon a Schedule 13D/A filed with the SEC on August 24, 2017 and other information available to us. Mr. Haim Mer and his wife, Mrs. Dora Mer, are the record holders of 247,960 ordinary shares and the beneficial owners of 290,742 ordinary shares through their controlling interest in Mer Ofekim Ltd., 1,923 ordinary shares through their controlling interest in Mer Services Ltd. and 16 ordinary shares through their controlling interest in Mer & Co. (1982) Ltd.

(4) Based upon a Schedule 13D/A filed with the SEC on August 24, 2017. Mr. Challen is the beneficial owner of 437,068 ordinary shares through his controlling interest in the Info Group, Inc., a Massachusetts corporation.

(5) Based upon a Schedule 13D/A filed with the SEC on December 4, 2017 and other information available to us.

(6) Excludes shares beneficially owned by Mr. Ram and Mr. Brikman who ceased to serve as officers of our company prior to April 25, 2018. The number of ordinary shares beneficially owned includes 20,548 ordinary shares subject to options that are currently exercisable or exercisable within 60 days of the date of this report.

Stock Option Plans

2003 Israeli Share Option Plan

In August 2013, our shareholders approved amendments to the 2003 Israeli Share Option Plan, or the 2003 Plan. Its term was extended by ten years so that the 2003 Plan will expire on November 30, 2023, unless further extended. Options granted under the 2003 Plan are not assignable or transferable by an optionee, other than by will or by laws of descent and distribution, and during the lifetime of an optionee may be exercised only by the optionee or by the optionee's legal representative. Such options may be exercised as long as the optionee is employed by, or providing services to us or any of our affiliates, to the extent the options have vested and, under certain circumstances set forth in the 2003 Plan, for a period of 90 days thereafter. The Board of Directors or the stock option committee, as the case may be, may permit options to continue to be in effect following the termination of employment, so long as the resolution is adopted prior to expiration of the options as a result of termination and there is no change in the original expiration date of the options.

In each of August 2013 and August 2016, our shareholders approved an increase in the number of ordinary shares issuable under the 2003 Plan by an additional 166,667 ordinary shares (i.e. an aggregate of 333,333 ordinary shares). As of December 31, 2017, the aggregate number of ordinary shares available for future option grants under the 2003 Plan was 219,429 shares.

During 2017, 116,667 options were granted under the 2003 Plan and no options were exercised. At December 31, 2017, options to purchase 224,548 ordinary shares were outstanding under the 2003 Plan, exercisable at an average exercise price of $3.42 per share.

2006 Stock Option Plan

In June 2006, we adopted our 2006 Stock Option Plan, or the 2006 Plan, under which up to 200,000 ordinary shares may be issued (subject to standard adjustments) to employees, officers and non-employee directors of ours and our affiliates. Ordinary shares as to which an option granted under the 2006 Plan has not been exercised at the time of its expiration, cancellation or forfeiture may again be subject to new awards under the 2006 Plan. At our 2011 annual general meeting, our shareholders approved an amendment to our 2006 Stock Option Plan to provide for the issuance thereunder of an additional 200,000 ordinary shares and to increase the total number of ordinary shares with respect to which options may be granted thereunder to any eligible employee during any 12 month period to 150,000 (instead of 50,000 according to the original 2006 Plan) ordinary shares, subject to adjustment as provided in the 2006 Plan. At our 2013 annual general meeting, our shareholders approved an amendment to our 2006 Stock Option Plan to provide for the issuance thereunder of an additional 50,000 ordinary shares, such that we will be entitled to issue options to purchase up to 183,333 ordinary shares under the 2006 Plan. At our 2017 annual general meeting, our shareholders approved an amendment to our 2006 Plan extending the period in which Incentive Stock Options (as such term is defined in the 2006 Plan) may be granted until July 2026.

The 2006 Plan is administered by our Board of Directors or to the extent permitted by Israeli law, a Compensation Committee of our Board of Directors. All references below to the "Committee" refer to the Board of Directors or

compensation committee established by our Board of Directors, as applicable. The Committee will have the authority, in its discretion, to establish from time to time guidelines or regulations for the administration of the 2006 Plan, to interpret the 2006 Plan, and to make all determinations it considers necessary or advisable for the administration of the 2006 Plan, in addition to the other responsibilities and powers assigned to the Committee in the 2006 Plan. All decisions, actions or interpretations of the Committee under the 2006 Plan will be final, conclusive and binding upon all parties.

Each option granted under the 2006 Plan will be either an option intended to be treated as an "incentive stock option," within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, or an option that will be treated as a "non-qualified stock option." No incentive stock may be granted to any individual who is not an eligible employee of our company or a "subsidiary" within the meaning of the Code. No incentive stock option may be granted to an employee if, as of the date of grant of such option, such employee owns stock possessing more than ten percent of the total combined voting power of all classes of stock of our company or any affiliated company, a "10% Holder," unless (a) the exercise price per share under such option is at least 110% of the fair market value of an ordinary share determined as of the date of grant of such option, and (b) such option is not exercisable after the expiration of five years from the date of grant of such option. In no event may the term of any option exceed ten years from the date of grant of the option. However, in no event may the term of any option granted to a 10% Holder exceed five years from the date of grant of the option. No option may be exercised after its expiration.

Each option granted under the 2006 Plan will become exercisable, in whole or in part, at such time or times during its term as the instrument evidencing the grant of such option may specify.

The price at which ordinary shares may be purchased upon any exercise of an option granted under the 2006 Plan will be the price per share determined by the Committee, and specified in the instrument evidencing the grant of such option, but in no event may the exercise price per share be less than (i) the fair market value of an ordinary share determined as of the date of grant of the option, or (ii), if greater, the par value of an ordinary share. However, with respect to an option granted to a 10% Holder, in no event may the exercise price per share be less than 110% of the fair market value of our ordinary shares determined as of the date of grant of such option.

Options granted under the 2006 Plan are nontransferable, other than by will or the laws of descent and distribution, and may be exercised during the grantee's lifetime only by the grantee. However, if the instrument evidencing the grant of an option other than an incentive stock option so provides, the grantee may transfer his or her rights with respect to such option or any portion thereof, without consideration, to any "family member," as such term is defined in the 2006 Plan.

The terms and conditions of an option grant may not be waived or amended without the consent of the grantee if it would adversely affect, to any material extent, any of the rights or obligations of the grantee with respect to such grant, or in the case of any option that was intended to constitute an incentive stock option, if such waiver or amendment would cause such option to fail to be treated as an incentive stock option.

Our Board of Directors may, with prospective or retroactive effect, amend, suspend or terminate the 2006 Plan or any portion of the 2006 Plan at any time. However, no amendment, suspension or termination of the 2006 Plan may adversely affect the rights of any grantee with respect to any options previously granted to the grantee without his or her written consent. Also, no amendment which constitutes a "material revision" of the 2006 Plan, within the meaning of such term under NASDAQ rules, may be effective unless approved by our shareholders in the manner required by such rules and by applicable law.

During 2017, no options were granted under the 2006 Plan and no options were exercised. At December 31, 2017, options to purchase 47,500 ordinary shares were outstanding under the 2006 Plan, exercisable at an average exercise price of $4.58 per share.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information as of April 25, 2018 regarding the beneficial ownership by all shareholders known to us to own beneficially 5.0% or more of our ordinary shares:

Name	Number of Ordinary Shares Beneficially Owned[1]		Percentage of Outstanding Ordinary Shares[2]	
Haim Mer and Dora Mer	540,641	[3]	17.3	%
Roger Challen	437,068	[4]	14.0	%
Tzvika Friedman	180,653	[5]	5.8	%
David Sussan	207,654	[6]	6.7	%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 3,118,884 ordinary shares (excluding 1,800 ordinary shares held as treasury stock) issued and outstanding as of April 25, 2018.

(3) Based upon a Schedule 13D/A filed with the SEC on August 24, 2017 and other information available to us. Mr. Haim Mer and his wife, Mrs. Dora Mer, are the record holders of 247,960 ordinary shares and the beneficial owners of 290,742 ordinary shares through their controlling interest in Mer Ofekim Ltd., 1,923 ordinary shares through their controlling interest in Mer Services Ltd. and 16 ordinary shares through their controlling interest in Mer & Co. (1982) Ltd.

(4) Based upon a Schedule 13D/A filed with the SEC on August 24, 2017. Mr. Challen is the beneficial owner of 437,068 ordinary shares through his controlling interest in the Info Group, Inc., a Massachusetts corporation.

(5) Based upon a Schedule 13D/A filed with the SEC on December 4, 2017 and other information available to us.

(6) Based upon a Schedule 13G filed with the SEC on April 30, 2015 and other information available to us.

Significant Changes in the Ownership of Major Shareholders

In April 2015, we issued 1,038,363 ordinary shares in connection with the acquisition of Vexigo. This issuance had the effect of diluting the holdings of the existing shareholders and introduced four new major shareholders (Messrs. Friedman, Sussan, Ram and Reshef). As a result of the Vexigo acquisition Messrs. Friedman, Sussan, Ram and Reshef acquired 179,980, 179,980, 150,352 and 150,352 of our ordinary shares, respectively. In March 2017, we issued 20,767 ordinary shares to the finder for the Vexigo transaction upon the exercise of warrants issued as compensation for services.

Mr. Haim Mer purchased 34,091 of our ordinary shares pursuant to a share purchase agreement on May 11, 2015, among him, our company and other purchasers. The aggregate purchase price for such 34,091 ordinary shares was $225,000, or $6.60 per share. During 2015, Mr. Mer purchased 29,500 ordinary shares in the open market. The combined effect of these purchases during 2015 increased Haim Mer's and Dora Mer's holdings to 434,475 ordinary shares, while decreasing their ownership interest from 23.8% to 16.2% due to the dilutive effect of the Vexigo acquisition.

Mr. Challen's holdings were diluted from 21.2% to 12.3% during 2015 because of the Vexigo acquisition.

In May 2016, we completed a private placement, in which all our major shareholders participated. The private placement had a minimal effect on the percentage of ownership of our principal shareholders.

In August 2017, we completed a private placement, in which all our major shareholders participated. As a result of the 2017 Private Placement, the holdings of Haim Mer and Dora Mer increased to 17.3% and the holdings of Roger Challen increased to 14%.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of April 24, 2018, there were 40 holders of record of our ordinary shares, of which 8 record holders holding approximately 67.7% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 53.1% of our outstanding ordinary shares as of such date).

B. Related Party Transactions

C. Mer is a publicly traded company in which Mr. Haim Mer, our chairman of the Board, is a member of the controlling group. Mr. Mer has been the chairman of the board of directors of C. Mer since 1988 and served as its President and Chief Executive Officer from 1988 until January 2005. Presently, the only service provided to us by C. Mer is our participation in its umbrella liability insurance coverage. We believe that the terms under which C. Mer provides such participation to us is on a basis no less favorable than could be obtained from an unaffiliated third party. In 2012, we engaged with Mer Telecom Ltd., a subsidiary of C. Mer, in a deployment of a Mobile Financial Services (MFS) solution for a customer in Africa in a revenue share model with a minimum total value of $460,000 over a three year period. The transaction was approved by our board of directors and we completed its deployment in 2013 and received the setup fee of $100,000. As of December 31, 2016, the solution was implemented, but the customer has not as yet activated the solution.

Our Board of Directors and shareholders approved the payment of fees to Mr. Roger Challen effective from January 1, 2012 and for the duration of his service as a non-employee director. The fees are equivalent to the fees we pay to some of our other non-employee directors for their service in such capacity (an annual fee of $8,400 and a per meeting attendance fee of $300). Mr. Challen also receives reimbursement of travel related expenses in connection with his attendance at Board of Directors' meetings, pursuant to guidelines for reimbursement of director travel related expenses approved by our Audit Committee and Board of Directors. In addition, in connection with our acquisition of AnchorPoint from a company controlled by Mr. Challen, we received certain services from Data Distributors, Inc., another company controlled by Mr. Challen. These services include reimbursement for shared expenses, development and IT services and other administrative services. Expenses recognized with respect to the above mentioned services were approximately $9,000, $9,000 and $2,000 for the years ended December 31, 2015, 2016 and 2017, respectively. We also rent an office from Mr. Challen 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. Mr. Challen is the controlling shareholder of the Info Group Inc., and is the beneficial owner of 14% of our ordinary shares.

Mr. Lior Salansky, our former chief executive officer, acted as a consultant to our Board of Directors in connection with prospective acquisitions prior to his assuming his position as chief executive officer. Under a consulting agreement entered into on May 18, 2014, he received a warrant based on a cashless exercise mechanism to acquire 2% of our outstanding ordinary shares on a pre-closing basis (31,151 ordinary shares based on the number of shares outstanding prior to the closing) with an exercise price equal to the market price of our ordinary shares at the signing of the relevant agreement (i.e., $2.88 per share) valid for a period of five years.

In April 2015, in connection with Mr. Salansky's appointment as our Chief Executive Officer, our shareholders approved Mr. Salansky's Terms of Service and Employment, which included a grant of options to acquire 26,667 ordinary shares under our 2003 Plan, which became fully vested in April 1, 2016 and expire on the fifth anniversary of the date of the relevant shareholders' meeting unless earlier terminated pursuant to the terms of the 2003 Plan. The exercise price per share of these options is $4.65. In May 2016, our shareholders approved the grant to Mr. Salansky of options to acquire 50,000 ordinary shares having an exercise price per share of $3.24.

In June 2016, Mr. Salansky ceased to serve as our Chief Executive Officer and the options granted to him in May 2016 terminated on his last employment date in August 2016. Mr. Salansky currently serves as a consultant to our Board of Directors and agreed to provide his consulting services in consideration of the extension of the options granted to him in April 2015 as more fully detailed above.

On May 11, 2015, we issued 34,091, 34,091 and 7,575 of our ordinary shares to Messrs. Haim Mer, Lior Salansky and Adi Orzel, respectively, pursuant to a share purchase agreement, among our company and these purchasers. The proceeds of the issuance were used for working capital. The aggregate purchase price for such 75,757 Ordinary Shares was $500,000, all of which amounts were paid by these current and former office holders from their personal funds.

On May 18, 2016, we completed a private placement of 216,158 ordinary shares, constituting, at the time, approximately 7.5% of our outstanding ordinary shares, for an aggregate investment of approximately $700,000. The price paid per share of $3.24 was equal to the closing price of an ordinary share on the NASDAQ Capital Market on May 17, 2016. The private placement was approved by our shareholders at the Extraordinary General Meeting of Shareholders held on May 16, 2016. In this private placement we issued, among others: (i) 30,864 ordinary shares to each of Messrs. Haim Mer, Lior Salansky and Roger Challen; (ii) 21,399 ordinary shares to each of Messrs. Tzvika Friedman and David Sussan; (iii) 17,282 ordinary shares to each of Messrs. Koby Ram and Amit Reshef; and (iv) 5,528 ordinary shares to Mr. Adi Orzel.

On August 14, 2017, we completed a private placement of 200,803 ordinary shares, constituting approximately 6.4% of our outstanding ordinary shares, for an aggregate investment of $400,000. The price per share of $1.992 was equal to the average closing price of our ordinary shares on the NASDAQ Capital Market during the 30 trading days prior to the date of the Audit Committee and Board of Directors' meetings that approved the private placement (held on June 21, 2017), plus a premium of 20%. The private placement was approved by our shareholders at the Annual General Meeting of Shareholders held on August 13, 2017. In this private placement we issued, among others: (i) 75,301 ordinary shares to each of Messrs. Haim Mer and Roger Challen; (ii) 25,100 to Mr. Lior Salansky; and (iii) 6,275 ordinary shares to each of Messrs. Tzvika Friedman, David Sussan and Koby Ram.

In August 2016, our shareholders approved the grant of options to Mr. Orzel to acquire 10,000 ordinary shares having an exercise price per share equal to the closing price per share of our ordinary shares on the NASDAQ Capital Market on the day of the Meeting ($3.96). The options vest ratably on an annual basis in four installments on May 29th of each of the years 2017, 2018, 2019 and 2020, and will expire in August 2026 unless earlier terminated pursuant to the terms of our 2003 Plan. On March 29, 2018, we announced that Mr. Orzel had resigned from our Board of Directors as well as from the position of Chairman of the Board of Vexigo effective March 31, 2018. Mr. Orzel may exercise his vested options for a period of 90 days after termination of his services to the company.

In August 2016, our shareholders approved the terms of employment of our then chief executive officer, Mr. Orey Gilliam. On February 6, 2017, we announced the departure of Mr. Gilliam and his interim replacement by Mr. Alon Mualem, our chief financial officer. In September 2017 our Compensation Committee and Board of Directors approved the terms of employment of our chief executive officer, Mr. Roy Hess. For more information see, Item 6B. "Directors, Senior Management and Employees - Compensation."

For a description of the rescheduling of payments due to officers who were former shareholders of Vexigo, pursuant to the Vexigo SPA and the conversion of outstanding debt to such former Vexigo shareholders, see Item 3D. "Key Information - Risk Factors" and Item 5B. "Operating and Financial Review and Prospects -- Liquidity and Capital Resources."

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

See the consolidated financial statements, including the notes thereto included in Item 18.

Export Sales

See Note 14 of our consolidated financial statements.

Legal Proceedings

During August 2007, our now inactive Brazilian subsidiary, TABS Brazil Ltda., was ordered by the Labor Law Court in Brazil to pay approximately 167,000 Brazilian Reals (approximately $50,000) to one of its former employees. Such amount bears interest at a rate of 1% per month from the date that the claim was filed. We recorded a provision in our financial statements for the amount deemed probable.

In January 2017, we consented to the entry of an administrative order issued by the SEC that directs us to cease and desist from committing or causing any violations and any future violations of Section 17(a)(3) of the Securities Act and Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-16 thereunder. As part of the terms of the SEC settlement, we also agreed to pay a penalty of $50,000. The settlement relates to certain of our disclosures in two press releases issued in October 2013 and January 2014. We consented to the entry of the administrative order without admitting or denying its assertions of factual findings.

We are a party to various other claims that arise in the ordinary course of business. Accordingly, we have recorded a provision of approximately $63,000 in respect of such claims in accordance with ASC 450, “Contingencies,” based on the opinion of our management and legal advisors. There were no legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings and those involving any third party, which may have, or have had in the recent past, significant effects on our financial position or profitability.

Dividend Distribution Policy

We have never paid cash dividends to our shareholders. We intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions as the Board of Directors may deem relevant.

According to the Israeli Companies Law, a company may generally distribute dividends only out of its profits (as such term is defined in the Israeli Companies Law), provided that there is no reasonable concern that payment of the dividend will prevent the company from satisfying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, at the company’s request, provided that there is no reasonable concern that payment of the dividend will prevent the company from satisfying its current and foreseeable obligations, as they become due. In the event cash dividends are declared, such dividends will be paid in NIS.

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Annual Stock Information

The following table sets forth, for each of the years indicated, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market.

Year	High	Low
2017	$3.39	$1.35
2016	$4. 35	$2.07
2015	$9.60	$2. 25
2014	$8.01	$2.94
2013	$15.33	$4.65

Quarterly Stock Information

The following table sets forth, for each of the full financial quarters in the years indicated, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market.

	High	Low
2016		
First Quarter	$3.87	$2.07
Second Quarter	$3.87	$2.64
Third Quarter	$4.35	$2.79
Fourth Quarter	$3.87	$2.46
2017		
First Quarter	$3.39	$1.68
Second Quarter	$2.04	$1.35
Third Quarter	$2.28	$1.41
Fourth Quarter	$2.79	$1.80
2018		
First Quarter	$3.87	$2.07
Second Quarter (through April 25)	$1.77	$1.66

Monthly Stock Information

The following table sets forth, for each of the most recent six months, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market.

Month	High	Low
October 2017	$2.27	$2.00
November 2017	$2.67	$1.96
December 2017	$2.79	$1.80
January 2018	$2.41	$1.75
February 2018	$2.05	$1.61
March 2018	$1.96	$1.72
April 2018 (through April 25)	$1.77	$1.66

Historical stock information was adjusted to retroactively reflect the one for three ordinary share reverse split implemented in September 2017.

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are listed on the NASDAQ Capital Market (symbol: MTSL).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Set out below is a description of certain provisions of our Articles of Association and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Articles of Association, which are incorporated by reference as exhibits to this Annual Report, and to Israeli law.

Purposes and Objects of the Company

We are a public company registered under the Israeli Companies Law as MER Telemanagement Solutions Ltd., registration number 520042904. Our objects and purposes, as provided by our Articles of Association, are to carry on any lawful activity.

The Powers of the Directors

Under the provisions of the Israeli Companies Law and our Articles of Association, a director cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is materially interested, unless the majority of the Board of Directors or relevant committee, as the case may be, has a personal interest in the transaction. In addition, our directors cannot approve compensation to themselves or any members of their body without the approval of our compensation committee and our shareholders at a general meeting. See Item 6C. “Directors, Senior Management and Employees – Board Practices – Compensation Committee.”

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our Articles of Association, retirement of directors from office is not subject to any age limitation and our directors are not required to own shares in our company in order to qualify to serve as directors.

Rights Attached to Shares

Our authorized share capital consists of 6,666,667 ordinary shares of a nominal value of NIS 0.03 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable.

The rights attached to the ordinary shares are as follows:

Dividend rights. Holders of our ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of the retained earnings, in accordance with the provisions of the Israeli Companies Law. Our Articles of Association provide that the declaration of a dividend requires approval by an ordinary resolution of the shareholders, which may decrease but not increase the amount proposed by the board of directors. See Item 8A. “Financial Information – Consolidated and Other Financial Information – Dividend Distribution Policy.” If after one year a dividend has been declared and it is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

Voting rights. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. At the reconvened meeting, the required quorum consists of any two members present in person or by proxy.

An ordinary resolution, such as a resolution for the declaration of dividends, requires approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot, and voting thereon. Under our Articles of Association, a special resolution, such as amending our memorandum of association or articles of association, approving any change in capitalization, winding-up, authorization of a class of shares with special rights, or other changes as specified in our Articles of Association, requires approval of a special majority, representing the holders of no less than 75% of the voting rights represented at the meeting in person, by proxy or by written ballot, and voting thereon.

Pursuant to our Articles of Association, our directors (other than 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. All the members of our Board of Directors (except the outside directors who generally have a limitation of three three-year terms) may be reelected upon completion of their term of office. For information regarding the election of outside directors, see Item 6C. “Directors, Senior Management and Employees – Board Practices – Election of Directors - Outside and Independent Directors - Outside Directors.”

Rights to share in our company’s profits. Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution. See this Item 10B. “Additional Information – Memorandum and Articles of Association – Rights Attached to Shares – Dividend Rights.”

Rights to share in surplus in the event of liquidation. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Liability to capital calls by our company. Under our memorandum of association and the Israeli Companies Law, the liability of our shareholders is limited to the par value of the shares held by them.

Limitations on any existing or prospective major shareholder. See Item 6C. “Directors and Senior Management –Board Practices - Approval of Related Party Transactions Under Israeli Law.”

Changing Rights Attached to Shares

According to our Articles of Association, in order to change the rights attached to any class of shares, unless otherwise provided by the terms of the class, such change must be adopted by a general meeting of the shareholders and by a separate general meeting of the holders of the affected class with a majority of 75% of the voting power participating in such meeting and voting on the matter.

Annual and Extraordinary Meetings

Under the Israeli Companies Law a company must convene an annual meeting of shareholders at least once every calendar year and within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of up to 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as “extraordinary general meetings.” In addition, the board must convene a special general meeting upon the demand of two of the directors or 25% of the directors, one or more shareholders holding at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders holding at least 5% of the voting power in the company. See Item 10B. “Additional Information - Memorandum and Articles of Association - Rights Attached to Shares - Voting Rights.”

Limitations on the Rights to Own Securities in Our Company

Neither our memorandum of association nor our articles of association nor any applicable law restrict in any way the ownership or voting of shares by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel.

Provisions Restricting Change in Control of Our Company

Tender Offer

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if, in general, the acquisition: (1) was made in a private placement that received shareholder approval as a private placement and was meant to grant the purchaser 25% or more of the voting rights of a company in which no other shareholder holds 25% or more of the voting rights, or to grant the purchaser more than 45% of the voting rights of a company in which no other shareholder holds more than 45% of the voting rights, (2) was from a 25% or greater shareholder of the company which resulted in the acquiror becoming a 25% or greater shareholder of the company, or (3) was from a shareholder holding more than a 45% interest in the company which resulted in the acquiror becoming a holder of more than a 45% interest in the company.

If, as a result of an acquisition of shares, the acquiror will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares, or a full tender offer. A full tender offer is accepted if either: (i) holders of less than 5% of the outstanding shares do not accept the tender offer and more than half of the offerees who do not have a personal interest in accepting the tender offer accepted it, or (ii) holders of less than 2% of the outstanding shares do not accept the tender offer. If the full tender offer is not accepted, then the acquiror may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

The Israeli Companies Law provides for appraisal rights in the event a full tender offer is accepted if the shareholder files a request with the court within six months following the consummation of a full tender offer. The acquirer may provide in the tender offer documents that any shareholder that accepted the offer and tendered his shares will not be entitled to appraisal rights.

Merger

The Israeli Companies Law permits merger transactions if approved by each party's board of directors and, except under certain circumstances specified below, by the majority of each party's shares voted on the proposed merger at a shareholders meeting convened upon prior notice of at least 35 days (which may be shortened to 14 days in certain circumstances). The Israeli Companies Law provides that a company that was incorporated prior to the enactment of the Israeli Companies Law, such as us, will be deemed to have a provision in its articles of association requiring a majority of 75% of the shareholders participating and voting on the matter for purposes of approval of a merger. A merger is defined as the transfer of all assets and liabilities, including conditional, future, known and unknown debts of the target company to the surviving company, as a result of which the target company is liquidated, and stricken out of the Companies Register.

Under the Israeli Companies Law, if one of the merging companies, or a shareholder that holds 25% or more of the means of control of one of the merging companies, or a 25% shareholder, holds shares of the other merging company, then a dissenting vote of holders of the majority of the shares of the other merging company present and voting, excluding shares held by the merging company or a 25% shareholder thereof, or by anyone acting on behalf of either of them, their relatives and corporations controlled by them, is sufficient to reject the merger transaction. Means of control are defined as any of the following: (i) the right to vote at a general meeting of a company; and (ii) the right to appoint a director of a company. If the transaction would have been approved but for the exclusion of the votes as previously indicated, a court may still approve the merger upon the request of holders of at least 25% of the voting

rights of the company. The court will not approve a merger unless it is convinced that the merger is fair and reasonable, taking into account the values of the merging companies and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merged company. In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed with the Israeli Registrar of Companies and 30 days have passed from the date that shareholder approval of both merging companies was obtained.

Notwithstanding the foregoing, a merger is not subject to the approval of the shareholders of the target company if the target company is a wholly-owned subsidiary of the surviving company. In addition, a merger is not subject to the approval of the shareholders of the surviving company if:

- the merger does not require the alteration of the memorandum or articles of association of the surviving company;
- the surviving company would not issue more than 20% of the voting rights thereof in the course of the merger and no person will become, as a result of the issuance, a controlling shareholder of the surviving company (for this purpose any securities convertible into shares of the surviving company that such person holds or that are issued to him in the course of the merger are deemed to have been converted or exercised);
- neither the target company, nor any shareholder that holds 25% of the means of control of the target company is a shareholder of the surviving company; and
- there is no person that holds 25% or more of the means of control in both companies.

Disclosure of Shareholders Ownership

The Israeli Securities Law and regulations promulgated thereunder do not require shareholders of a company whose shares are publicly traded solely on a stock exchange outside of Israel, as in the case of our company, to disclose their share ownership.

Changes in Our Capital

Changes in our capital are subject to the approval of the shareholders at a general meeting by a special majority of 75% of the votes of shareholders participating and voting in the general meeting.

C. Material Contracts

In April 2015, we entered into the Vexigo SPA, and certain terms were re-negotiated in September 2015, February 2016 and July-August 2017. See Item 3D. “Key Information - Risk Factors” and Item 5B. “Operating and Financial Review and Prospects -- Liquidity and Capital Resources.”

We issued 34,091, 34,091 and 7,575 ordinary shares to Messrs. Haim Mer, Lior Salansky and Adi Orzel, respectively, pursuant to a share purchase agreement dated May 11, 2015 in consideration of $500,000.

In May 2016, we completed a private placement of 216,158 ordinary shares, constituting, at the time, approximately 7.5% of our outstanding ordinary shares, for an aggregate consideration of approximately $700,000. The private placement was approved by our shareholders at the Extraordinary General Meeting of Shareholders held on May 16, 2016. The proceeds from the private placement provided us with additional working capital and were used to reduce the amounts due to the former shareholders of Vexigo in connection with the acquisition of Vexigo in April 2015. The shares were sold to the former shareholders of Vexigo, Mr. Haim Mer, Mr. Roger Challen and Mr. Lior Salansky.

In August 2017, we completed a private placement of 200,803 ordinary shares, constituting approximately 6.4% of our outstanding ordinary shares, for an aggregate consideration of $400,000. The private placement was approved by our shareholders at the Annual General Meeting of Shareholders held on August 13, 2017. The proceeds from the private placement provided us with additional working capital. The shares were sold to Messrs. Haim Mer, Roger Challen, Lior Salansky, Tzvika Friedman, David Sussan and Koby Ram.

D. Exchange Controls

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. Taxation

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Israeli Tax Considerations

The following is a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli tax consequences to purchasers of our ordinary shares and Israeli government programs benefiting us. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law.

General Corporate Tax Structure

Generally, Israeli companies are subject to "Corporate Tax" at their taxable income. The Israeli corporate tax rate was 25% in 2013. The corporate tax rate was increased to 26.5% in 2014. On January 5, 2016 the Israeli Parliament passed an amendment to the Israeli Income Tax Ordinance, by which, among else, the corporate tax rate would be decreased to a rate of 25% as from 2016. The Israeli Parliament on December 22, 2016, approved the Israeli Budgetary Law for 2017 and 2018. The Budget Law reduces the regular corporate tax rate from 25% to 24% in 2017 and 23% in 2018 (as described below in "Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71)").

Controlled Foreign Companies

Under the controlled foreign companies rules an Israeli company may become subject to Israeli taxes (as deemed dividends) on non-distributed profits of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains) and if the taxes imposed outside of Israel are no more than 15% of the profits.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, commonly referred to as the Investment Law, or the Investment Law, provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel, be designated as an Approved Enterprise. Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, e.g., the equipment to be purchased and utilized pursuant to the program. An Approved Enterprise is entitled to benefits including Israeli Government cash grants and tax benefits in specified development areas. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments is approved, its effective tax rate is the result of a weighted average of the applicable rates.

Taxable income of a company derived from an Approved Enterprise is subject to corporate tax at the maximum rate of 25% (rather than the regular corporate tax rate) for the benefit period. This period is ordinarily seven years (or 10 years if the company qualifies as a foreign investors' company as described below) commencing with the year in which the Approved Enterprise first generates taxable income, and is limited to 12 years from commencement of production or 14 years from the date of approval, whichever is earlier, referred to as "the years limitation." Tax benefits under the Investments Law also apply to income generated from the grant of a usage right with respect to know-how

developed by the Approved Enterprise, income generated from royalties, and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise's ordinary course of business. The Investment Law also provides that a company that has an Approved Enterprise within Israel will be eligible for a reduced tax rate and is entitled to claim accelerated depreciation on buildings, machinery and equipment used by the Approved Enterprise during the first five years of use.

A company owning an Approved Enterprise may elect to forego entitlement to the grants otherwise available under the Investment Law and in lieu thereof participate in an alternative track of benefits. Under the alternative track of benefits, a company's undistributed income derived from an Approved Enterprise will be exempt from company tax for a period of two years from the first year of taxable income and such company will be eligible for a reduced tax rate for the remainder, if any, of the otherwise applicable benefits period.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a foreign investors' company. A foreign investors' company is a company that more than 25% of its share capital and combined share and loan capital is owned by non-Israeli residents. A company, which qualifies as a foreign investors' company and has an Approved Enterprise program is eligible for tax benefits for a ten-year benefit period. The company tax rate applicable to income from the Approved Enterprise earned in the benefit period (distributed or not) is as follows:

For a company with foreign investment of	The company tax rate is
over 25% but less than 49%	25 %
49% or more but less than 74%	20 %
74% or more but less than 90%	15 %
90% or more	10 %

In addition, the dividend recipient is taxed at the reduced rate applicable to dividends from Approved Enterprises income (15%, unless a different tax rate is provided under an applicable tax treaty), if the dividend, deriving from the Approved Enterprises, is distributed during the tax benefit period or within 12 years thereafter, yet, no time limit is applicable to dividends from a foreign investment company. The dividend recipient is taxed at the rate applicable to dividends from Preferred Enterprise is 20%. The company must withhold this tax at source, regardless of whether the dividend is converted into foreign currency. However, if retained tax-exempt income is distributed in a manner other than upon the complete liquidation of the company, the company would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%).

We have been granted Approved Enterprise status with respect to several investment programs and chose the alternative track with respect to each of these programs. See Item 5A. "Operating and Financial Review and Prospects - Operating Results - Effective Corporate Tax Rate."

The benefits available to an Approved Enterprise are conditional upon the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that a company does not meet these conditions, its tax benefits could be canceled, in whole or in part, and it would be required to refund the amount of tax benefits, with the addition of the Israeli consumer price index linkage adjustment and interest.

An amendment to the Investments Law, which came into effect on April 1, 2005, or the 2005 Amendment, changed certain provisions of such law, including the criteria for investments qualified to receive tax benefits under the Investments Law. An eligible investment program under the 2005 Amendment will qualify for benefits as a "Privileged Enterprise" (rather than the previous terminology of Approved Enterprise). As a result of the 2005 Amendment, a company is no longer obliged to acquire Approved Enterprise status in order to receive the tax benefits previously available under the alternative benefits track, and therefore there is no need to apply to the Investment Center for this purpose (however, Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the 2005 Amendment. Companies may also approach the Israeli Tax Authority for a pre-ruling regarding its eligibility for benefits under the 2005 Amendment. The 2005 Amendment does not apply to investment programs approved prior to December 31, 2004. The new tax regime will apply only to new investment programs.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export. In order to receive the tax benefits, a company must make an investment in the Privileged Enterprise exceeding a minimum amount specified in the Investment Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Privileged Enterprise, referred to as the Year of Election. Where the company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered a Privileged Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In such case, the minimum investment required in order to qualify as a Privileged Enterprise is required to exceed a certain percentage of the company's production assets before the expansion.

To date, we have not utilized the benefits of the Investment Law, as per the 2005 Amendment, since we are utilizing carryforward losses from previous years for tax purposes.

Tax benefits under the 2011 Amendment that became effective on January 1, 2011:

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its Preferred Enterprise (as such terms are defined in the Investment Law) as of January 1, 2011, or the 2011 Amendment. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity or (ii) a limited partnership that (a) was registered under the Israeli Partnerships Ordinance and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income attributed to its Preferred Enterprise in 2011 and 2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was increased to 16% and 9%, respectively, in 2014 and thereafter. Income derived by a Preferred Company from a 'Special Preferred Enterprise' (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone.

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as per the 2011 Amendment with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; (ii) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, that had participated in an alternative benefits program, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met ; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments, or the 2016 Amendment, was published. According to the 2016 Amendment, a Preferred Enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to Preferred Enterprises located in other areas remains at 16%).

The 2016 Amendment also prescribes special tax tracks for technological enterprises, which are subject to rules that are to be issued by the Minister of Finance by March 31, 2017.

The new tax tracks under the 2016 Amendment are as follows:

Technological Preferred Enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological Preferred Enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Special technological Preferred Enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

Tax Benefits for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for expenditures, including capital expenditures, in the year incurred relating to scientific research and development projects, if the expenditures are approved by the IIA (formerly known as the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor), determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

Tax Benefits Under the Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, Industrial Companies are entitled to certain corporate tax benefits, including, among others:

- deduction, under certain conditions, of purchases of know-how and patents over an eight-year period for tax purposes;

- right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli Industrial Companies; and

- deductions over a three-year period of expenses involved with the issuance and listing of shares on the Tel Aviv Stock Exchange or, on or after January 1, 2003, on a recognized stock market outside of Israel.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an “Industrial Company” is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it. An “Industrial Enterprise” is defined as an enterprise owned by an Industrial Company, whose major activity in a given tax year is industrial production activity.

We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Grants under the Law for the Encouragement of Industrial Research and Development, 1984

The Government of Israel encourages research and development projects through the IIA, pursuant to the Law for the Encouragement of Industrial Research, Development and Innovation in the Industry, 1984, and the regulations promulgated thereunder, commonly referred to as the Research Law. Grants received under such programs are repaid through a mandatory royalty based on revenues from products incorporating know-how developed with the grants. This government support is conditioned upon the ability of the participant to comply with certain applicable requirements and conditions specified in the IIA’s programs and with the provisions of the Research Law.

Under the Research Law, research and development programs which meet specified criteria and are approved by a research committee of the IIA are eligible for grants of up to 50% of certain of the project's approved expenditure, as determined by the research committee.

In exchange, the recipient of such grants is required to pay the IIA royalties from the revenues derived from products incorporating technology developed within the framework of the approved research and development program or derived from such program (including ancillary services in connection with such program), usually up to 100% of the U.S. dollar-linked value of the total grants received in respect of such program, plus LIBOR interest.

The terms of the Israeli Government participation generally requires that the products developed with such grants be manufactured in Israel and that the know-how developed under an approved research and development program may not be transferred to any third party. However, the IIA may approve the transfer of manufacturing rights outside Israel in exchange for an import of different manufacturing into Israel as a substitute or subject to increased royalties' payments. In addition, under certain circumstances and subject to the IIA's prior approval, know-how that has been funded by the IIA may be transferred to a third party. The approval for transferring the know-how outside of Israel, can be generally provided in the following cases: (a) the grant recipient pays to the IIA a portion of the consideration paid for such funded know-how (according to a certain formulas), (b) the grant recipient receives know-how from a third party in exchange for its funded know-how, or (c) such transfer of funded know-how arises in connection with certain types of cooperation in research and development activities. No approval is required for the sale or export of any products resulting from such research and development.

The Research Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and interested parties to notify the IIA of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the IIA to comply with the Research Law. In addition, the rules of the IIA may require prior approval of the IIA or additional information or representations in respect of certain of such events. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 1% or more of our ordinary shares will be required to notify the IIA that it has become an interested party and to sign an undertaking to comply with the Research Law. Additionally, procedures regulated under the Research Law require the grant recipient to obtain the approval of the IIA prior to a change in the holdings of the recipient or change in the holdings of the means of control of the recipient if the recipient's shares are being issued to a non-Israeli person or entity and require the new non-Israeli party to undertake to the IIA to comply with the Research Law.

In the past, we received funding from the IIA for selected research and development projects. We did not apply for or receive any research and development grants from the IIA during the three years ended December 31, 2016. See Item 5C. "Operating and Financial Review and Prospects - Research and Development" for additional details on the grants that we have received and our contingent liability to the IIA.

Taxation of Dividends Paid on Our Ordinary Shares

Taxation of Non-Israeli Shareholders

Under Israeli tax law, a distribution of dividends from income attributable to an Approved Enterprise and Privileged Enterprise will be subject to tax in Israel at the rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (but the 12-year limitation does not apply to a Foreign Investors Company). Any distribution of dividends from income that is not attributable to an Approved Enterprise will be subject to tax in Israel at the rate of 25%, except that dividends distributed to an individual and an entity who is deemed "a substantial shareholder", at the time receiving the dividend or on any date in the 12 months preceding such date, which will be subject to tax at the rate of 30%. If the Shares are held by a nominee company, the nominee company or the financial institution will withhold at the source a tax of 25% whether the recipient is a substantial shareholder or not. Otherwise, the withholding at the source will be 25% or 30% in accordance with the above, unless a lower tax rate is provided in a tax treaty between Israel and the shareholder's

country of residence.

Under the U.S.-Israel tax treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a U.S. resident is 25%. Dividends received by a U.S. company that holds at least 10% of our voting rights will be subject to withholding tax at the rate of 12.5%, provided certain other conditions in the tax treaty are met (or at the tax rate of 15% in respect of dividends paid from income attributable to our Approved Enterprises and Privileged Enterprises).

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty.

Taxation of Israeli Shareholders

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends, at the rate of 25%, or 30% for a shareholder that is considered a material shareholder (within the meaning of the Israeli Income Tax Ordinance) at any time during the 12-month period preceding such distribution. Dividends paid on our ordinary shares to Israeli companies are exempt from such tax, except for dividends distributed from income derived outside of Israel, which are subject to the 25% tax rate. As of January 1, 2013, an additional income tax at a rate of 2% is imposed on high earners whose annual income or gain, or the Income Celling, exceeds NIS 811,560. As of January 1, 2017 the rate was increased to 3% and the Income Celling was dropped to a sum of NIS 640,000.

Dividends paid from income derived from attributable to an Approved Enterprise and Privileged Enterprise are subject to tax, which is withheld at the source, at the rate of 15% or 20%. However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability to this tax rate.

Taxation of Capital Gains

Taxation of Israeli Shareholders

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

As of January 1, 2006, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. The income tax rate applicable to Real Capital Gain derived by an Israeli individual from the sale of shares which had been purchased after January 1, 2012, whether listed on a stock exchange or not, is 25%. Additionally, if such shareholder is considered a "material shareholder" at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 30%. As of January 1, 2013, an additional income tax at a rate of 2% is imposed on high earners whose Income Celling exceeds NIS 811,560. As of January 1, 2017 the rate was increased to 3% and the Income Celling was dropped to a sum of NIS 640,000.

As of January 1, 2017, an additional tax at a rate of 3% is imposed on high earners whose Income Celling exceed NIS 640,000. Moreover, capital gains derived by a shareholder who is a dealer or trader in securities, or to whom such income is otherwise taxable as ordinary business income, are taxed in Israel at ordinary income rates (corporate tax rate for corporations and up to 50% for individuals).

Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares, unless such companies were not subject to the Adjustments Law (or certain regulations) at the time of publication of the aforementioned amendment to the Tax Ordinance that came into effect on January 1, 2014, in which case the applicable tax rate is 26.5% and, commencing January 1, 2016, was set at 25%. As of January 1, 2017 the corporate tax rate was reduced to 23%. However, during the period of January 1, 2017 until December 31, 2017 the tax rate will be 24%. The foregoing tax rates do not apply to shareholders who acquired their shares prior to an initial public offering (which shares may be subject to a different tax arrangement).

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Taxation of Non-Israeli Shareholders

Capital gains from the sale of our ordinary shares by non-Israeli shareholders are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided however that such capital gains are not derived from a permanent establishment or business activity of such shareholders in Israel, such shareholders are not subject to the Adjustments Law, and such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Regardless of whether shareholders may be liable for Israeli income tax on the sale of our Shares, the payment of the consideration may be subject to withholding of Israeli tax at the source. Accordingly, shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale.

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

Israeli Transfer Pricing Regulations

The Income Tax Regulations (Determination of Market Terms), November 2006, promulgated under Section 85A of the Tax Ordinance, generally require that all cross-border transactions carried out between related parties be conducted on an arm’s length basis and be taxed accordingly.

United States Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that are relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, or the Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. There can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. This description does not address all tax considerations that may be relevant with respect to an investment in our ordinary

shares. This description does not account for the specific circumstances of any particular investor, such as:

· broker-dealers,

- financial institutions,
- certain insurance companies,
- investors liable for alternative minimum tax,
- tax-exempt organizations,
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar,
- persons who hold the ordinary shares through partnerships or other pass-through entities,
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services,
- investors that actually or constructively own 10% or more of our shares by vote or value, and
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation. You are urged to consult your tax advisors regarding the non-U.S. and U.S. federal, state and local tax consequences of an investment in ordinary shares.

For purposes of this summary, as used herein, the term "U.S. Holder" means a person that is eligible for the benefits of the Treaty and is a beneficial owner of an ordinary share who is, for U.S. federal income tax purposes:

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Unless otherwise indicated, this discussion assumes that our company is not, and will not become, a "passive foreign investment company," or a PFIC, for U.S. federal income tax purposes. See "—Passive Foreign Investment Companies" below.

Taxation of Distributions

Subject to limitations, including the discussion below under the heading "—Passive Foreign Investment Companies," the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your tax basis in our ordinary shares and any amount in excess of your tax basis will be treated as gain from the sale of ordinary shares. See "—Disposition of Ordinary Shares" below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder's circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares will be a foreign source income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate (see discussion below). A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such holder's position in ordinary shares is hedged. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, "qualified dividend income" received by a non-corporate U.S. Holder will be subject to tax at the lower long-term capital gain rates (currently at 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate provided that either: (i) we are entitled to benefits under the Treaty or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that our ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below) or in respect of certain risk-reduction transactions or in certain other situations. The legislation enacting the reduced tax rate on qualified dividend income contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Sale or Disposition of Ordinary Shares

If you sell or otherwise dispose of our ordinary shares, you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amounts realized on the sale or other disposition and your adjusted tax basis in our ordinary shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently at 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, which would be treated as ordinary income or loss.

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An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of our ordinary shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service, or the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Any foreign currency gain or loss a U.S. Holder realizes will be U.S. source ordinary income or loss.

Passive Foreign Investment Companies

We believe that we were not a PFIC for U.S. federal income tax purposes for the taxable year of 2017. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were a PFIC for any taxable year during which a U.S. Holder owned an ordinary share,, certain adverse consequences could apply to the U.S. Holder. Specifically, gain recognized by a U.S. Holder on a sale or other disposition of such ordinary share would be allocated ratably over the U.S. Holder's holding period for the ordinary share. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our ordinary shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment. In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS, on IRS Form 8621.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains.

Backup Withholding and Information Reporting

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 24%. Backup withholding will not apply, however, if you (i) are a corporation or fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that own "specified foreign financial assets" with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury

regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets". Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. Holder is urged to consult the U.S. Holder's tax adviser regarding the reporting obligation.

Any U.S. Holder who acquires more than $100,000 of our ordinary shares or holds 10% or more in vote or value of our ordinary shares may be subject to certain additional U.S. information reporting requirements.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividend and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain of the reporting requirements of the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website (www.mtsint.com) promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the SEC public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. The Exchange Act file number for our SEC filings is 0-28950.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at 14 Hatidhar Street, Ra'anana 4366516, Israel.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exposure to Market Risks

We may be exposed to a variety of risks, including changes in interest rates affecting primarily interest received on short-term deposits and foreign currency fluctuations. In 2017, our principal market risk was our exposure to currency exchange fluctuations. We attempt to limit our exposure to currency exchange rate risk by using various hedging techniques, including forward and option contracts. However, we cannot eliminate the effects of currency fluctuations altogether. Exchange rate fluctuations resulting in a devaluation of the U.S. dollar compared to the NIS could have a material adverse impact on our operating results and share price.

Foreign Currency Exchange Risk

We carry out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge our exposure in NIS against the U.S. dollar. We recognize derivative instruments as either assets or liabilities and measure those instruments at fair value in accordance with FASB ASC 815. If a derivative meets the definition of a cash flow hedge and is so designated, changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative designated as a hedge is recognized in earnings. If a derivative does not meet the definition of a hedge, the changes in the fair value are included in earnings. Our call and put option contracts do not qualify as hedging instruments under ASC 815 “Derivatives and Hedging,” as amended.

As of December 31, 2017, we had no outstanding call and put option contracts. Our accumulated other comprehensive income as of such date does not include any unrealized gain on the call and put option contracts. In 2017, we entered into forward, call and put option contracts, in the amount of $1.9 million that converted a portion of our floating currency liabilities to a fixed rate basis, thus reducing the impact of the currency changes on our cash flows. The purpose of our foreign currency hedging activities is to protect the Company from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the exchange rates. Changes in the fair value of put option contracts are reflected in our consolidated statements of operations as financial income or expense. In 2017, we recorded financial income of approximately $84,000 with respect to the above transactions in our consolidated statements of operations.

We have operations in several countries in connection with the sale of our products. A substantial portion of our sales and expenditures are denominated in dollars. We have mitigated, and expect to continue to mitigate, a portion of our foreign currency exposure through salaries, marketing and support operations in which all costs are local currency based. As a result, our results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates (primarily the Euro and NIS). A hypothetical 10% movement in foreign currency rates (primarily the Euro and NIS) against the dollar, with all other variables held constant on the expected sales, would result in a decrease or increase in 2017 sales revenues of approximately $120,000 and on the other hand a decrease or increase in 2017 expenses of approximately $430,000.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the

SEC's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO - 2013 framework) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2017, our internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Yaacov Goldman, an independent director, meets the definition of an audit committee financial expert, as defined by rules of the SEC.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar functions. The code of ethics, in its current form, is posted on our website at the following web address: http://mtsint.com/code-of-ethics/. We will provide a copy of the code of ethics to any person, without charge, upon

written request addressed to our Chief Financial Officer at our office in Ra'anana, Israel. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm Fees

The following table sets forth, for each of the years indicated, the billed fees by our principal independent registered public accounting firm. All of such fees were pre-approved in advance by our audit committee.

	Year Ended December 31,	
Services Rendered	2017	2016
Audit [(1)]	$103,000	$120,000
Audit Related	$0	$0
Tax	$15,000	$15,000
Other Services	$17,000	$7,500

(1) Audit fees relate to audit services provided for each of the years shown in the table, including fees associated with the annual audit and reviews of our interim financial results, consultations on various accounting issues and audit services provided in connection with other statutory or regulatory filings.

Pre-Approval Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accountants, Kost Forer Gabbay & Kasierer, a member firm of Ernst & Young Global. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Committee, and also requires the audit committee to consider whether proposed services are compatible with the independence of the public accountants.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

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

Issuer Purchase of Equity Securities

Neither we nor any affiliated purchaser has purchased any of our ordinary shares during 2017, other than shares purchased in a private placement.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules

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. We have provided NASDAQ with notices of non-compliance with respect to the following NASDAQ rules:

- The requirement to maintain a majority of independent directors, as defined under the NASDAQ Marketplace Rules. Instead, under Israeli law and practice, we are required to appoint at least two outside directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, in accordance with the rules of the SEC and NASDAQ, we have the mandated three independent directors, as defined by the rules of the SEC and NASDAQ, on our audit committee. See Item 6C. "Directors, Senior Management and Employees - Board Practices - Outside and Independent Directors."

- The requirements regarding the directors' nominations process. 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 Item 6C. "Directors, Senior Management and Employees - Board Practices - Election of Directors.

- The requirement to obtain shareholder approval 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. Under Israeli law and practice, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and private placements. Under Israeli regulations, Israeli companies whose shares have been publicly offered only outside of Israel or are listed for trade only on an exchange outside of Israel, such as our company, are exempt from the Israeli law requirement to obtain shareholder approval for private placements of a 20% or more interest in the company. For the approvals and procedures required under Israeli law and practice for an issuance that will result in a change of control of the company and acquisitions of the stock or assets of another company, see Item 6C. "Directors, Senior Management and Employee - Board Practices - Approval of Related Party Transactions Under Israeli Law-Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders" and Item 10B. "Additional Information - Memorandum and Articles of Association - Provisions Restricting Change in Control of Our Company."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

No applicable.

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements

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ITEM 19. EXHIBITS

Exhibit	Description
1.1	Memorandum of Association of the Registrant (translated from Hebrew, the original language version is on file with the Registrant and is available upon request)
1.2	Articles of Association of the Registrant
2.1	Specimen of Ordinary Share Certificate
4.1	2003 Israeli Share Option Plan (1)
4.2	2006 Stock Option Plan (2)
4.3	Share Purchase Agreement by and among the Registrant, Vexigo Ltd., FPSV Holdings Ltd. and the shareholders of Vexigo Ltd. and of FPSV Holdings Ltd., dated as of February 3, 2015 (3)
4.4	Purchase Agreement by and among the Registrant and Messrs. Haim Mer, Lior Salansky and Adi Orzel, dated as of May 11, 2015 (4)
4.5	Payment Rescheduling Letter Agreement by and among the Registrant, FPSV, Vexigo and the former Vexigo shareholders, dated as of February 18, 2016 (5)
4.6	Purchase Agreement by and among the Registrant and investors consisting of all of the shareholders of Vexigo as of March 31, 2015 and all of the shareholders of FPSV as of March 31, 2015; and Messrs. Haim Mer, Roger Challen and Lior Salansky, dated as of February 18, 2016 (6)
4.7	Share Purchase Agreement by and among the Registrant and investors listed therein, dated as of August 14, 2017
4.8	Debt Conversion Agreement, as amended, by and among the Registrant, FPSV, Vexigo and the former Vexigo and FPSV shareholders, dated as of August 13, 2017
4.9	Form of warrant issued to the former Vexigo and FPSV shareholders in connection with the Debt Conversion Agreement, dated as of August 13, 2017
4.10	Directors' and Officers' Compensation Policy (7)
8.1	List of Subsidiaries of the Registrant
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	

Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

15.1 Consent of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Label Linkbase Document

101.PRE* XBRL Taxonomy Presentation Linkbase Document

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(1) Filed as Exhibit B to Item IV of Exhibit 99.1 of the Registrant's Report on Form 6-K for the month of July 2013 submitted on July 2, 2013, and incorporated herein by reference.

(2) Filed as Appendix B to Item 1 of the Registrant's Report on Form 6-K for the month of June 2006 submitted on June 23, 2006, and incorporated herein by reference.

(3) Filed as Exhibit A to Item I of Exhibit 99.2 of the Registrant's Report on Form 6-K for the month of February 2015 submitted on February 18, 2015, and incorporated herein by reference.

(4) Filed as Exhibit 99.1 to the Registrant's Report on Form 6-K for the month of May 2015 submitted on May 27, 2015, and incorporated herein by reference.

(5) Filed as an exhibit to the Registrant's Form 20-F for the fiscal year ended December 31, 2015, and incorporated herein by reference.

(6) Filed as Exhibit A to the Registrant's Report on Form 6-K for the month of April 2016 submitted on April 1, 2016, and incorporated herein by reference.

(7) Filed as Exhibit A to the Registrant's Report on Form 6-K for the month of June 2016 submitted on June 23, 2016, and incorporated herein by reference.

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

MER TELEMANAGEMENT SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

MER TELEMANAGEMENT SOLUTIONS LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Mer Telemanagement Solutions Ltd. ("the Company") and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, statements of comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

The Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has a working capital deficiency and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

We have served as the Company‘s auditor since 1995.
Tel-Aviv, Israel
April 30, 2018

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,328	$1,508
Restricted cash	1,068	504
Restricted marketable securities (Note 3)	-	136
Trade receivables (net of allowance for doubtful accounts of $47 and $44 at December 31, 2017 and 2016, respectively)	1,391	5,305
Other accounts receivable and prepaid expenses (Note 4)	334	343
Total current assets	4,121	7,796
LONG-TERM ASSETS:		
Severance pay fund	856	752
Property and equipment, net (Note 5)	148	198
Intangible assets, net (Note 6)	42	63
Goodwill	3,479	3,479
Total long-term assets	4,525	4,492
Total assets	$8,646	$12,288

The accompanying notes are an integral part of the consolidated financial statements.
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MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	December 31,	
	2017	2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$1,288	$4,086
Deferred revenues	1,744	1,374
Accrued expenses and other liabilities (Note 7)	2,498	3,756
Liabilities of discontinued operations (Note 1b)	185	132
Total current liabilities	5,715	9,348
LONG-TERM LIABILITIES:		
Accrued severance pay	1,073	914
Deferred tax liability (Note 9)	146	166
Total long-term liabilities	1,219	1,080
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)		
SHAREHOLDERS' EQUITY (Note 11):		
Share capital -		
Ordinary shares of NIS 0.03 par value - Authorized: 6,666,667 shares at December 31, 2017 and 2016; Issued: 3,120,684 and 2,899,314 shares at December 31, 2017 and 2016, respectively; Outstanding: 3,118,884 and 2,897,314 shares at December 31, 2017 and 2016, respectively	25	23
Additional paid-in capital	28,188	26,569
Treasury shares at cost (1,800 Ordinary shares at December 31, 2017 and 2016)	(29)	(29)
Accumulated other comprehensive income	-	1
Accumulated deficit	(26,472)	(24,704)
Total shareholders' equity	1,712	1,860
Total liabilities and shareholders' equity	$8,646	$12,288

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

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

	Year ended December 31,		
	2017	2016	2015
Revenues (Note 2m)			
Telecom services	$5,467	$5,985	$6,018
Telecom product sales	1,306	1,566	1,677
Video advertising	1,853	6,501	7,017
Total revenues	8,626	14,052	14,712
Cost of revenues			
Telecom services	1,646	2,248	2,546
Telecom product sales	412	460	522
Video advertising	1,453	4,205	5,346
Total cost of revenues	3,511	6,913	8,414
Gross profit	5,115	7,139	6,298
Operating expenses			
Research and development	2,145	2,763	1,805
Selling and marketing	1,829	2,343	2,225
General and administrative	3,009	3,472	3,459
Goodwill and technology impairments, net of change in contingent earn-out consideration	-	4,245	3,514
Total operating expenses	6,983	12,823	11,003
Operating loss	(1,868)	(5,684)	(4,705)
Financial income (expense), net	144	(17)	(17)
Loss before taxes on income	(1,724)	(5,701)	(4,722)
Taxes on income (tax benefit), net (Note 9)	(9)	(507)	194
Net loss from continuing operations	(1,715)	(5,194)	(4,916)
Income (loss) from discontinued operations	(53)	(27)	177
Net loss	$(1,768)	$(5,221)	$(4,739)
Net loss per share:			
Basic and diluted net loss per Ordinary share from continuing operations	$(0.57)	$(1.84)	$(2.05)
Basic and diluted net earnings per Ordinary share from discontinued operations	(0.02)	(0.01)	0.07

Basic and diluted net loss per share	$(0.59)	$(1.85)	$(1.98)
Weighted average number of Ordinary shares used in computing basic and diluted net loss per share	2,991,547	2,817,427	2,391,664

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

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands

	Year ended December 31,		
	2017	2016	2015
Net loss	$(1,768)	$(5,221)	$(4,739)
Other comprehensive income (loss):			
Change in foreign currency translation adjustments	-	5	-
Available-for-sale investments:			
Change in net unrealized gains (loss)	(1)	4	*) -
Other comprehensive income (loss)	(1)	9	-
Comprehensive loss	$(1,769)	$(5,212)	$(4,739)

*) Represents an amount less than $ 1.

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

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except stock and per stock data)

	Share capital		Additional paid-in	Treasury	Accumulated other comprehensive income	Accumulated	Total shareholders'
	Number**	Amount	capital	shares	(loss)	deficit	equity
Balance as of January 1, 2015	1,557,584	$ 13	20,400	$ (29)	$ (8)	$ (14,744)	$ 5,632
Issuance of shares related to Vexigo acquisition	1,038,363	8	4,507	-	-	-	4,515
Stock-based compensation related to options issued to employees	-	-	170	-	-	-	170
May 2015 equity investment	75,757	-	500	-	-	-	500
Contribution from shareholders with regards to payment deferral agreement with former shareholders of Vexigo	-	-	20	-	-	-	20
Exercise of stock options	9,452	*)	- 51	-	-	-	51
Other comprehensive income (loss):							
Unrealized gains of available-for-sale marketable securities, net	-	-	-	-	*)	-	*) -
Net loss	-	-	-	-	-	(4,739)	(4,739)
Balance as of December 31, 2015	2,681,156	21	25,648	(29)	(8)	(19,483)	6,149
Stock-based compensation related to options issued to employees	-	*)	- 223	-	-	-	223
Issuance of shares	216,158	2	698	-	-	-	700
Other comprehensive income (loss):							
Unrealized gain of available-for-sale marketable securities, net	-	-	-	-	4	-	4
Foreign currency translation adjustments	-	-	-	-	5	-	5
Net loss	-	-	-	-	-	(5,221)	(5,221)
Balance as of December 31, 2016	2,897,314	23	26,569	(29)	1	(24,704)	1,860

*) Represents an amount less than $ 1.
**) Historical stock information was adjusted to retroactively reflect the one for three Ordinary share reverse split implemented in September 2017.

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

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except stock and per stock data)

	Share capital		Additional paid-in	Treasury	Accumulated other comprehensive income	Accumulated	Total shareholders'
	Number**	Amount	capital	shares	(loss)	deficit	equity
Balance as of January 1, 2017	2,897,314	23	26,569	(29)	1	(24,704)	1,860
Stock-based compensation related to options issued to employees	-	-	1	-	-	-	1
Issuance of shares	200,803	2	398	-	-	-	400
Shareholders debt conversion into warrants	-	-	1,220	-	-	-	1,220
Exercise of stock options	20,767	*)	-	-	-	-	-
Other comprehensive income (loss):							
Unrealized gain of available-for-sale marketable securities, net	-	-	-	-	(1)	-	(1)
Net loss	-	-	-	-	-	(1,768)	(1,768)
Balance as of December 31, 2017	3,118,884	25	28,188	(29)	-	(26,472)	1,712

*) Represents an amount less than $1.
**) Historical stock information was adjusted to retroactively reflect the one for three Ordinary share reverse split implemented in September 2017.

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

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net loss	$(1,768)	$(5,221)	$(4,739)
Loss (income) loss from discontinued operations	53	27	(177)
Net loss from continuing operations	(1,715)	(5,194)	(4,916)
Adjustments required to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:			
Loss (gain) on sale of available-for-sale marketable securities	(5)	4	8
Depreciation and amortization	124	1,106	868
Impairment of goodwill	-	4,819	6,288
Change in payment obligation related to acquisition	-	(4,337)	(2,774)
Impairment of technology	-	3,763	-
Increase (decrease) in deferred tax, net	(20)	(514)	41
Employees and non-employees stock-based compensation and contribution from shareholders	1	223	190
Increase (decrease) in accrued severance pay, net	55	32	(16)
Decrease (increase) in trade receivables, net	3,914	(820)	387
Decrease (increase) in other accounts receivable and prepaid expenses	9	(240)	43
Increase (decrease) in trade payables	(2,798)	789	1,676
Increase (decrease) in accrued expenses and other liabilities	(39)	368	(1,514)
Increase (decrease) in deferred revenues	370	(452)	120
Decrease (increase) in restricted cash	(564)	(273)	417
Net cash provided by (used in) operating activities from continuing operations	(668)	(726)	818
Cash flows from investing activities			
Purchase of property and equipment	(53)	(129)	(108)
Cash paid in connection with acquisition of Vexigo Ltd., net of cash acquired (a)	-	(1,400)	(2,264)
Capitalization of software development costs	-	(380)	(411)
Investment in available-for-sale marketable securities	(56)	(86)	(104)
Proceeds from sale of available-for-sale marketable securities	197	85	98
Net cash provided by (used in) investing activities	88	(1,910)	(2,789)

The reclassified notes are an integral part of the consolidated financial statements.

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2017	2016	2015
Cash flows from financing activities			
Proceeds from issuance of shares	400	700	500
Proceeds from exercise of stock options	-	-	51
Net cash provided by financing activities	400	700	551
Decrease in cash and cash equivalents	(180)	(1,936)	(1,420)
Cash and cash equivalents at the beginning of the year	1,508	3,444	4,864
Cash and cash equivalents at the end of the year	$1,328	$1,508	$3,444
Supplemental disclosure of cash flows activities			
Cash paid during the year for income taxes	$9	$5	$7
Non-cash activities:			
Shareholders debt conversion into warrants	$1,220	$-	$-

(a) Cash paid n connection with acquisition of Vexigo Ltd., net of cash acquired:

Total assets, net of cash	$-	$-	$4,691
Total liabilities	-	-	(4,512)
Technology	-	-	4,433
Deferred tax liability	-	-	(709)
Goodwill	-	-	11,107
Issuance of shares	-	-	(4,369)
Payment obligations in connection with acquisition	-	-	(1,845)
Contingent earn-out consideration, net	-	-	(6,532)
Total cash paid during the year	$-	$-	$2,264

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

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

a. Mer Telemanagement Solutions Ltd. (the "Company" or "MTS") was incorporated on December 27, 1995. MTS and its subsidiaries (the "Group") is a worldwide provider of telecom expense management (“TEM”), billing solutions and online video advertising solutions and services.

The Company's wholly-owned subsidiaries in the United States and Hong Kong, MTS IntegraTRAK Inc. and MTS Asia Ltd., act as marketing and customer service organizations in those countries.

The Company's shares are listed for trade on the NASDAQ Capital Market under the symbol "MTSL".

On April 1, 2015, the Company acquired 100% of the outstanding shares of Vexigo Ltd. ("Vexigo"), a privately-held Israeli-based software company supporting video advertising over the internet and mobile devices (for further information refer to Note 1d below). Vexigo is a global provider of online video advertising software and services delivering compelling results through a propriety in-house technology and an easy-to-use and very effective publishing platform specifically designed for content publishers. The online video advertising is provided through Vexigo, which has proprietary in-house technology solution specifically designed for content publishers. The Vexigo solution for online and mobile platforms supports multiple ad formats and interactive ad units.

Regarding Vexigo technology and goodwill impairment in 2016, see Note 1d below.

b. In March 2009, the Company discontinued the operations of TABS Brazil Ltda. its wholly owned subsidiary in Brazil. The results of operations of such subsidiary, which is inactive, are classified as discontinued operations in the statement of operations.

The summarized results of operations for TABS Brazil Ltda. for the years ended December 31, 2015, 2016 and 2017, are as follows:

	Year ended December 31,		
	2017	2016	2015
Net income (loss) from discontinued operations	$(53)	$(27)	$177
Basic and diluted net income per Ordinary share from discontinued operations	$(0.02)	$(0.01)	$0.07

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

c. The Company has historically suffered recurring losses from operations .The Company incurred losses for the year ended December 31, 2017, amounting to $ 1,768, and accumulated deficit of $ 26,472. In addition, the Company incurred negative cash flows from operations of $ 668 for the year ended December 31, 2017, and has a working capital deficiency of $ 1,409 as of that date. Those factors raise substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due.

The Company intends to finance operating costs over the next twelve months with existing cash on hand and by reducing operating spend. However, the Company will need to seek additional sources of financing if it requires more funds than anticipated during the next twelve months or in later periods. The Company expects to explore various financing alternatives to raise additional funds to support its operations in the foreseeable future. There can be no assurance that additional financing will be available on satisfactory terms, or at all. If the Company is unable to secure needed financing, management may be forced to take additional actions, which may include significantly reducing its anticipated level of expenditures.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and liabilities and commitments in the normal course of business. The consolidated financial statements for the year ended December 31, 2017, do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty to the Company's ability to continue as a going concern.

d. As stated above, the Company acquired 100% of the outstanding shares of Vexigo in consideration of $ 3,000 at closing and two additional payments of $ 500 each that were to be paid three months and six months following the closing date, as well as 1,038,363 ordinary shares having a total value of $ 4,368.. The agreement further provides for earn-out payments of up to $ 16,000 over a 5.5 years period from the closing date, based on the earnings of the Vexigo product line which was valued on the date of acquisition at $ 6,532.

Under business combination accounting the total purchase price was allocated to Vexigo's net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

In addition, the Company was obligated to pay the former Vexigo shareholders a dividend in the amount of approximately $ 1,000 which was declared before the acquisition and the working outstanding capital amount at the closing date in the amount of approximately $600.

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

In September 2015, the former Vexigo shareholders agreed that payment of the two remaining installments related to the acquisition consideration would be postponed until January 1, 2016.

In February 2016, the Company further renegotiated and extended the payment of $ 2,600 due to Vexigo’s former shareholders. As part of this arrangement, the parties also agreed that if, at any time, Company's cash balance will be lower than $ 2,500, than the Company will stop payments until its cash balances return to that level. During 2016, the Company paid an aggregate amount of $ 1,400 to the former Vexigo shareholders. As of December 31, 2016, the outstanding balance due to Vexigo's shareholders was $ 1,200.

In May 2016, the Company completed a private placement of 216,158 Ordinary shares, for an aggregate investment of approximately $ 700, out of which $ 400 was invested by former Vexigo shareholders.

On August 14, 2017, the Company completed a private placement of 200,803 Ordinary shares, for an aggregate investment of approximately $ 400.

In August 2017, the Company converted the remaining debt to Vexigo former shareholders of $ 1,220 incurred in connection with the acquisition of Vexigo Ltd. into warrants to acquire 400,000 Ordinary shares of the Company. The warrants have a term of five years and are exercisable at par value per Ordinary share commencing on the second anniversary of their issuance. During the two year period following issuance, the Company has an option to purchase all or a portion of such warrants at a price per warrant of $ 3.

e. On May 11, 2015, the Company issued an aggregate of 75,757, Ordinary shares in a private placement of securities. The aggregate proceeds of this issuance was $ 500.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

a. Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they were made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company's management evaluates estimates, including those related to intangible assets and goodwill, tax assets and liabilities, fair values of stock-based awards, allowance for bad debt and its ability to continue operating as a going concern. Such estimates are based on historical experience and on various other assumptions that

are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in United States dollars

A majority of the revenues of the Group are denominated in U.S. dollars ("dollar" or "dollars"). The dollar is the primary currency of the economic environment in which the Group operates. Thus, the functional and reporting currency of the Group is the dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into dollars in accordance with Accounting Standards Codification ("ASC") No. 830, "Foreign Currency Matters". Changes in currency exchange rates between the Company's functional currency and the currency in which a transaction is denominated are included in the Company's results of operations as finance income (expenses), net in the period in which the currency exchange rates change.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Group. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

d. Cash equivalents

Cash equivalents are short-term unrestricted highly liquid investments that are readily convertible to cash with original maturities of three months or less, at acquisition.

e. Restricted cash

Restricted cash is a deposit account which is held by the Company on behalf of Company's customers.

f. Marketable securities

The Company accounts for investments in debt and equity securities in accordance with ASC No. 320, "Debt and Equity Securities". Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determinations at each balance sheet date. The Company classifies all of its securities as available for sale carried at fair market value. Fair value is determined based on observable market value quotes. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported in "accumulated other comprehensive income (loss)" in shareholders' equity. Realized gains and losses on sales of investments, are included in earnings and are derived using the specific identification method for determining the cost of securities (Refer to Note 3 - Marketable Securities). Interest and dividends on securities are included in financial income (expense), net.

MER TELEMANAGEMENT SOLUTIONS LTD.
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company periodically reviews its marketable securities for impairment. If the Company concludes that any of these investments are impaired, the Company determines whether such impairment is "other-than-temporary" as defined under ASC No. 320-10-35.

The Company accounts for investments in marketable securities in accordance with, ASC No. 320, "Recognition and Presentation of Other-Than-Temporary Impairments", that changed the impairment and presentation model for debt securities.

Under the amended impairment model, other-than-temporary impairment loss is recognized in the statement of operations if the entity has the intent to sell the debt security, or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, if an entity does not expect to sell a debt security, it still needs to evaluate expected cash flows to be received and determines if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized currently in the statement of operations . During 2016 and 2017, no other-than-temporary impairments were recorded. For further information refer to Note 3 - Marketable Securities.

The marketable securities held by the Company in 2016 and into 2017 were pledged to secure future rent payments for the Company's facilities in Israel. The Company removed the pledge and sold the marketable securities during 2017.

g. Property and equipment, net

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Computers and peripheral equipment	33
Office furniture and equipment	3 - 20 (mainly 7)
Leasehold improvements	Over the shorter of the lease term or useful economic life

h. Impairment of long-lived assets

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with ASC No. 360, "Property, Plant and Equipment" ("ASC 360"), 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 to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

MER TELEMANAGEMENT SOLUTIONS LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Intangible assets:

Intangible assets that are considered to have a definite useful life 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 No. 350, "Intangibles - Goodwill and other" ("ASC 350"). The Company's identifiable intangibles are reviewed for impairment in accordance with ASC 360 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.

The Company's intangible assets were all acquired in connection with historical acquisitions, including the Vexigo acquisition in 2015 and amortized mostly over 5.5 years. For further information refer to Note 1.d. During 2015, no impairment losses were identified. In 2016 the Company’s Video Advertising technology was fully impaired and an impairment in amount of $ 3,763 was recorded. For further information refer to Note 6 - Intangible Assets.

j. Goodwill

Goodwill and other certain purchased intangible assets have been recorded in the Company’s financial statements as a result of acquisitions. 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 goodwill is not amortized, but rather is subject to an annual impairment test.

ASC 350 requires goodwill to be tested for impairment at the reporting unit level at least annually or between annual tests in certain circumstances, and written down when impaired. Goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value.

ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company operates in three operating segments, which also comprise its reporting units: Enterprise, Service Providers and Video Advertising as of December 31, 2017. The Company's goodwill balance as of that date is only assigned to its Enterprise reporting unit. The Company performs an annual impairment test of its reporting units as of the 1st of October of each year, or more frequently if impairment indicators are present. Fair value of the reporting units is determined using discounted cash flows. Significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting units.

Based upon the 2017 annual impairment analysis of the Enterprise reporting unit using the income approach with five (5) years of projected cash flows and a discount rate of 19.0%, the estimated fair value of the reporting unit was not substantially in excess of its respective carrying value. Therefore, in the event of unfavorable changes in forecasted cash flows, terminal value multiples and/or weighted-average cost of capital, the Enterprise reporting unit will be at risk of failing step one of the goodwill impairment test.

During the fourth quarter of 2016, the Company performed an impairment test with respect to the goodwill assigned to the Video Advertising business unit. The Company concluded that the carrying value of the reporting unit exceeded its fair value, and therefore, an impairment of goodwill existed and the second step of the goodwill impairment test was required. The material assumptions used for the income approach were four (4) years of projected cash flows, with a discount rate of 16.9%.

In accordance with ASC 350 if goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment. As stated above, the Company's Video Advertising technology was fully impaired. In addition, the goodwill balance assigned to the Video Advertising business unit as of December 31, 2016, in the amount of $ 4,819 was also fully impaired.

k. Severance pay:

Some of the Company's employees in Israel have subscribed to Section 14 of Israel's Severance Pay Law, 5723-1963 ("Section 14"). Pursuant to Section 14, the Company's employees, covered by this section, are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made on their behalf by the Company. Payments in accordance with Section 14 release the Company from any future the severance liabilities in respect of those employees. Neither severance pay liability nor severance pay fund under Section 14 for such employees is recorded on the Company's balance sheet.

With regards to employees in Israel that are not subject to Section 14, the Company's liability for severance pay is calculated pursuant to the Severance Pay Law, based on the most recent salary of the relevant employees multiplied by the number of years of employment as of the balance sheet date. These employees are entitled to one-month salary for each year of employment or a portion thereof. The Company's liability for these employees is fully provided for via monthly deposits with severance pay funds, insurance policies and an accrual. The value of these deposits is recorded as an asset with other assets on the Company's balance sheet.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Severance Pay Law or labor agreements.

Severance expense for the years ended December 31, 2017 and 2016, amounted to approximately $ 136 and $ 116, respectively.

l. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, "Business Combinations" (“ASC 805"). ASC 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in consolidated statements of income. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in consolidated statements of income.

m. Revenue recognition:

The Company generates revenues from three major sources: telecom services, telecom product sales and video advertising.

Telecom services and product sales

The Company generates revenues mainly from licensing the rights to use its software products and from providing maintenance, hosting and managed services, support and training. Certain software licenses require significant customization. The Company sells its products directly to end-users and indirectly through resellers and OEMs (who are considered end users).

Revenues from maintenance, hosting and managed services are recognized when all criteria outlined in ASC No. 985-605, "Revenue Recognition - Software" ("ASC 985-605"), are met. Revenue from license fees is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable and collectability is probable. The Company does not grant a right of return to its customers.

Where software arrangements involve multiple elements, revenue should allocated to each undelivered element based on vendor specific objective evidence ("VSOE") of the fair values of each undelivered element in the arrangement, in accordance with the "residual method".

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, as amended, are satisfied. Under the residual method, any discount in the arrangement is allocated to the delivered element. 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.

Revenues from cloud and managed services are recognized based on Staff Accounting Bulletins ("SAB") No. 104 and ASC No. 605-25, ""Revenue Recognition" (“ASC 605”), 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.

Deferred revenues include advance payments received under maintenance and support contracts.

Video Advertising

The Company, through its Vexigo subsidiary, allows advertisers to improve their business results by promoting marketing campaigns online via performance-based models and provides them with access and exposure to a variety of media companies, other networks and general websites. Vexigo's innovative optimization technology also enables affiliates to fully monetize their media inventory. Vexigo's customers obtain access to the Company's technology which enables advertisers to improve their business results by optimization of marketing campaign targeting. Vexigo’s technology also enables partnerships between affiliates and advertisers. Revenue generally derived from charges to advertisers based on Cost per Mille ("CPM"). Advertisers are charged monthly based on the number of times a user clicks on ads. The Company recognizes revenue from an advertisement at that time when all four mentioned revenue recognition criteria have been met.

Video Advertising revenues are recognized based on SAB 104 and ASC No. 605-45, "Principal Agent Considerations" ("ASC 605-45"). ASC 605-45 addresses whether a company should recognize revenue based on (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or services or (b) the net amount retained (that is, the amount billed to a customer less the amount paid to a publishers) because it has earned a commission or fee. The determination of whether revenues should be reported on a gross or net basis is based on an assessment of whether Vexigo is acting as a principal or an agent in the transaction. In determining whether Vexigo acts as a principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance is individually considered presumptive or determinative, Vexigo has determined that in certain transactions, it is the primary obligor and has a structured inventory risk resulting from the fact that not all purchased ad spaces will be sold.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accordingly, revenue from this activity is recorded as the gross amount billed to a customer. On the other hand, in arrangements in which Vexigo is not the primary obligor and has no inventory risk, revenues are recognized on the net amount retained.

n. Research and development expenses:

Research and development costs are charged to the consolidated statements of operation, as incurred. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of operation when incurred.

o. Capitalized development costs:

Capitalized development costs are recognized in accordance with ASC No. 350-40 "Capitalized Development Costs". Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of direct labor costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. As of December 31, 2016, the Company’s development costs capitalized during that year, amounting to $ 380, were fully impaired. No capitalized development costs recorded during 2017. For further information refer to Note 6 - Intangible Assets.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Income taxes:

The Company accounts for income taxes and uncertain tax positions in accordance with ASC No. 740, "Income Taxes" ("ASC 740"). ASC 740 prescribes the use of the liability method, according to which deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are provided to reduce deferred tax assets to the amounts that are more likely-than-not to be realized.

ASC No. 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits on its taxes on income.

q. Accounting for share-based compensation:

The Company accounts for share-based compensation in accordance with ASC No. 718, "Compensation - Stock compensation" ("ASC 718"), which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees, directors and non-employees. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of operations.

The Company recognizes these compensation costs net of a forfeiture rate and recognizes the compensation costs for only those shares expected to vest on an accelerated method 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.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On January 1, 2017, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09 (Topic 718) Compensation-Stock Compensation: Improvements to Employee Stock-Based Payment Accounting, which simplifies several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture, statutory tax withholding requirements, and classification on the statement of cash flows. The impact of the adoption on the Company's was immaterial.

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair-value method for its stock-option compensation awards and values restricted stock units based on the market value of the underlying shares at the date of grant. The Company estimates the fair value of stock options granted with the following weighted average assumptions for 2017 and 2016:

	Year ended December 31,	
Stock options	2017	2016
Expected volatility (1)	87.7%	87.59%-90.62%
Risk-free interest (2)	2.435%	0.95%-1.29
Dividend yield (3)	0%	0%
Expected life (years) (4)	6.25	3.75-6.25

(1) The computation of expected volatility is based on realized historical share price volatility of the Company's stock.

(2) The risk-free interest rate is based on the yield from U.S. Treasury Bonds with an equivalent term;

(3) The dividend yield assumption is based on the Company's historical experience and expectation of future dividend payouts. The Company has historically not paid dividends and has no foreseeable plans to pay cash dividends in the future.

(4) Expected term of options granted represents the period of time that options granted are expected to be outstanding, and is estimated based on the Company's history.

The Company applies ASC No. 505-50, “Equity-Based Payment to Non-Employees”, with respect to options and warrants issued to non-employees which requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, restricted cash, marketable securities, trade receivables, other accounts receivable, trade payables, long term contingent earn-out liability and accrued liabilities approximate their fair value, due to the maturity of such instruments.

The Company applies ASC No. 820, "Fair Value Measurement" ("ASC 820"), which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - quoted prices in active markets for identical assets or liabilities.

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

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

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value of the Company’s marketable securities are based on quoted market prices and classified within Level 1 (see also Note 3). The Company did not hold any marketable securities as of December 31, 2017. The Company’s derivatives instruments are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

s. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, marketable securities, trade receivables and other account receivable.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cash, cash equivalents and restricted cash are deposited with major banks in Israel, Hong Kong and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments.

The Company's customers are located mainly in the United States (see Note 12). The Company performs ongoing credit evaluations of its customers. In certain circumstances, the Company may require letters of credit, other collateral or additional guarantees.

The allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection according to management estimates.

The Company's marketable securities include investments in equity securities and Israeli government securities. Management believes that the portfolio is well diversified, and accordingly, minimal credit risk exists with respect to these marketable securities. The Company has no off-balance-sheet concentrations of credit risk.

t. Basic and diluted net earnings (loss) per share:

Basic net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC No. 260, "Earnings Per Share".

Basic net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. No options have been included in the calculation of the diluted net earnings per Ordinary share due to the Company’s losses during all the years presented.

u. Derivatives instruments:

ASC No. 815, "Derivatives and Hedging" ("ASC 815"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. The Company entered into put and call option contracts to hedge certain transactions denominated in foreign currencies. The purpose of the Company's foreign currency hedging activities is to protect the Company from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the exchange rates. The Company's 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 statements of operations as financial income or expense, when they occur.

During 2017, 2016 and 2015, the Company entered into forward, call and put option contracts in the aggregate notional amounts of $ 1,900 $ 4,800 and $ 4,200, respectively, which converted a portion of its floating currency liabilities to a fixed rate basis, thus reducing the impact of exchange rate fluctuations on the Company's cash flow. In

2017, 2016 and 2015, the revaluation income (expenses) from these contracts with respect to the above transactions were $ 84, $ 6 and $ (7), respectively, and are presented in the statements of operations as financial income (expense), net. As of December 31, 2017, the Company had no outstanding call and put option contracts.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC No. 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income (loss) relate to unrealized gains and losses on available for sale marketable securities and changes in foreign currency translation adjustments.

w. Treasury shares:

Company shares held as treasury shares are recognized at cost, and as a deduction from equity. Any gain or loss arising from a purchase, sale, issuance or cancellation of treasury shares is recognized directly in equity.

x. Impact of recently issued accounting standards:

1. In May 2014, and in following related amendments, the FASB issued a new comprehensive revenue recognition guidance on revenue from contracts with customers (hereinafter “the Standard”) that will supersede the current revenue recognition guidance. The Standard provides a unified model (five-step analysis of transactions) to determine when and how revenue is recognized. The core principle of the Standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new standard, a good or service is transferred to the customer when (or as) the customer obtains control of the good or service, which differs from the risk and rewards approach under current guidance. 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 Standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. This Standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized in retained earnings as of the date of adoption.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company will adopt the Standard using the modified retrospective approach on January 1, 2018. The Company has completed its evaluation of the Standard and expect the potential effect to be in the amount of $ 230 which relates to the Company's accounting for arrangements that include software licenses bundled with maintenance and support. Under current GAAP, the revenue attributable to these software licenses is recognized ratably over the term of the arrangement because VSOE does not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue for the delivered software licenses is eliminated under the new standard. Accordingly, under the new standard the Company will be required to recognize as revenue a portion of the arrangement fee upon delivery of the software license.

2. In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842), whereby, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Companies may not apply a full retrospective transition approach. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is still evaluating the potential impact of this pronouncement.

3. In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively as of the earliest date practicable. The standard is effective on January 1, 2019. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements and footnote disclosures.

4. In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business" (ASU 2017-04), which provides a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. ASU 2017-04 provides more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. This update is effective for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the effect that this guidance will have on its consolidated financial statements.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. In January 2017, the FASB issued Accounting Standards Update No. 2017-04 (ASU 2017-04) “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019; early adoption is permitted. The Company does not expect that this new guidance will have a material impact on the Company’s Consolidated Financial Statements.

6. In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities, which expands an entity's ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

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NOTE 3:- MARKETABLE SECURITIES

The following is a summary of the Company's accumulated gross unrealized gains/ losses from investments in marketable securities as of December 31, 2017 and 2016:

	December 31, 2017				December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair market value
Available-for-sale:								
Equity securities	$-	$ -	$ -	$ -	$77	$ -	$ -	$ 77
Corporate bonds	-	-	-	-	41	*) -	-	41
Israeli Government debt	-	-	-	-	18	-	*) -	18
	$-	$ -	$ -	$ -	$136	$ -	$ -	$ 136

*) Represents an amount less than $1.

The net realized gains (losses) on sales of available-for-sale securities of $ 5, $ (4) and $ (8) in 2017, 2016 and 2015, respectively, were recorded in financial income (expense), net.

The Company sold the marketable securities during the second quarter of 2017.

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NOTE 3:- MARKETABLE SECURITIES (Cont.)

The amortized cost and fair value of debt and securities as of December 31, 2017 and 2016, by contractual maturity, are shown below:

	December 31, 2017		December 31, 2016	
	Amortized cost	Fair market value	Amortized cost	Fair market value
Matures up to one year	$ -	$ -	$94	$ 94
Matures after one year through five years	-	-	34	34
Matures after five years	-	-	8	8
	$ -	$ -	$136	$ 136

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2017	2016
Government authorities	$274	$278
Prepaid expenses	35	37
Lease deposits	4	4
Others	21	24
	$334	$343

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NOTE 5:- PROPERTY AND EQUIPMENT

	December 31,	
	2017	2016
Cost:		
Computers and peripheral equipment	$1,104	$1,094
Office furniture and equipment	213	216
Leasehold improvements	38	36
	1,355	1,346
Accumulated depreciation:		
Computers and peripheral equipment	1,015	961
Office furniture and equipment	174	170
Leasehold improvements	18	17
Accumulated depreciation	1,207	1,148
Depreciated cost	$148	$198

The depreciation expense for the years ended December 31, 2017, 2016 and 2015, amounted to $ 103, $ 91 and $ 96, respectively.

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NOTE 6:- INTANGIBLE ASSETS, NET

a. Intangibles consist of the following:

	December 31,	
	2017	2016
Cost:		
Developed technology	$2,170	$2,170
Customer relationships	1,015	1,015
Brand name	229	229
Capitalized developed costs	791	791
Video technology	4,433	4,433
Video technology and capitalized developed cost impairment	(3,763)	(3,763)
	4,875	4,875
Accumulated amortization:		
Developed technology	2,170	2,170
Customer relationships	1,015	1,015
Brand name	187	166
Video technology	1,461	1,461
	4,833	4,812
Amortized cost	$42	$63

b. Amortization expense amounted to $ 21, $ 1,015 and $ 772 for the years ended December 31, 2017, 2016 and 2015, respectively.

c. Estimated amortization expense for:

Year ended December 31,	
2018	$21
2019	21
	$42

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NOTE 7:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2017	2016
Employees and payroll accruals	$776	$969
Institutions and income tax payable	119	177
Accrued expenses	1,591	1,390
Related parties	12	1,220
	$2,498	$3,756

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Group leases office space through operating leases. The facilities of the Company and its subsidiaries are leased for periods ending February 2019. Future minimum lease commitments under non-cancelable operating leases as of December 31, 2017 are as follows:

Year ended December 31,	
2018	$196
2019	25
	$221

Operating lease office expenses for the years ended December 31, 2017, 2016 and 2015, were approximately $ 397, $ 451 and $ 411, respectively.

b. Royalty commitments:

The Company is committed to pay royalties to Israel Innovation Authority ("IIA"), formerly known as the Office of the Chief Scientist, of the Ministry of Industry, Trade and Labor of the Government of Israel on proceeds from sales of products resulting from the research and development projects in which the IIA participated. In the event that development of a specific product in which the IIA participated is successful, the Company will be obligated to repay the grants through royalty payments at the rate of 3% to 5% based on the sales of the Company, up to 100%-150% of the grants received linked to the dollar. Grants received after January 1999 are subject to interest at a rate equal to the 12 month LIBOR rate. The obligation to pay these royalties is contingent upon actual sales of the products and, in the absence of such sales, no payment is required.

As of December 31, 2017, the Company had a contingent liability to pay royalties in the amount of approximately $ 8,352 plus interest for grants received after January 1999.

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NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Company has paid or accrued royalties in its cost of revenues relating to the repayment of such IIA grants in the amount of $ 92, $ 112 and $ 115 for the years ended December 31, 2017, 2016 and 2015, respectively.

c. Claims and demands:

1. Claims related to discontinued operations:

The Company is a party to various tax claims that arose in TABS Brazil. In August 2007, the Company's Brazilian subsidiary, TABS Brazil, was ordered by the Labor Law Court in Brazil to pay approximately $ 51 to one of its former employees. Such amount bears a 1% interest rate per month from the date that the claim was filed. Accordingly, the Company recorded a provision of approximately $63 in respect of such claims in accordance with ASC No. 450, "Contingencies", based on advice of its legal counsel. As of December 31, 2017, total claims related to discontinued operations amounted to $ 185.

2. The Israeli Government, through the Fund for Encouragement of Marketing Activities, awarded C. Mer Industries Ltd. ("C. Mer"), the former parent of the Company grants for participation in foreign marketing expenses, partially related to the Company's marketing activities for the years 1996 - 1998. During 2012, the Company received through an affiliated company a demand with respect to the reimbursement of above-mentioned grants. As of December 31, 2017 and 2016, the Company provided an adequate provision with respect to this demand.

d. Guarantees:

The Company provided a bank guarantee in the amount of $97 to secure its obligations under one of its lease agreements.

NOTE 9:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates:

Generally, income of Israeli companies is subject to corporate tax. The corporate tax rate in Israel, effective as of January 1, 2018, is 23%, compared with 24% in 2017, 25% in 2016, and 26.5% in 2015.

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NOTE 9:- TAXES ON INCOME (Cont.)

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

According to the Law, the Company is entitled to various tax benefits by virtue of the "approved enterprise" status granted to part of their enterprises, as implied by this Law. The principal benefits by virtue of the Law are:

According to the provisions of the Law, the Company has chosen to enjoy the "Alternative" track. Under this track, the Company is tax exempt in the first two years of the benefit period and subject to tax at the reduced rate of 10%-25% for a period of several years for the remaining benefit period.

The Company elected 2008 as its "year of election".

The income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Investment Law ("a beneficiary company"), and which is derived from an industrial enterprise. The Investment Law specifies the types of qualifying income that is entitled to tax benefits under the alternative track with respect of an industrial enterprise, whereby income from an industrial enterprise includes, among others, revenues from the production and development of software products and revenues from industrial research and development activities performed for a foreign resident (and approved by the Head of the Administration of Industrial Research and Development).

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NOTE 9:- TAXES ON INCOME (Cont.)

The benefit period starts with the first year the beneficiary enterprise earns taxable income, provided that 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating. In respect of expansion programs pursuant to Amendment No. 60 to the Investment Law, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election. The respective benefit period has not yet begun However, the benefit period is expected to end on December 31, 2019.

The above benefits are contingent upon the fulfillment of the conditions stipulated by the Investment Law, regulations published there-under and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

In January 2011, the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment") was enacted. The Amendment prescribes, among others, amendments to the Law for the Encouragement of Capital Investments, 1959 ("the 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 under its status as a preferred company with a preferred enterprise. Commencing from the 2011 tax year, the Company can elect to apply the Amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates, as detailed below.

As of December 31, 2017, the Company chose not to adopt this amendment, but may elect to do so in the future, whereas Vexigo chose to adopt this amendment and believes it is entitled to benefit from a reduced corporate tax rate under the Israeli privileged enterprise program.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which includes Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment") was enacted. According to the Amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%). As for changes in tax rates resulting from the enactment of Amendment 73 to the Law, see below.

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NOTE 9:- TAXES ON INCOME (Cont.)

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Under the transitory provisions of the Amendment Legislation, the Company may elect whether to irrevocably implement the new law in its Israeli company while waiving benefits provided under the current law or keep implementing the current law during the next years. Changing from the current law to the new law is permissible at any stage.

The Amendment also prescribes special tax tracks for technological enterprises. The new tax tracks under the Amendment are as follows:

Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in Development Zone A- a tax rate of 7.5%).

Special technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.
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NOTE 9:- TAXES ON INCOME (Cont.)

3. The Law for the Encouragement of Industry (Taxation), 1969:

The Company has the status of an "industrial company", as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file a consolidated income tax report under certain conditions.

4. Tax Benefits for Research and Development:

Israeli tax law permits, under some conditions, a tax deduction for expenditures in the year incurred, including capital expenditures, in scientific research and development projects. The deduction is permitted if, among other things, the expenditures are approved by the relevant government ministry and the research and development is for the promotion of the enterprise and is carried out by, or on behalf of, a company seeking the deduction.

The IIA has approved some of the Company's research and development programs and the Company has been able to deduct, for tax purposes, a portion of its research and development expenses net of the grants received. Other research and development expenses that are not approved may be deducted for tax purposes in three equal installments during a three-year period.

5. Tax assessments:

The Company and Vexigo have received final tax assessments through the tax year of 2013.

b. Income taxes on non-Israeli subsidiaries:

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

c. Tax Reform in the U.S:

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018.

At December 31, 2017, the Company has made reasonable estimates of the effects on the existing deferred tax balances for which provisional amounts have been recorded. The Company re-measured certain of its U.S. deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. The estimated tax income recorded related to the re-measurement of the deferred tax balance was $52.

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NOTE 9:- TAXES ON INCOME (Cont.)

The aforesaid provisional amounts are based on the Company's initial analysis of the Act as of December 31, 2017. Given the significant complexity of the Act, anticipated guidance from the U.S. Treasury about implementing the Act, the potential for additional guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board related to the Act, as well as additional analysis and revisions to be conducted by the Company, these estimates may be adjusted during 2018.

d. Net operating loss carry-forwards:

As of December 31, 2017, the Company, its subsidiaries in Hong Kong, the U.S. and Isreal (Vexigo) had an estimated total amount of available carry-forward tax losses of approximately $ 23,700, $ 500, $ 700, and $ 600, respectively, to offset against future taxable profits. The operating tax loss carry-forwards in Israel may be offset indefinitely against operating income. In addition, as of December 31, 2017, the Company had capital losses in the amount of approximately $ 511 that can be carried forward indefinitely.

MTS IntegraTRAK, the Company's U.S. subsidiary, is subject to U.S. income taxes. Total net operating loss carry-forwards of approximately $ 700 as of December 31, 2017, will expire in the years 2021 to 2028. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. Such annual limitation may result in the expiration of net operating losses before utilization.

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NOTE 9:- TAXES ON INCOME (Cont.)

e. Deferred income taxes:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Group's deferred tax liabilities and assets are as follows:

	December 31,	
	2017	2016
Deferred tax asset (liability):		
Tax loss carry-forwards	$6,027	$5,492
Allowances for doubtful accounts and accruals for employee benefits	108	111
Intangible assets	38	67
Depreciation, accruals for interest and other	724	808
Deferred tax asset before valuation allowance	6,897	6,478
Goodwill	(785)	(989)
Valuation allowance	(6,258)	(5,323)
Deferred tax liability, net	$(146)	$(166)

The Company and certain of its subsidiaries have provided valuation allowances in respect of deferred tax assets resulting from tax loss carry-forwards and other temporary differences, since they have a history of losses incurred over the past years. Management currently believes that it is more likely than not that part of the deferred tax relating to the loss carry-forwards in the Company and its subsidiaries and other temporary differences will not be realized in the foreseeable future.

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NOTE 9:- TAXES ON INCOME (Cont.)

f. A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statements of operations is as follows:

	Year ended December 31,		
	2017	2016	2015
Loss before taxes on income, net, as reported in the statements of operations from continuing operations	$(1,724)	$(5,701)	$(4,722)
Tax rates	24 %	25 %	26.5 %
Theoretical tax benefit	$(414)	$(1,425)	$(1,251)
Decrease in taxes resulting from:			
Non– deductible expenses	12	1,175	1,255
Loss and timing differences for which no deferred tax was provided	260	(334)	209
Tax adjustment in respect of different tax rate of subsidiaries	129	75	(49)
Changes in provision for uncertain tax positions	4	2	30
Taxes on income, net, as reported in the statements of operations	$(9)	$(507)	$194

g. Loss before income taxes is comprised as follows:

	Year ended December 31,		
	2017	2016	2015
Domestic	$(1,664)	$(5,743)	$(4,855)
Foreign	(60)	42	133
	$(1,724)	$(5,701)	$(4,722)

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NOTE 9:- TAXES ON INCOME (Cont.)

h. Taxes on income are comprised as follows:

	Year ended December 31,		
	2017	2016	2015
Current	$11	$7	$153
Deferred	(20)	(514)	41
	$(9)	$(507)	$194
Foreign	$(12)	$63	$57
Domestic	3	(570)	137
	$(9)	$(507)	$194

i. As of December 31, 2017, the Company recorded a liability for unrecognized tax benefits of $ 139. A reconciliation of the opening and closing amounts of unrecognized tax benefits is as follows:

	2017	2016
Balance as of beginning of the year	$135	$132
Cumulative translation adjustments and other	4	3
Balance at the end of the year	$139	$135

NOTE 10:- RELATED PARTY TRANSACTIONS AND BALANCES

a. The Company receives certain services from C. Mer, a publicly traded company. Mr. Chaim Mer, the Company's chairman of the board and Mr. Isaac Ben Bassat, a former director of the Company, are members of the controlling group of C. Mer. These services include reimbursement for shared expenses related to a commercial insurance policy. For the years ended December 31, 2017, 2016 and 2015, the Company paid or accrued $ 12, $ 11 and $ 11, respectively, with respect to the above mentioned expenses. In 2012 MTS Ltd. engaged with Mer Telecom Ltd., a subsidiary of C. Mer, in a deployment of its mobile financial services ("MFS") solution for a customer in Africa and completed the deployment in 2013. The Company recorded revenues with respect to this agreement in the amount of $ 0, $ 14 and $ 33 in 2017, 2016 and 2015, respectively.

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NOTE 10:- RELATED PARTY TRANSACTIONS AND BALANCES (Cont.)

In 2014, the Company engaged with Athena Ltd., a subsidiary of C. Mer, in a deployment of a MFS solution for a customer in Africa in the amount of $ 65. As of December 31, 2015, the solution was completed and delivered and therefore revenue was recognized in 2015.

From January 1, 2009 until September 2011, as part of the acquisition of certain assets and liabilities of AnchorPoint, Inc., the Company received certain services from Data Distributors Inc., a company controlled by Mr. Roger Challen, a director of the Company and the controlling shareholder of the Info Group Inc., a beneficial owner of 14.0% of the Company's Ordinary shares as of December 31, 2017. These services include reimbursement for shared expenses, development and IT services, other administrative services. Expenses (incomes) recognized with respect to the above mentioned services were approximately $ 2, $ 9 and $ 9 for the years ended December 31, 2017, 2016 and 2015, respectively. In addition, the Company rents an office in Powder Springs, Georgia, from Mr. Challen, under a month-to-month lease. In each of the years ended December 31, 2017, 2016 and 2015, the Company paid or accrued $ 56 with respect to the above mentioned rent expenses.

Regarding liabilities to related party derived from the Vexigo acquisition, see Note 1d.

b. Balances and transactions with related parties were as follows:

1. Balances with related parties:

	December 31, 2017	2016
Other accounts receivable and prepaid expenses (Note 4)	$10	$10
Other accounts payable and accrued expenses (Note 7)	$12	$1,220
Other accounts payable and accrued expenses (Note 7) (*)	$62	$-

(*) The Company recorded a compensation provision for two of the Company's officers who terminated their employment during 2017, but who are owed compensation payments payable in 2018

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NOTE 10:- RELATED PARTY TRANSACTIONS AND BALANCES (Cont.)

2. Transactions with related parties:

	Year ended December 31,		
	2017	2016	2015
Revenues derived from a related party	$-	$14	$33
Amounts charged by related parties:			
Cost of revenues	$33	$36	$37
Operating expenses	197	142	139
	$230	$178	$176

NOTE 11:- SHAREHOLDERS' EQUITY

a. Share capital:

The Ordinary shares entitle their holders the right to receive notice to participate in and vote at general meetings of the Company and the right to receive cash dividends, if declared.

On April 1, 2015, upon closing the Vexigo transaction, the Company issued an aggregate of 1,038,363 restricted Ordinary shares constituting 40% of the Company outstanding Ordinary shares post-closing to the former shareholders of Vexigo.

Upon the closing of the Vexigo transaction, the Company issued to an independent business consultant (who subsequently became the Company’s chief executive officer) a warrant based on a cashless exercise mechanism to acquire 2% of the Company’s outstanding Ordinary shares on a pre-closing basis (31,151 Ordinary shares based on the number of shares outstanding prior to the closing) with an exercise price equal to the market price of the Ordinary shares at the signing of the SPA (i.e., $ 2.88 per share) valid for a period of five years.

On May 11, 2015, the Company issued in a private placement to certain of its shareholders an aggregate of 75,757, Ordinary shares for an aggregate of $ 500, pursuant to a share purchase agreement.

On May 16, 2016, the Company issued in a private placement to certain of its shareholders an aggregate of 216,158, Ordinary shares, for an aggregate of $ 700, out of which amount, an aggregate of $ 400 was invested by former Vexigo shareholders, out of the outstanding amount owed to them.

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NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

In March 2017, the Company issued 20,767 Ordinary shares to a consultant as finder fees for the Vexigo transaction upon the exercise of warrants he was issued as compensation for his services.

On August 14, 2017, the Company issued in a private placement to certain of its shareholders an aggregate of 200,803, Ordinary shares for an aggregate of $ 400, pursuant to a share purchase agreement.

In August 2017, the Company converted $ 1,220 of debt to Vexigo former shareholders incurred in connection with the acquisition of Vexigo into warrants to acquire 400,000 of Ordinary shares. The warrants have a term of five years and are exercisable without any additional consideration commencing on the second anniversary of their issuance. During the two year period following issuance, the Company has an option to purchase all or a portion of such warrants at a price per warrant of $3. Following such debt conversion, the Company currently does not have any outstanding debt in connection with the Vexigo acquisition.

On September 6, 2017, The Company effected a one-for-three reverse split of Ordinary shares. The reverse split entailed the exchange of one Ordinary share, NIS 0.03 nominal value per share for three Ordinary shares, NIS 0.01 nominal value. No fractional shares were issued as a result of the reverse split. Accordingly, all ordinary shares, options, warrants amounts have been adjusted retroactively for all periods presented in these financial statements.

Historical stock information was adjusted to retroactively reflect the one for three Ordinary share reverse split implemented in September 2017.

b. Share options:

The Company’s 1996 Incentive Share Option Plan (the "Plan") when adopted, authorized the grant of options to purchase up to 250,000 of its Ordinary shares to officers, employees and directors of the Company or any subsidiary, pursuant to section 102 of the Israel Income Tax Ordinance. Any option, which is canceled or forfeited before expiration, will become available for future grants.

Each option granted under the Plan is exercisable until the earlier of five years from the date of the grant of the option or the expiration dates of the option plan. The exercise price of the options granted under the plans may not be less than the nominal value of the shares into which such options were exercised. The options primarily vest gradually over four years of employment.

In 2003, pursuant to an amendment in section 102 of the Israeli Income Tax Ordinance the Company rolled-over the remaining 148,986 options available at that time under the Plan for future grants under the 2003 Incentive Share Option Plan (the "2003 Plan") that conforms with the amended provisions of section 102 of the Israel Income Tax Ordinance.

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NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

In August 2013, shareholders approved amendments to the 2003 Plan. Its term was extended by ten years so that the 2003 Plan will expire on November 30, 2023, unless further extended. The number of ordinary shares issuable under the 2003 Plan was increased by an additional 166,666 Ordinary shares, so that the Company is entitled to issue up to 315,652 Ordinary shares under the 2003 Plan. In August 2016, shareholders approved the increase of the number of Ordinary shares issuable under the 2003 Plan by an additional 166,667 Ordinary shares, so that the Company is entitled to issue up to 482,319 Ordinary shares under the 2003 Plan.

In June 2006, the Company authorized pursuant to its 2006 Stock Option plan (the "2006 Plan"), to grant options to officers, employees and directors of MTS IntegraTRAK or any subsidiary of up to 66,667 of the Company's Ordinary shares. Each option granted under the 2006 Plan may be either an option intended to be treated as an "incentive stock option", within the meaning of section 422 of the Internal Revenue Code of 1986, as amended, or an option that will be treated as a "non-qualified stock option".

At the Company's 2011 annual general meeting, shareholders approved an amendment to the 2006 Plan to provide for the issuance of an additional 66,666 Ordinary shares and to increase the total number of Ordinary shares with respect to which options may be granted to any eligible employee during any 12 month period to 50,000 Ordinary shares, subject to adjustment as provided in the 2006 Plan.

At the Company's 2013 annual general meeting, shareholders approved an amendment to the 2006 Plan to provide for the issuance of an additional 50,000 Ordinary shares, such that the Company will be entitled to issue options to purchase up to 183,333 Ordinary shares under the 2006 Plan. Each option granted under the 2006 Plan is exercisable until the earlier of five years from the date of the grant of the option or the expiration dates of the option plan. The exercise price of the options granted under the 2006 Plan may not be less than the fair market value of an Ordinary share determined as of the date of grant of the option.

On October 1, 2017, the Company authorized an options grant to its new CEO, to acquire 116,667 ordinary shares under 2003 Israeli Share Option Plan. These options vest over a period of four years (25% vesting on October 1, 2018, and an additional 12.5% vesting every six months for the following three years), subject to the fulfillment of a condition to vesting. The condition to vesting will be fulfilled in the event the closing price of the Company’s Ordinary shares is equal to or higher than a price per share of $ 4.5 three month for a consecutive period. The exercise price per share of the options is $ 2.16 (the closing price per share of the Company’s Ordinary shares on the NASDAQ Capital Market on September 28, 2017, the date of the Company’s Board of Directors’ approval of the terms). In addition, in the event of an M&A or reverse merger transaction (where current shareholders will hold less than 50% of the shares of the company) and if the CEO will not continue to serve as the CEO of the company (or is released during the six-month period following the closing of the transaction), 50% of all of the unvested options will become vested. The options are due to expire on October 1, 2027, unless earlier terminated pursuant to the terms of our 2003 Israeli Share Option Plan.

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NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2017, 312,903 Ordinary shares are available for future option grants under the Company's plans.

c. A summary of option activity under the Company's stock option plans to its employees as of December 31, 2017, and changes during the year ended December 31, 2017, are as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2017	317,273	$ 4.35	4.90	$ -
Granted	116,665	$ 2.16	-	$ -
Exercised	-	$ -	-	$ -
Expired and forfeited	(161,891)	$ 3.97	-	$ -
Outstanding at December 31, 2017	272,047	$ 3.58	5.41	$ -
Exercisable at December 31, 2017	109,167	$ 1.66	0.11	$ -

The weighted average grant-date fair value of options granted during 2017 and 2016, was $ 1.67 and $ 2.75 per option respectively.

The total compensation cost related to options granted to employees under the Company's share-based compensation plans recognized for the years ended December 31, 2017, 2016 and 2015, amounted to $ 1, $ 205 and $ 170, respectively, net of estimated forfeitures.

As of December 31, 2017, there was $ 190 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans.

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NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

d. Total stock-based compensation expenses recognized in 2017 and 2016:

The total stock-based compensation expense related to employees' equity-based awards, recognized for the years ended December 31, 2017, 2016 and 2015, was comprised as follows:

	Year ended December 31,		
	2017	2016	2015
Cost of revenues	$4	$8	$17
Research and development	5	30	45
Selling and marketing	5	12	12
General and administrative	(13)	155	96
	$1	$205	$170

e. Options to non-employees:

Issuance date	In connection with	Number of options granted	Options exercisable	Exercise price per share	Exercisable through
April 1, 2015	consultant	26,667	-	2.64	April 2020

Our former CEO, Mr. Lior Salansky currently serves as a consultant to the Company’s Board of Directors and agreed to provide his consulting services in consideration for the extension of the option granted to him on April 1, 2015 (which became fully vested on April 1, 2016), to acquire 26,667 Ordinary shares under our 2003 Plan. Total stock-based compensation expense related to non-employees' equity-based awards, recognized in 2016 was $ 18.

NOTE 12:- REPORTABLE SEGMENTS AND GEOGRAPHIC INFORMATION

a. Reportable segments:

The Chief Operating Decision Maker ("CODM") assesses the Company's business based on three operating segments: Enterprise, Service Providers and Video Advertising. Enterprise segment includes TEM, services and solutions. The Service Providers segments include Billing and MVNE services and solutions. These three segments also comprise the Company's reporting units. The CODM uses adjusted net income before interest, tax, depreciation and amortization, goodwill impairment, net of change in contingent earn-out considerations, capital gain and stock based compensation ("adjusted EBITDA"), to assess performance, measure liquidity and make decisions. Adjusted EBITDA is a non-GAAP unaudited measure of profit and loss.

MER TELEMANAGEMENT SOLUTIONS LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- REPORTABLE SEGMENTS AND GEOGRAPHIC INFORMATION (Cont.)

The Company's segments are engaged in business activities for which they earn revenues and incur expenses, their results are reviewed by the CODM and discrete financial information is available.

Asset information, by reportable segment, is not reviewed by the CODM, therefore segment asset disclosure is not included.

The following tables present the financial information for the Company's reportable segments.

	Year ended December 31,			
	2017	2016	2015	
Enterprise				
Revenue	$6,125	$6,663	$6,860	
Adjusted EBITDA (unaudited)	$(18)	$513	$676	
Video Advertising				
Telecom revenue	$1,853	$6,502	$7,017	(*)
Adjusted EBITDA (unaudited)	$(1,533)	$(327)	$(273)	(*)
Service Providers				
Telecom revenue	$648	$887	$835	
Adjusted EBITDA (unaudited)	$(192)	$(296)	$(556)	
Total				
Revenue	$8,626	$14,052	$14,712	
Adjusted EBITDA (unaudited)	$(1,743)	$(110)	$(153)	

(*) Financial information for the nine months ended on December 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- REPORTABLE SEGMENTS AND GEOGRAPHIC INFORMATION (Cont.)

A reconciliation of total adjusted EBITDA to net income for each year is as follows:

	Year ended December 31,		
	2017	2016	2015
Adjusted EBITDA (unaudited)	$(1,743)	$(110)	$(153)
Depreciation and amortization expenses	(124)	(1,106)	(868)
Stock-based compensation	(1)	(223)	(170)
Financial expense (income), net	144	(17)	(17)
Goodwill impairment, net of contingent consideration	-	(482)	(3,514)
Video advertising technology impairment	-	(3,763)	-
Income tax effect	9	507	(194)
Loss	$(1,715)	$(5,194)	$(4,916)

b. Geographic information:

The total revenues from external customers are attributed to geographic areas based on the location of the customer:

	Year ended December 31,		
	2017	2016	2015
United States	$6,589	$6,860	$11,450
Asia	430	1,984	1,493
Israel	886	3,178	571
Europe	452	1,147	923
Other	269	883	275
	$8,626	$14,052	$14,712

Major customers' data as a percentage of total revenues:

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the periods set forth below:

	Year ended December 31,		
	2017	2016	2015
Customer A	(*	12 %	10 %
Customer B	(*	13 %	27 %
Customer C	(*	10 %	(*

*)Less than 10%.

NOTE 13: - SUBSEQUENT EVENT

Due to the continued weakness in Vexigo’s business, during April 2018 the Company’s board of directors decided that it will either sell the Vexigo business or discontinue its operations in the near term.

S I G N A T U R E S

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

MER
TELEMANAGEMENT
SOLUTIONS LTD.

By: /s/ Roy Hess
Roy Hess
Chief Executive Officer

Dated: April 30, 2018