



ClickSoftware

Making Service Click

W-6

who



does what



with what



when



where



for whom



Leading Service Businesses to Excellence

annual report 2014

About ClickSoftware

ClickSoftware (NasdaqGS: CKSW) is the leading provider of automated mobile workforce management and service optimization solutions for the enterprise, both for mobile and in-house resources. As pioneers of the "Service chain optimization" and "The real-time service enterprise" concepts, our solutions provide organizations with end-to-end visibility and control of the entire service management chain by optimizing forecasting, planning, shift and task scheduling, mobility and real-time management of resource and customer communication.

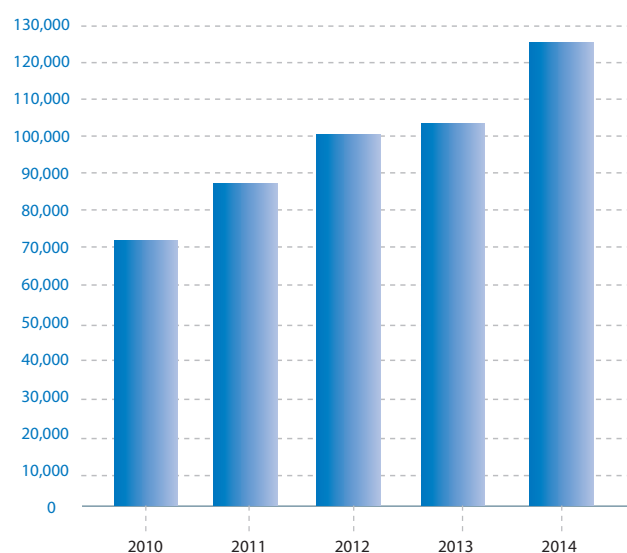
Available via the cloud or on-premise, our products incorporate best business practices and advanced decision-making algorithms to manage service operations more efficiently, in a scalable, integrated manner. Our solutions have become the backbone for many leading organizations worldwide by addressing the fundamental question of job fulfillment: Who does What, for Whom, With what, Where and When.

ClickSoftware is the premier choice for delivering superb business performance to service sector organizations of all sizes. The Company is headquartered in the United States and Israel, with offices across Europe, and Asia Pacific. For more information, please visit <http://www.clicksoftware.com>. Follow us on Twitter.

To download ClickSoftware's investor relations app, which offers access to SEC documents, press releases, videos, audiocasts and more, please visit Apple's App Store for your iPhone and iPad, or Google Play for your Android mobile device.

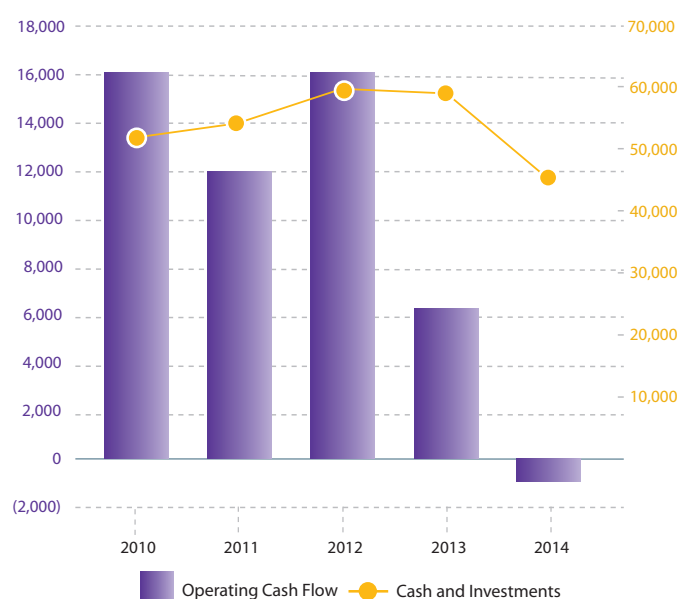
Annual Revenues 2010–2014

(in thousands \$U.S.)



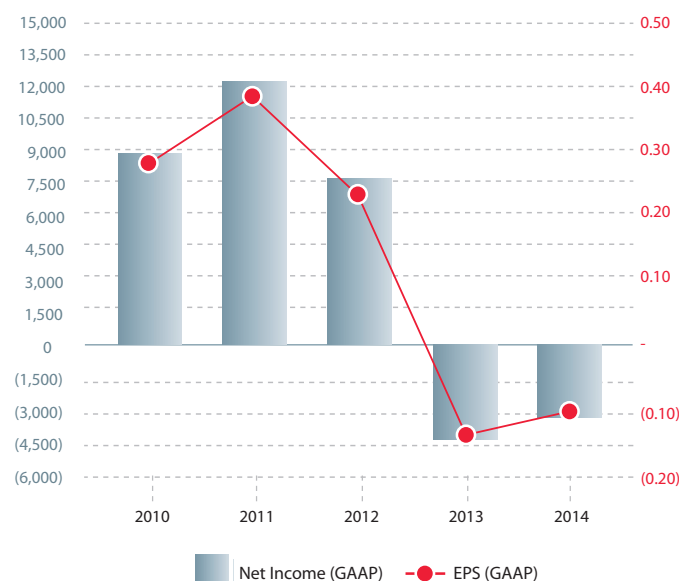
Operating Cash Flow & Cash and Investments 2010–2014

(in thousands \$U.S.)



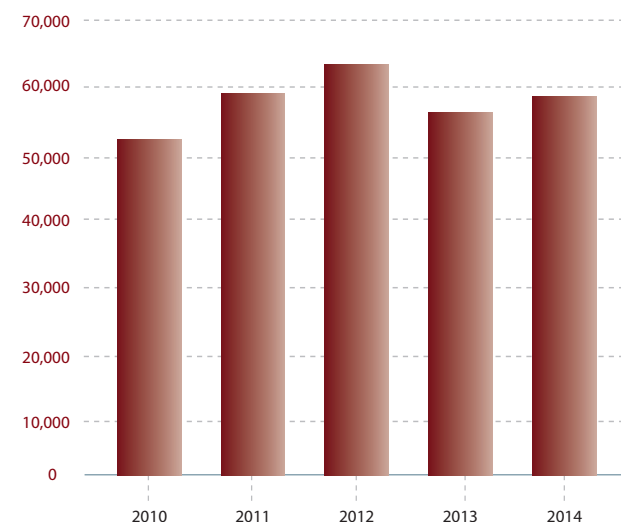
Annual Net Income & EPS (GAAP) 2010-2014

(in thousands \$U.S., except per share amounts)



Shareholders' Equity 2010-2014

(in thousands \$U.S.)



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

FORM 20-F

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

For the fiscal year ended December 31, 2014

Commission file number: 000-30827

ClickSoftware Technologies Ltd.
(Exact name of Registrant as specified in its charter)

State of Israel
(Jurisdiction of incorporation or organization)

Azorim Park, Oren Building
94 Em Hamoshavot Road
Petach Tikva 4970602 Israel
(Address of principal executive offices)

Joel Jeselsohn
Tel: 781-272-5903
Fax: 781-272-6409

35 Corporate Drive, Suite 400
Burlington, MA 01803
(Name, Telephone and/or Facsimile number and Address of Company Contact Person)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares, par value of NIS 0.02	Nasdaq Global Select 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.

33,136,302 Ordinary Shares, par value NIS 0.02 per share

Indicate by check mark whether 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 Website, 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, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

☐ Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer

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

U.S. GAAP ☒

International Financial Reporting Standards as issued by the International Accounting Standards Board ☐

Other ☐ If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

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

☐ Yes ☒ No

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INTRODUCTION

Unless otherwise indicated, all references to the "Company," "we," "our" and "ClickSoftware" refer to ClickSoftware Technologies Ltd. and its subsidiaries. References to "U.S. dollars" and "\$" are to the lawful currency of the United States of America, and references to "NIS" are to new Israeli shekels. References to "Ordinary Shares" are to our Ordinary Shares, par value of NIS 0.02 per share.

We do not endorse or adopt any third-party research or forecast firms' statements or reports referred to in this annual report and assume no responsibility for the contents or opinions represented in such statements or reports, nor for the updating of any information contained therein.

This annual report on Form 20-F includes statistical, market and industry data and forecasts which we obtained from publicly available information and independent industry publications and reports that we believe to be reliable sources. These publicly available industry publications and reports generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy or completeness of the information. Although we believe that these sources are reliable, we have not independently verified the information contained in such publications.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains express or implied "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other U.S. Federal securities laws. These forward-looking statements include, but are not limited to, those statements regarding future results of operations, future changes in our expenses and investments, average deal size and number of new deals, the results and expected benefits of our acquisition of Xora, capitalization of cloud services momentum, trend information, sufficiency of our office space, visibility into future periods, expected new products and versions and their expected release, expected growth, expected rates of growth, expansion into new territories, and expectations regarding future closing of contracts, receipt of orders, recognition of revenues, exploration of acquisitions, future tax rates, reduction of expenses, revenue trends, collection of accounts receivable and deferred revenues. In some cases, forward-looking statements are identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or performance to differ materially from those projected. Achievement of these results by ClickSoftware may be affected by many factors, including, but not limited to, risks and uncertainties regarding the general economic outlook, the length of or changes in ClickSoftware's sales cycle, ClickSoftware's ability to close sales to potential customers in a timely manner and maintain or strengthen relationships with strategic partners, the timing of revenue recognition, foreign currency exchange rate fluctuations, and ClickSoftware's ability to maintain or increase its sales pipeline. The forward-looking statements contained in this annual report are subject to risks and uncertainties, including those discussed under Item 3.D. – "Risk Factors" and in our other filings with the Securities and Exchange Commission, or the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as otherwise required by law, ClickSoftware is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

PART ONE

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected financial data

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and are presented in U.S. dollars. The selected historical consolidated financial information as of December 31, 2013 and 2014 and for each of the years ended December 31, 2012, 2013 and 2014 have been derived from, and should be read in conjunction with, the consolidated financial statements of ClickSoftware Technologies Ltd. and notes thereto appearing elsewhere in this annual report. The selected financial data as of December 31, 2010, 2011 and 2012 and for each of the years ended December 31, 2010 and 2011 have been derived from the audited financial statements of ClickSoftware Technologies Ltd. not included in this annual report.

The information presented below is qualified by the more detailed historical consolidated financial statements set forth in this annual report, and should be read in conjunction with those consolidated financial statements, the notes thereto and the discussion under Item 5 – "Operating and Financial Review and Prospects" - included elsewhere in this annual report.

Consolidated Statement of Operations Data – Year Ended December 31 *(in thousands of U.S. dollars, except share and per share data)*

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues	\$ 126,213	\$ 103,181	\$ 100,046	\$ 87,087	\$ 71,019
Cost of revenues	54,002	44,307	38,871	31,696	26,913
Gross profit	\$ 72,211	\$ 58,874	\$ 61,175	\$ 55,391	\$ 44,106
Research and Development, net	19,163	15,970	13,146	9,019	7,920
Selling and Marketing	45,753	39,706	31,977	23,382	19,213
General and Administrative	10,901	9,121	8,779	7,386	6,747
Restructuring and related expenses	749	-	-	-	-
Impairment of goodwill	-	-	-	939	-
Total operating expenses	\$ 76,566	\$ 64,797	\$ 53,902	\$ 40,726	\$ 33,880
Operating (loss) income	\$ (4,355)	\$ (5,923)	\$ 7,273	\$ 14,665	\$ 10,226
Other income	-	-	110	-	-
Financial income, net	1,275	839	274	7	189
Net (loss) income before taxes	\$ (3,080)	\$ (5,084)	\$ 7,657	\$ 14,672	\$ 10,415
Taxes on income (Tax benefit)	(48)	(924)	169	2,462	1,370
Net (loss) income	\$ (3,032)	\$ (4,160)	\$ 7,488	\$ 12,210	\$ 9,045
Basic net (loss) earnings per share	\$ (0.09)	\$ (0.13)	\$ 0.24	\$ 0.39	\$ 0.30
Diluted net (loss) earnings per share	\$ (0.09)	\$ (0.13)	\$ 0.23	\$ 0.38	\$ 0.28
Dividend declared per share	\$ -	\$ 0.21	\$ 0.24	\$ 0.32	\$ -
Shares used in computing basic net (loss) earnings per share	32,912,107	32,048,030	31,545,435	31,014,373	30,415,679
Shares used in computing diluted net (loss) earnings per share	32,912,107	32,048,030	32,837,789	32,226,883	32,037,399

Consolidated Balance Sheet Data – Year Ended December 31*(in thousands of U.S. dollars, except for share data)*

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Working capital	\$ 42,454	\$ 54,444	\$ 58,565	\$ 54,726	\$ 48,710
Total assets	98,710	97,568	94,469	90,632	79,827
Long-term liabilities	7,988	9,522	5,968	5,855	5,208
Shareholders' equity	\$ 58,025	\$ 56,919	\$ 62,918	\$ 59,104	\$ 54,088
Number of shares outstanding	33,136,302	32,494,575	31,654,942	31,368,888	30,634,227

3.B. Capitalization and indebtedness

Not applicable.

3.C. Reasons for the offer and use of proceeds

Not applicable.

3.D. Risk factors

In conducting our business, we face many risks that may interfere with our business objectives. Some of these risks could materially and adversely affect our business, financial condition and results of operations. In particular, we are subject to various risks resulting from changing economic, political, industry, business and financial conditions. The risks and uncertainties described below are not the only ones we face.

You should carefully consider the following factors and other information in this annual report before you decide to invest in our Ordinary Shares. If any of the negative events referred to below occur, our business, financial condition and results of operations could suffer. In any such case, the trading price of our Ordinary Shares could decline, and you may lose all or part of your investment.

Risks Related to Our Business***We face competition, which could make it difficult for us to achieve our targets.***

Competition, particularly direct competition, continues to intensify as current competitors expand their product offerings and new companies attempt to enter the market. In addition, smaller competitors have been acquired by large organizations with broader product offerings, or been awarded venture funding, promoting competition on price and away from value. The industries where we are active have witnessed a substantial amount of merger and acquisition activity over the past few years and this trend of industry consolidation will likely continue, particularly as larger, better capitalized companies seek to acquire smaller, weaker rivals that have been adversely affected by the economic downturn.

Competitors vary in size and in the scope and breadth of the products and services they offer. Some of our current and potential competitors are among the largest and most well capitalized software companies in the world and have significant competitive advantages over us, including greater name recognition, longer operating histories, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than us. Because the market for workforce management and optimization software is evolving, we expect additional competition from other established and emerging companies if this market continues to develop and expand. For example, we could face competition from our strategic partners or from other companies that may in future decide to enter and compete in our market. In particular, since our contracts with large resellers generally do not include non-competition provisions, it may be easier for these partners to compete with us in the future. In 2014, Oracle Corporation, or Oracle, acquired TOA Technologies, one of our competitors in the cloud services space. SAP A.G. acquired Syclo in 2012, one of our competitors in the mobility space. SAP has its own offering which competes with our ClickSchedule product. Another of our partners, IBM, acquired Worklight Ltd., a potential mobility competitor. We may also face competition from Accenture LLP.

We offer mobility and shift-planning solutions for which competition may be more intense than our traditional offerings. Mobility is oriented more towards the mass market which is more commodity oriented than our

traditional markets. Competition could result in price reductions, fewer customer orders, reduced gross margin and loss of market share, any of which could cause our business, financial condition and results of operations to suffer. We may not be able to compete successfully with existing or future competitors. If we fail to compete successfully against current and future competitors, our business, financial condition and results of operations would be materially and adversely affected.

At the lower end of our potential customer base for field service management, there are a large number of vendors offering basic services such as dispatching tasks and gathering task execution data via mobile forms. Some customers may find such solutions appealing. Therefore, if we are unable to educate the market about the higher value of our solutions, or if we cannot deliver simple-to-implement solutions that address such basic needs, we may be at a disadvantage when selling to these customers.

Our market may experience rapid changes in customer preferences or technology that could impact our revenues or require us to redesign our products, which would result in increased research and development expenses.

The market for our products is competitive and rapidly changing. The pattern in the IT market towards smaller initial transactions continues. This has led to a smaller initial transaction size with new customers, and will require us to scale up the number of our transactions in order to maintain our growth.

The pattern of smaller initial deal size coincides with the shift from traditional on-premise deployment of our products to the cloud-based software-as-a-service, or SaaS, model. Although this shift has long-term benefits in the form of a more stable future revenue stream for us, the tendency of customers to shift to the SaaS model in order to lower up-front investment has impacted the Company's short term growth rate. SaaS has moderated buyers' tolerance for risk versus price, thereby encouraging a smaller initial deployment size than we have seen in the past.

Further, as customers become more acquainted with cloud-based SaaS, there is a greater expectation for low initial financial investment. In order to remain competitive and satisfy low initial customer outlay, we must propose a low-cost implementation which could further impact our consulting revenues.

Our market is also characterized by rapid technological change, dynamic customer needs and frequent introductions of new products and product enhancements. If we fail to anticipate or respond adequately to technology developments and customer requirements, or if our product development or introduction is delayed, our business will suffer. Client product requirements can change rapidly as a result of computer hardware and software innovations or changes in and the emergence, evolution and adoption of new industry standards. The actual or anticipated introduction of new products has resulted, and will continue to result, in some reformulation of our product offerings. Technology and industry standards can make existing products obsolete or unmarketable or result in delays in the purchase of such products. In the mobility sector, technological changes with regard to platforms and operating systems with which we integrate are typically rapid. As a result, the life cycles of our products are difficult to estimate. We must respond to developments rapidly and continue to make substantial product development investments. Our business, financial condition and results of operations will be materially and adversely affected if we fail to respond to our rapidly changing market by enhancing our product functionality to meet our customers' needs.

The market may not accept our products and services.

Historically, all of our operating revenue has come from sales of, and services related to, our end-to-end optimization suite of products, or our Service Optimization Suite, which includes ClickSchedule, ClickAnalyze, ClickDashboard, ClickPlan, ClickMobile, ClickRoster, ClickForecast, ClickLocate and ClickContact. Our packaging includes three distinct entry points for a customer organization that has medium-to-large size or requirement complexity: a Field Service Suite, a Mobility Suite and a Roster Suite. We also offer our Service Optimization Suite and Mobility Suite under ClickSoftware Cloud Services, our cloud-based model. For customers with smaller sizes and requirement complexity, we offer our ClickWorkforce and Expert solutions under a cloud-based model. We continually aim to improve and enhance our products and services to meet market requirements. Our growth depends on the market acceptance of these products and services, and in particular the pace at which the market adopts our cloud-based offerings. If our products and services do not achieve continued customer acceptance, our business, financial condition and results of operations would be materially and adversely affected.

Failure to fully develop or maintain key alliance relationships could limit our ability to sell additional licenses, thereby decreasing our revenues and increasing our sales and marketing expenses.

Our success in penetrating our target markets depends, in part, on our ability to develop and maintain relationships with key value-added resellers, agents, systems integrators and distribution partners. We have entered into agreements with third parties relating to the integration of our products with their product offerings, and distribution, reselling and consulting services. We derive revenues from these agreements, but may not be able to continue to do so in the future. Also, our marketing strategy includes selling through distributors, value-added resellers and agents, as well as direct selling by our own sales force. We may not be successful in extending the terms of our various agreements or establishing similar relationships with these partners if our current agreements expire or are terminated. If we fail to fully develop or maintain key alliance relationships, we could materially and adversely affect our business, financial condition or results of operations.

Our quarterly operating results are subject to significant fluctuations.

Our quarterly operating results are subject to significant fluctuations and are difficult to predict. Historically, a significant percentage of our quarterly revenues has been derived from orders placed towards the end of a given quarter. If sales forecasted from a specific customer or partner for a particular quarter are not realized in that quarter, we may not be able to generate revenues from alternate sources in time to compensate for the shortfall. Also, frequently our quarterly revenue performance depends upon a sale of significant size to a single customer. Due to the relatively large size of some orders, a lost or delayed sale could have a material adverse effect on our quarterly revenue.

The factors that may cause significant fluctuations in our quarterly operating results include, but are not limited to, the following:

- the volume, timing and recognition of customer orders;
- internal budget constraints and approval processes of our customers;
- the length and unpredictability of our sales cycle;
- the recognition of a portion of our revenues on a contract accounting basis;
- the recent pattern of smaller initial deal size coinciding with a shift from traditional on-premise deployment of our products to the cloud-based SaaS model;
- the indirect nature of some of our sales efforts through our channel and strategic partners;
- the mix of revenue generated by product licenses and professional services;
- new product introductions or enhancements by us or our competitors;
- price and product competition;
- changes to our pricing strategies and those of our competitors;
- inclusion of revenues following existing and future acquisitions of third parties;
- timing and amount of sales and marketing expenses;
- changes in the composition and success of our business and partner relationships;
- technical difficulties affecting the operation of our software;
- foreign currency exchange rate fluctuations;
- general economic conditions, including a prolonged economic recession;
- difficulties in collecting accounts receivable; and
- mergers and acquisitions among our customers, potential customers or prospects.

Because of the numerous factors that may cause significant fluctuations in our quarterly operating results, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and that such comparisons should not be relied upon as an indication of future performance.

We may not be able to achieve and maintain the same level of profitability as we achieved in the past.

We recorded a profit for each of the fiscal years 2006 through 2012, and incurred a net loss in 2013 and 2014. We may not generate sufficient revenues to achieve profitability in the future. To achieve profitability, we must increase our revenues while controlling our expenses. Although we implemented cost control measures in 2015, some of our expenses, such as administrative and management payroll and rent and utilities, are fixed in the short term, must be incurred in advance of when revenue is generated and cannot be quickly reduced if we

experience revenue declines. Therefore, if our projected revenue does not meet our expectations, we are likely to experience an even larger adverse impact on our results. As a result, we must generate and maintain growing revenues to achieve and maintain profitability, which we may not accomplish. In addition, the shift from deployment of our products from the traditional on-premise model to a cloud-based SaaS model may further reduce our profitability over the short term.

Our sales cycle is variable, often long, dependent on factors outside our control and involves investment of significant resources on our part, but may never result in actual sales.

The length of our sales cycle – the period between initial contact with a potential customer and the signing of a license and related agreements - has historically been lengthy and variable, typically lasting from three to nine months for our enterprise solutions. We generally must educate our potential customers about the use and benefit of our products and services, which can require the investment of significant time and resources, causing us to incur most of our selling and marketing expenses in advance of a potential sale. In addition, a number of companies decide which products to buy through a request for proposal process. In those situations, we run the risk of investing significant resources in a proposal that results in a competitor obtaining the desired contract from the customer or in a decision by a customer not to proceed. Sales of licenses are subject to a number of risks outside our control, including budgeting, approval and competitive evaluation processes that typically accompany significant capital expenditures. Potential customers consider many factors in evaluating our products, and the length of time a customer devotes to evaluation, contract negotiation and budgeting processes varies significantly from company to company. In certain circumstances, we may invest significant resources in a sales process that does not result in actual sales.

Our implementation cycle depends on factors outside our control.

Depending on the nature and specific needs of a customer, the implementation of our enterprise products typically takes four to ten months. During the implementation cycle, there are a number of factors beyond our control that may affect the implementation timeline, including a customer's budgetary constraints and internal acceptance reviews, the success and continued internal support of a customer's own development efforts, the nature, size and specific needs of a customer, the possibility that a customer cancels an order and the level and quality of service provided by third-party implementation and professional services partners. Long implementation cycles may delay the recognition of revenue as some of our customers engage us to perform system implementation services, which can defer revenue recognition for the related software license revenue. In addition, when we experience long implementation cycles, we may incur costs at a higher level than anticipated, which may reduce the anticipated profitability of a given implementation. We continue in our efforts to simplify the implementation process. However, because our implementation cycle depends on factors outside of our control, we may experience delays or other complications with our implementation timeline that may materially and adversely affect our business, financial condition and results of operations.

Any future mergers with or acquisitions of companies, products or technologies and the resultant integration process may distract our management and disrupt our business.

One of our business strategies is to consider strategic partnerships, alliances, mergers and/or acquisitions of complementary businesses, products and technologies. Mergers with or acquisitions of companies, products or technologies, such as our acquisition of Xora, Inc., or Xora, in 2014, involve a number of risks, including:

- the diversion of management time and resources;
- the difficulty of assimilating the operations and personnel of the merged or acquired companies;
- the possibility the business cultures will not be compatible;
- the difficulty of incorporating acquired technology and rights into our products and services;
- unanticipated expenses related to integration of the acquired companies;
- difficulties in implementing and maintaining uniform standards, controls and policies;
- the impairment of relationships with employees and customers as a result of any integration of new personnel;
- potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel;
- potential unknown liabilities associated with acquired businesses;
- expending significant cash;

- incurring substantial debt;
- dilution of current shareholders' percentage ownership (if equity securities are issued as consideration);
- assumption of contingent liabilities; and
- impairment of goodwill and other assets acquired.

Pursuant to our business strategy, we will continue to consider additional merger or acquisition transactions.

Any future merger and acquisition activity could distract our management and disrupt our business, thereby materially and adversely affecting our business, financial condition or results of operations.

If we fail to expand our relationships with third parties that provide implementation and professional services to our customers, we may be unable to increase our revenues.

In order for us to focus more effectively on our core business of developing and licensing software solutions, we must continue to establish relationships with third parties that provide implementation and professional services to our customers. Third-party implementation and professional services firms can be influential in the choice of optimization applications by new customers. These third parties are under no obligation to recommend or support our products; they could recommend or give higher priority to the products of other companies or to their own products. If we are unable to establish and maintain effective, long-term relationships with implementation and professional services providers, or if these providers do not meet the needs or expectations of our customers, we may be unable to increase our revenues, which would materially and adversely affect our business, financial condition and results of operations.

Even if we establish relationships with these third party implementation and professional services firms, we may be unable to attract sufficient focus and resources from them to meet all of our customers' needs as a result of the limited resources and capacities of many third-party providers. If sufficient resources are unavailable, we could be required to provide these services internally, which could limit our ability to meet other demands. We cannot control the level and quality of service provided by these partners.

Our revenues still depend on a small number of products, and in particular ClickSchedule, and our results may be vulnerable to unexpected shifts in demand.

While other offerings gained momentum (both in absolute terms and relative to overall revenue) ClickSchedule still accounted for the majority of our license revenues in each of years ended December 31 2014, 2013 and 2012 and we expect that this will be the case in the foreseeable future. Accordingly, any decline in the demand for ClickSchedule will have a material adverse effect on our license revenues. A decline in the demand for ClickSchedule may also reduce revenues derived from our other products.

Failure to fully develop or maintain key supplier relationships could limit our ability to sell additional licenses, thereby decreasing our revenues and increasing our sales and marketing expenses.

Our success in penetrating our target markets depends, in part, on our ability to develop and maintain key relationships with software vendors. For example, we depend on certain suppliers for the development, supply and support of third-party software components that are integrated into our products. We do not have long-term contracts with some of these suppliers, and they are not obligated to provide us with products or services for any specified period of time. If we fail to maintain these relationships, our ability to sell additional licenses could be limited. Furthermore, if any of our software vendors cease production, cease operations or fail to timely deliver orders, we could be required to provide these services internally, which could limit our ability to meet other demands and we may not be able to meet our delivery obligations to our customers, in which case we could lose revenues and harm our customer relationships. If we fail to fully develop or maintain key supplier relationships, we could materially and adversely affect our business, financial condition or results of operations.

Our risk from exposure to foreign currency fluctuations is increasing, and we may not be able to fully mitigate the risk.

We are exposed to movements in foreign currency exchange rates since we realize our revenues and expenses in several currencies and we translate foreign currencies into U.S. dollars for reporting purposes. Our primary exposures have related to operating expenses and sales, principally in Europe and Israel, which were not U.S. dollar-denominated. In 2014, the rate of growth of our revenues was lower due to exchange rate fluctuations and strength in the U.S. dollar compared to other currencies which also decreased the cost of our European, Asia-

Pacific and Israel based operations. We continue to expand our global operations, and revenue recognized in currencies other than U.S. dollars may increase. In 2014, 64% of our expenses and 42% of our revenues were incurred in non-U.S. dollar currencies. We incur a portion of our expenses, principally with respect to salaries and related personnel expenses in Israel, in NIS. In 2014, 38% of our expenses were incurred in NIS. Currency fluctuations in the major currencies in which we operate could materially and adversely affect our business, financial condition and results of operations. In addition, we have balance sheet exposure related to foreign net assets. Although we engage in non-speculative hedging transactions from time to time to minimize the impact of changes in foreign currency exchange rates on earnings, we may not be able to fully mitigate these risks.

Our cash may be subject to a risk of loss and we may be exposed to fluctuations in the market values of our portfolio investments and in interest rates.

Our assets include a significant component of cash, as well as marketable securities. We adhere to an investment policy which requires investment in high-quality investment-grade securities provided, however, that up to \$10 million of our total cash and investments may be invested in equity of companies that have a policy to regularly distribute dividends or in Exchange Traded Funds, or ETFs, of a similar nature. We believe that our cash is held in institutions whose credit risk is minimal and that the value and liquidity of our marketable securities are accurately reflected in our consolidated financial statements as of December 31, 2014. However, nearly all of our cash and marketable securities are not insured by the Federal Deposit Insurance Corporation, or the FDIC, or similar governmental deposit insurance outside the United States. Therefore, our cash and any marketable securities that we now hold or may acquire in the future may be subject to risks, including the risk of loss or of reduced value or liquidity, particularly in light of the recent volatility and worldwide pressures in the financial and banking sectors. In the future, should we determine that there is a decline in value of any of our portfolio securities which is not temporary in nature, this would result in a loss being recognized in our consolidated statements of operations.

We depend on key personnel, and the loss of any key personnel could affect our ability to compete and impair our ability to attract additional key personnel.

Our future success depends on the continued service of our executive officers, including Moshe BenBassat, Joel Jeselsohn, Zvi Piritz and Stephen Timms, and other key sales and marketing, product development and professional services personnel. Competition for these employees can be intense, including in a number of our key markets and locations, such as Israel, India, the United States, the United Kingdom and Australia. More generally, we may be unable to attract and retain a sufficient number of highly qualified professional services personnel to meet our business needs.

Customers that license our software typically engage our professional services organization to assist with the installation and operation of our software applications. Our professional services organization also typically assists with the installation and implementation of our customers' software systems. Future growth in licenses of our software will depend, in part, on our ability to continue providing customers with these services. To the extent that we receive several large orders simultaneously or in close proximity to one another, we could place added strain on our existing personnel. The market for the qualified personnel we require is very competitive because of the limited number of people available with the necessary technical and sales skills and understanding of our products and technology. If we are unable to maintain and expand our professional services organization, our ability to support our service business would be limited.

The services of our key personnel would be difficult to replace and the loss of any of these employees could harm our business significantly. Although we have employment or consulting agreements with our executive officers that generally require 60 to 90 days notification prior to departure, our relationships with these officers and key employees are at will and can be terminated by either party without cause. The loss of any of our key personnel could harm our ability to execute our business strategy and remain competitive.

Global economic conditions may adversely affect our business.

Our operations and performance depend on worldwide economic conditions and their impact on levels of business spending, which have deteriorated significantly in many countries and regions and may remain depressed for the foreseeable future. This may adversely affect the budgeting and purchasing behavior of our customers and our partners' customers, which could adversely affect our product sales.

Continuing uncertainties in the macroeconomic conditions may adversely affect the ability of our customers, suppliers and channel partners (e.g., distributors and resellers) to obtain financing for significant purchases and

operations and to perform their contractual obligations with us. As a result, we could encounter, among other adverse effects, a decrease in or cancellation of orders for our products and services, and an increase in additional reserves for uncollectible accounts receivable being required.

If our relationships with our key customers are terminated, our revenues will decline and our business will be adversely affected.

During 2014, our five largest customers together accounted for approximately 25% of our revenues. If for any reason, our relationship with a key customer is terminated, or if any of our key customers reduces purchases of our products, then our business, financial condition and results of operations could be materially and adversely affected. The impact of the termination or reduction in demand of a key customer would be intensified if we were unable to increase sales to other customers to offset this termination or reduction in demand. We expect that a significant portion of our future revenues will continue to be derived from a small number of customers.

Our products could be susceptible to errors or defects or contain inaccurate data from third-party vendors.

Complex software products, such as ours, often contain errors or defects, particularly when first introduced or when new versions or enhancements are released. In the past, some of our products have contained errors and defects that have delayed implementation or required us to expend additional resources to correct the problems. Testing of our products is particularly challenging because it is difficult to simulate the wide variety of customer environments into which our products are deployed. Despite internal testing, testing by current and potential customers and the history of use by our installed base of customers, our current and future products may contain defects or errors. We also commit to service level agreements in connection with our cloud-based offerings, and any excessive downtime may harm the perception of our offerings by our customers. With regard to our entire suite of products and services, defects or errors could result in adverse customer reaction and publicity, damage to our reputation, diversion of resources, increased service and maintenance costs, loss of market demand, loss of market share, loss of potential new customers, lost revenues, liability or a delay in market acceptance of these products, any of which could have a material adverse effect on our business, financial condition and results of operations.

We host our cloud-based offerings on Amazon Web Services, or AWS, and are dependent on the continued reliability of AWS. The performance of our products also depends, in part, upon the accuracy and continued availability of third-party data. We rely on third parties that provide information such as street and address locations and mapping functions that we incorporate into our products. If these parties do not provide accurate information, or if we are unable to maintain our relationships with them, our reputation and competitive position could suffer and we could be unable to develop or enhance our products as required.

Security breaches could disrupt our information technology systems or expose us to liability and our reputation and business could suffer.

A breach of our information technology systems and/or infrastructure by persons with or without authorized access could disrupt our operations. We could also experience business interruption, information theft and/or reputational damage from cyber-attacks, which may compromise our systems and lead to data breaches either internally or at our third party infrastructure providers. Although we have invested in measures to reduce these risks, these measures may not be successful in preventing compromise and/or disruption of our information technology systems and related data.

We retain sensitive data, including intellectual property, books of record and personally identifiable information, on our networks. Customers require us to adhere to various data protection regulations throughout the world. It is critical to our business strategy that our infrastructure and other infrastructure we use to host our solutions remain secure and are perceived by customers and partners to be secure. Despite our security measures, our infrastructure and third party infrastructure we use to host our solutions may be vulnerable to attacks by hackers or other disruptive problems. Our cloud-based offering may create additional vulnerabilities due to the inherent risks of doing business on the internet. Any such security breach may compromise information stored on our networks. Such an occurrence could negatively affect our reputation as a trusted provider of solutions and hosting such solutions by adversely affecting the market's perception of the security or reliability of our products or services.

Our intellectual property could be used by third parties without our consent because protection of our intellectual property is limited.

Our success and ability to compete substantially depend upon our internally developed technology, which we protect through a combination of trade secrets, copyrights, trademarks, patents and intellectual property law, together with non-disclosure and invention assignment agreements. These legal protections are limited. Unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Policing unauthorized use of our products and technology is difficult and costly, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States. The steps we have taken may not prevent infringement or misappropriation of our intellectual property rights.

Our end-user licenses are designed to prohibit unauthorized use, copying or disclosure of our software and technology in the United States, Israel and other countries. However, these provisions may be unenforceable under the laws of some jurisdictions. Unauthorized third parties may be able to copy portions of our products, reverse engineer or obtain and use information and technology that we regard as proprietary. In addition, some of our licensed users may allow additional unauthorized users to use our software, and if we do not detect such use, we could lose potential license fees. In addition, as we deepen our ties with our channel and strategic partners, the number of people who are exposed to and interact with our software and other intellectual property increases. Despite our best efforts to protect our intellectual property, our channel or strategic partners, or their employees or customers, may copy portions of our products or otherwise obtain and use information and technology that we regard as proprietary. Our channel or strategic partners might also improperly incorporate portions of our technology into their own products or otherwise exceed the authorized scope of their licenses to our technology. If we are unable to successfully detect infringement and/or to enforce our intellectual property rights, our competitiveness may be adversely affected.

Our technology and other intellectual property may be subject to infringement claims.

Substantial litigation regarding technology rights and other intellectual property rights exists in the software industry both in terms of infringement and ownership issues. We expect that software products may be increasingly subject to third-party infringement or ownership claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Our products from the acquisition of Xora may be particularly susceptible to infringement claims due to the reliance on location based technology. A successful claim of patent, copyright or trademark infringement or conflicting ownership rights against us could require us to make changes in our business.

Third parties may make a claim of infringement or conflicting ownership rights against us with respect to our products and technology. Any claims, with or without merit, could:

- be expensive and time-consuming to defend;
- divert management's attention and resources;
- cause product shipment and installation delays; or
- require us to enter into royalty or licensing agreements to obtain the right to use a necessary product or component, which may not be available on commercially reasonable terms, if at all.

We also generally indemnify our customers against claims that our products infringe the intellectual property rights of others. We have only conducted a partial search for existing patents and other intellectual property registrations, and our products may infringe issued patents. In addition, because most patent applications are not publicly disclosed until sometime after the application is filed, applications may have been filed that relate to our products. If a successful claim was made against us and we failed to commercially develop or license a substitute technology, our business, financial condition and results of operations could be materially and adversely affected.

Our business is susceptible to numerous risks associated with international operations.

We derive a substantial portion of our revenues from international sales and we maintain significant portions of our operations outside the United States. We expect international revenues to continue to account for a significant percentage of total revenues and we believe we must continue to expand our international sales and professional services activities to be successful. Our facilities are located in North America, Israel, the European continent, the United Kingdom, Australia, India and South Africa, and our executive officers and other key employees are dispersed throughout the world. This geographic dispersion requires significant management

resources that may place us at a disadvantage compared to our locally-based competitors. In addition, our international operations are generally subject to a number of risks, including but not limited to:

- foreign currency exchange rate fluctuations;
- longer sales cycles;
- multiple, conflicting and changing governmental laws and regulations;
- difficulties in staffing and managing foreign operations;
- licenses, tariffs and other trade barriers;
- loss of proprietary information due to piracy, misappropriation or weaker laws regarding intellectual property protection;
- difficulties in communication and monitoring compliance with our internal corporate controls and policy;
- difficulties in complying with a variety of foreign laws and legal standards;
- potentially adverse tax consequences;
- differing labor standards;
- expenses associated with customizing products for foreign countries;
- protectionist laws and business practices that favor local competition;
- difficulties in collecting accounts receivable; and
- political and economic instability.

Also, as we continue to expand into new geographic territories such as Latin America and other territories, adequate controls must be applied to our operations in these new territories in order to ensure compliance with all applicable laws and regulations.

One or more of these risks could harm our future international sales. Our business, financial condition and results of operations could be materially and adversely affected if we fail to manage the risk of doing business internationally.

The large amount of intangible assets and goodwill recorded on our balance sheet may continue to lead to significant impairment charges in the future.

We regularly review our long-lived assets, including identifiable intangible assets and goodwill, for impairment. Goodwill and acquired indefinite life intangible assets are subject to impairment review on an annual basis and whenever potential impairment indicators are present. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. The net amount of goodwill and identifiable intangible assets on our consolidated balance sheet increased significantly following the purchase of Xora to approximately \$11.9 million and may increase further following future acquisitions. Prior to the acquisition of Xora, in 2013, we recorded identifiable intangible assets impairment charges of \$0.2 million. Changes in market conditions or other changes in the future outlook of value may lead to further impairment charges in the future. In addition, we may from time to time sell assets that we determine are not critical to our strategy or execution. Future events or decisions may lead to asset impairments and/or related charges. Certain non-cash impairments may result from a change in our strategic goals, business direction or other factors relating to the overall business environment. Any significant impairment charges could have a material adverse effect on our results of operations.

Investment Risks

If our tax structure is challenged or determined to be inappropriate, our tax liabilities could increase.

We have created an intercompany tax structure based on accepted tax standards and in consultation with our tax advisors. We have potential tax exposures resulting from the varying application of statutes, regulations and interpretations, including exposures with respect to marketing, sales and distribution functions. Tax authorities in various jurisdictions may disagree with and challenge the amount of profits taxed in such jurisdictions, which may increase our tax liabilities and could have a material adverse effect on the results of our operations.

Our Chief Executive Officer owns a significant percentage of our Ordinary Shares and therefore could significantly influence the outcome of actions.

As of March 25, 2015, our Chief Executive Officer, Dr. Moshe BenBassat, beneficially owned approximately 6.9% of our outstanding Ordinary Shares in the form of Ordinary Shares and options for the purchase of our Ordinary Shares. Dr. BenBassat's wife, Idit BenBassat, owns approximately 5.4% of our outstanding Ordinary Shares (of which Dr. BenBassat disclaims beneficial ownership and voting control). Due to the wide dispersion of our share capital, Dr. BenBassat may be able to influence certain matters requiring approval by our shareholders, including the election of directors, or a change of control of our Company. The influence of our Chief Executive Officer could adversely affect our stock price.

Dr. BenBassat and his wife, Idit BenBassat, have pledged a portion of the Ordinary Shares owned by them as collateral for lines of credit secured by them. The forced sale of these shares, for example in the event of a default under the lines of credit, may cause our share price to decline and negatively impact our business.

Dr. BenBassat and his wife, Idit BenBassat, have pledged a portion of the Ordinary Shares owned by them as collateral for lines of credit secured by them. We are not a party to these lines of credit. However, if Dr. BenBassat or Ms. BenBassat were to default under their loan agreements, the financial institutions may sell the pledged Ordinary Shares. The forced sale of a significant number of our outstanding Ordinary Shares may adversely affect our stock price and negatively impact our business.

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

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

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

We may raise additional equity from time to time, which could cause dilution for our existing shareholders or a decline in our share price.

We may raise equity capital through the issuance of additional Ordinary Shares, subject to market and other conditions. The future issuances of Ordinary Shares could cause the market price of our Ordinary Shares to decline and could cause our existing shareholders to experience significant dilution.

Risks Relating to Our Location in Israel

We are incorporated in Israel and have important facilities and resources located in Israel, which could be negatively affected due to military or political tensions.

We are incorporated under the laws of the State of Israel and our research and development facilities, as well as significant executive offices, are located in Israel. Although substantially all of our sales are to customers located outside of Israel, we are directly influenced by the political, economic and military conditions in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. In July 2014, November 2012 and January 2009, Israel was engaged in armed conflicts with a militia group and political party that controls the Gaza Strip, and during the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party. These conflicts involved missile strikes against civilian targets in various parts of Israel, including areas in which our

employees and some of our consultants are located, and negatively affected business conditions in Israel. Historically, Arab states have boycotted any direct trade with Israel and, to varying degrees, have imposed a secondary boycott on any company carrying on trade with, or doing business in, Israel. Although Israel has entered into agreements with Egypt, Jordan and Palestinian representatives, there have been continued and increasing difficulties in the relationship with the Palestinians and no prediction can be made as to whether a resolution of past problems will be achieved or as to the nature of any such resolution. Since 2011, political uprisings and civil resistance demonstrations in various countries in the Middle East, including Egypt and Syria, are affecting the political stability of those countries. It is not clear how this instability, or the 'Arab Spring' in general, will develop and how it will affect the political and security situation in the Middle East. This instability may lead to deterioration of the political relationships that exist between Israel and these countries, and have raised concerns regarding security in the region and the potential for armed conflict. In addition, it is widely believed that Iran, which has previously threatened to attack Israel, has been stepping up its efforts to achieve nuclear capability. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran and/or these groups may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular. Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions and could harm our results of operations. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements. 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.

Any major escalation in hostilities in the region could result in a portion of our employees being called up to perform military duty for an extended period of time. Certain of our employees in our office in Israel are currently obligated to perform up to 36-45 days of annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. The loss or extended absence of any of our key personnel due to these requirements could harm our business.

To date, these matters have not had a material and adverse effect on our business, financial condition or 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 us in the future.

We have taken measures to put in place a business continuity plan addressing foreseen scenarios. However these scenarios do not include the whole range of possibilities and combinations of circumstances.

The tax benefits available to us require us to meet several conditions, and may be terminated or reduced in the future, which would increase our taxes.

For the year ended December 31, 2014, we incurred a pre-tax loss and recorded a tax benefit due to increase in deferred tax benefits. We have benefited or currently benefit from a variety of government programs and tax benefits that generally carry conditions that we must meet in order to be eligible to obtain any benefit. Going forward we expect our effective tax rates to increase compared to effective tax rates in 2014 due to the utilization of tax losses carry forwards mostly in Israel as well as our move to a less favorable tax bracket in Israel.

If we fail to meet the conditions upon which certain favorable tax treatment is based, we would not be able to claim future tax benefits and could be required to refund tax benefits already received. Additionally, some of these programs and the related tax benefits are available to us for a limited number of years, and these benefits expire from time to time.

Any of the following could have a material effect on our overall effective tax rate:

- some programs may be discontinued;
- we may be unable to meet the requirements for continuing to qualify for some programs;
- these programs and tax benefits may be unavailable at their current levels;
- upon expiration of a particular benefit, we may not be eligible to participate in a new program or qualify for a new tax benefit that would offset the loss of the expiring tax benefit; or
- we may be required to refund previously recognized tax benefits if we are found to be in violation of the stipulated conditions.

Additional details are provided in "Item 5 – Operating and Financial Review and Prospects" under the caption "Taxes on income", in "Item 10 – Additional Information" under the caption "Israeli taxation, foreign exchange regulation and investment programs" and in Note 14 to our consolidated financial statements.

The government programs in which we have participated and the tax benefits we receive require us to satisfy prescribed conditions and may be delayed, terminated or reduced in the future.

Until 2010, we received grants from the Office of the Chief Scientist in the Ministry of Economy, or OCS, that helped us finance a portion of our research and development expenditures in Israel. In 2010, 2% of our research and development expenses were financed with royalty-exempt grants from the OCS. Since 2010, we have not requested any further grants from the OCS. Although we do not rely on financing provided by the OCS and we have fully repaid our royalty commitments to the OCS, we must continue to follow the conditions under the Encouragement of Industrial Research and Development, 1984, or R&D Law. For example, if we fail to comply with the representations and covenants we made to the OCS concerning our research and development activities in Israel, we may be required to pay back grant amounts we have received, adjusted for interest, inflation and penalties.

In addition, we are subject to other restrictions with respect to products developed with grants from the OCS. Any know-how developed under the support of the OCS may not be transferred to third parties without prior approval of the OCS, and approval is contingent on the recipient agreeing to abide by the provisions of the R&D Law, and related regulations. Also, our ability to transfer know how outside Israel without the approval of the OCS is restricted under Israeli law, and we may be required to pay increased royalties to the OCS in the case of an intellectual property transfer outside Israel.

Your rights and responsibilities as a shareholder will be governed by Israeli Law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under the laws of the State of Israel. The rights and responsibilities of holders of our Ordinary Shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities may differ in some respects from the rights and responsibilities of shareholders in U.S. corporations. In particular, a 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 or her 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 at the general meeting with respect to, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and acquisitions and transactions involving interests of officers, directors or other interested parties which require the shareholders' general meeting's approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that he or she possesses the power to determine the outcome of a vote at a meeting of our shareholders, or who has, by virtue of the company's articles of association, the power to appoint or prevent the appointment of an office holder in the company, or any other power with respect to the company, has a duty of fairness toward the company. Currently there is not a clear definition of the duty of fairness under Israeli law. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations. The Israeli Companies Law, or the Companies Law, does not establish criteria for determining whether or not a shareholder has acted in good faith. Moreover, the Companies Law is relatively new and there is little case law available on the duty of a non-controlling shareholder to act in good faith.

It may be difficult to effect service of process and enforce judgments against directors, officers and experts in Israel.

We are incorporated and maintain significant operations in Israel. Some of our executive officers and directors and the Israeli accountants named in this annual report reside outside the United States and a significant portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to affect service of process on us or any of those persons or to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws, against us or any of those persons, in an Israeli court. 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 and similar acts, but it may be difficult for an investor or any other person or entity to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

Under current Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We currently have non-competition clauses in the employment agreements of most of our employees. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. Recently, Israeli labor courts have required employers, seeking to enforce non-compete undertakings against former employees, to demonstrate that the competitive activities of the former employee will cause harm to one of a limited number of material interests of the employer recognized by the courts (for example, the confidentiality of certain commercial information or a company's intellectual property). In the event that any of our employees chooses to leave and work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise our former employee obtained from us, if we cannot demonstrate to the court that we would be harmed.

We are subject to anti-takeover provisions that could delay or prevent our acquisition by another entity.

Provisions of Israeli corporate and tax law and of our articles of association may have the effect of delaying, preventing or making more difficult any merger or acquisition of us. In addition, any merger or acquisition of us will require the prior consent of the OCS if intellectual property is removed from Israel, as well as the Investment Center of the Israeli Ministry of Industry, Trade and Employment, or the Investment Center. Israeli law regulates mergers, votes required to approve a merger, acquisition of shares through tender offers and transactions involving significant shareholders. In addition, our articles of association provide for a staggered board of directors. Any of these provisions may make it more difficult to acquire us. Accordingly, our acquisition by another entity could be delayed or prevented even if it would be beneficial to our shareholders.

As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we may follow certain home country corporate governance practices instead of certain Nasdaq requirements. We follow Israeli law and practice instead of Nasdaq rules, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.

As a foreign private issuer whose shares are listed on the Nasdaq Global Select 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 composition of the board of directors, director nomination process, the compensation of executive officers, the requirement to obtain shareholder approval for the establishment or material amendment of certain equity-based compensation plans and arrangements and quorum at shareholders' meetings. As a foreign private issuer listed on the Nasdaq Global Select Market, we may also follow home country practice regarding, for example, the requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). 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 SEC, or on its website, each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Global Select Market may provide less protection to our shareholders than what is accorded to investors under the applicable rules of the Nasdaq Global Select Market applicable to domestic U.S. issuers.

If we were to lose our foreign private issuer status under U.S. federal securities laws, we would incur additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial

statements with the SEC as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

The regulatory and compliance costs to us under U.S. securities laws, if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer, may be significantly higher than the cost we currently incur as a foreign private issuer.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and development

Our corporate name is ClickSoftware Technologies Ltd. for both legal and commercial purposes. We were incorporated as a company under the laws of the State of Israel in 1979 and are subject to the Companies Law. From inception until 1996, we operated as a consulting company in the area of optimization and intelligent decision support systems. Thereafter, we transformed our business model to provide workforce management and optimization products and solutions. We have been listed for trading on the Nasdaq stock market since 2000. Our principal executive offices are located at Azorim Park, Oren Building, 94 Em Hamoshavot Road, Petach Tikva 4970602, Israel, and the telephone number at that location is +972-3-765-9400. Our website is located at <http://www.clicksoftware.com>, which is not a part of this annual report. Our wholly owned U.S. subsidiary, ClickSoftware, Inc., has been appointed our agent in the United States and is located at 35 Corporate Drive, Suite 400, Burlington, Massachusetts.

Our capital expenditures for 2014, 2013, and 2012 amounted to \$2.5 million, \$3.5 million, and \$2.5 million, respectively. These expenditures were primarily for hardware and software and leasehold improvements. Our current capital expenditures are primarily for leasehold improvements and hardware and software, and we expect to finance these expenditures primarily from cash on hand.

4.B. Business overview

Who We Are

We are a leading provider of software products and solutions fully focused on optimizing service operations. We enable service companies to be at their best at the moment that matters most -- the service delivery moment. We provide field organizations of all sizes and in all industry verticals the ability to organize themselves, work productively, and solve complex challenges through intelligent decision-making. Furthermore, beyond optimizing the operations of individual service providers, our products enable “win-win-win” harmony within a network of service providers collaborating in a variety of outsourcing and contracting arrangements to deliver top quality customer service networks.

We derive revenues from the licensing of our software products: (a) when delivered as cloud-based SaaS, or Software as a Service, via recurring subscription fees, or (b) when installed “on-premise” via a one-time fee for perpetual licenses, in which case we also sell recurring annual support and maintenance contracts. We also derive revenues from consulting services associated with the deployment of our products.

Our products are aimed at the service sector, where the primary resources are people (e.g., service technicians), many of whom engage with customer-facing activities (unlike the manufacturing sector, where the primary resources are machines and raw materials). Another key differentiator from the manufacturing sector is that a customer receiving service is typically part of the service process (having to stay home for the service), while in the manufacturing sector the customer is not required to be present during the actual production process. Thus, time synchronization, predictability and utilization is critical for both the service resource and the customer (with the service provider seeking to avoid the well-known scenario of a customer waiting at home for the service resource to arrive), while also maximizing the utilization of its workforce. Service quality is strategically paramount for business success.

The Importance of ClickSoftware to the Customer Delivery Process – “Master the Moment”

The major strategic importance of customer care is now widely recognized. The future of the world’s biggest companies and brands often depends on the –moment when customers need help. In today’s social media focused environment, poor customer experience can get amplified, and a small mishap may become a giant

blunder that can ruin a brand. The opposite may also be true. By mastering every moment with customers, the brand of a service may “go viral” for praise.

On the other hand, even companies who place customer satisfaction as their top priority can only invest so many resources in service before risking their own financial viability. Therefore the productivity level of the field force is of critical importance in order to reach the “Service Envelope™”. The Service Envelope is the maximum attainable service output an organization can generate for a given level of resource input it invests, while using the best practices, tools and technologies available at any given time. By incorporating industry best practices and intelligent automation algorithms into our software products, we enable our customers to reach their Service Envelope; optimally balancing the constant tension between the need to take service to higher levels and the need to control operations costs.

Market Need

The service world is immensely intense. There is a constant stream of incoming customer calls which need to be addressed. Those customers already scheduled may inquire about a technician who is late, or request a more specific time within the promised time window. Other customers may request an appointment as early as possible, or “for today” in an urgent situation, such as a heating outage in mid-winter. In parallel, resources report their status -- some finished earlier than planned, some are late, and for others the customers are not at home. Back in the office -- some people deal with today’s challenges, others are addressing next week’s needs (e.g., better spread of the appointments), while others are dealing with vacation requests and training needs for the next quarter, and still others are preparing for an upcoming budget review where they need to present their hiring requests. They must all be orchestrated harmoniously to deliver customer service day in and day out.

The service world is also immensely complex. Some tasks require one person and an hour; others require a multi-person team and multiple days, and are composed of a large number of sub-tasks that need to be executed in a certain order. Some tasks are extremely urgent while others may be performed at any time during the next few weeks (as in periodic and preventive maintenance). Some tasks require collaboration and integration of processes across different business lines (e.g. procurement, provisioning, service) and even across different companies (e.g., subcontracting). Missing any of these small details can degrade the whole service operation via increasing errors and overall loss of productivity and customer satisfaction. Our solutions are designed to master this complexity to automatically create clear work plans for each participant in the service delivery, so that all the plans work together; and in instantly adapting the plans when something unforeseen happens. We have decades of experience developing and refining our solutions and via listening to our customer base, which is the largest in our industry.

Many factors play a role in each individual decision about a customer or a resource, and there are many individual customers and individual resources to consider. Combined together, these decisions create a gigantic puzzle of moments in time and space involving Who does What, for Whom, With what, Where and When (known as “W6”). With ClickSoftware’s products a new order emerges as these moments are organized into a cohesive picture. We first conceived of the W6 paradigm in the mid-1980s and have constantly developed and refined it ever since.

Our Solutions for the Market Need

Our products provide our clients’ full service team- from field resources and dispatchers, to schedulers, planners and forecasters - the support they need before, during, and after the service moment so that they can deliver optimal customer interactions, and become the best brand ambassadors a company can have. Our clients’ teams are always connected via mobility technologies with the client and among themselves, and are in touch with the clients’ customers, who are the center of it all. Via Artificial Intelligence, or AI, and optimization algorithms, our clients can automate many decision-making processes, e.g. appointment booking, scheduling, forecasting and capacity planning, and allow our software to automatically manage processes in accordance with our clients’ service policies in a consistent and optimized manner. We apply higher intelligence so that people can operate with higher efficiencies, supported by intelligent decision-making, and always remain in command. The ongoing dynamic process of demand forecasting and capacity planning leads to time-adaptive resource levels by territories and skills, enabling our clients to arrive at the day of service with just about the right amount of capacity to achieve its customer service goals and yet minimize waste. We believe this makes the day of service as uneventful as a day of service can possibly be. Our differentiator is the intelligent automation in our offerings – the rules and other structures that represent knowledge of the domain, plus inference and optimization algorithms to make decisions that are not only valid but also cost-effective.

Enterprise Software Industry and Its Categories

Over the years the enterprise software industry produced several categories and sub-categories within fairly well-defined boundaries, e.g. Human Capital Management, or HCM, Customer Relationship Management, or CRM, Supply Chain Optimization and Service Chain Optimization. As the industry developed the boundaries between categories blurred, and overlaps were introduced. The CRM category typically focuses on the main aspects of the “relationship” with the customer, and its functionality covers the processes from the point a customer calls for service to the point the customer asks: “so when are you going to send someone to fix my problem?” At this point, most CRM software solutions reach their boundaries. From this point on, the category of service chain optimization- a category we pioneered in the 1990s - takes over, covering all workflows and business roles in a field service organization.

Service Chain Optimization: Brief Overview

A service operation is ultimately measured by its performance on the day of service -- the individual moments of engagement with customers and the aggregated business metrics associated with it, such as rate of compliance with service commitments, travel miles, and total number of jobs successfully delivered per day with their associated cost. All activities prior to, during, and after the day of service are actually aimed at optimizing performance at the moments of customer engagement. Many decisions which are made months, weeks or days in advance eventually impact the workload and available capacity on the day of service, and hence on the organization’s ability to deliver at the critical moments of meeting the customer and delivering the customer’s need. These decisions include capacity and demand management around the day of service, shift scheduling, vacation and training decisions, timing of hiring internal employees or engaging with contractors, work-load spread, and overall forecasting and capacity planning.

These needs are what drove the Service Chain Optimization paradigm which was invented by us in the 1990s (patent awarded). The paradigm refers to the integrated process of continuous planning, scheduling and execution across the full time horizon -- before, during and after the day of service. Different people are involved in these processes and are tasked with optimal management of customer demand and service resources as a function of the decision options available at different points of time. For example, the hiring option is not practical two weeks before the day of service, so if an organization is short of resources, the only options available to it are outsourcing, overtime, or cancelling vacations -- each with its own impact on the bottom line. Service chain optimization is similar to supply chain optimization for the manufacturing sector.

ClickSoftware’s Mobile Service Chain Optimization Products

Our products comprehensively support the full service chain management needs, enabling our clients to be at their best when it matters most -- the customer engagement moments. Our products are designed to optimize decisions and execution -- in both the short term and the long term; supporting our clients in their decisions and execution.

Recognizing that on-going connectivity and collaboration are critical for optimizing decisions and their execution, we offer mobile “apps” for all business roles. Data sharing and logic sharing between apps at all levels, as well as intelligent personal assistants (ClickButlers), produce integrated solutions with streamlined workflows, leading to harmony and efficiencies.

Business Networks of Service Providers

Recognizing that today’s world of service involves extensive business networks of service providers collaborating on a variety of outsourcing and contracting arrangements, we created a software solution to connect all entities within such networks to enable a win-win harmony. Consider, for instance, a large national company that sells home appliances all over the country, and provides delivery and installation of its appliances via a network of small family owned businesses or mid-size service providers. Managing the dispatch process and monitoring the delivery process to the end customer is quite challenging, even with an internal workforce. Accomplishing this with a field force that relies heavily on autonomous third parties is even more difficult. With our Service Marketplace solution we enable networks of service providers to operate in full synchronization, providing the prime service provider with real time control and visibility into the status of customer commitments, yet respecting the autonomy of each individual contractor entity. Contractors receive daily work orders on their mobile devices and the prime service provider can see on a map where they have been, where they now are, where they are heading, and when they are estimated to arrive at customer sites. The contractor’s

field force reports job status in real time, collects customer signatures, fills out timesheets, or takes photos. Upon reporting job completion on the mobile device, an electronic process occurs, immensely streamlining the invoicing process and eventually leading to faster payment to the contractor. Using our solution, a third-party contractor can manage all jobs in one place from all sources - not just from one prime service provider. Our Service Marketplace solution allows our customers to realize higher efficiencies, which leads to greater availability and the ability to support a higher volume of work. The entire network is optimally managed - maximizing compliance with customer commitments, maximizing productivity, and minimizing cost.

Mature and Field Proven

Since their inception in the mid-1990s, our service chain optimization products have been deployed at numerous companies worldwide in a diversity of industries, including: utilities, telecommunication, office equipment, capital equipment, security systems, home health care, insurance and finance, retail, and more. These products are now mature offerings with proven record of quantifiable return on investment, or ROI.

We are not developers selling software products to service companies, but rather a service company in the software business. Our staff consists of experts with more than 20 years of service management and optimization experience. We have embedded industry best practices and our own domain expertise into software products, and made it available to service businesses of all sizes through state of the art technologies.

We Focus on What We Do Best

We focus on what we do best: the functionality layer of software for mobile workforce management and service optimization. This focus is our core competency. For example, we avoid developing general purpose tools for mobile device management, or mobile security. Instead, we integrate third party technologies into our products. Similarly, we use the Big Data engine from companies who excel in this technology, rather than developing it ourselves.

Our products are packaged in a highly modularized manner, which enables clients to start at any level they wish and progress at their own pace.

Versatility

Our innovative products are developed by top programmers with depth and breadth in a diversity of fields including: mobile connectivity, AI, mathematical optimization, predictive analytics and more. We continually follow the emergence of new technologies and attempt to leverage them to further push up the service envelope for our clients. For example, we have released functionality on “wearable computing” for field service and shift scheduling. Our analytics products - together with their learning and predictive algorithms - seek to leverage the Big Data engine in order to take their performance and scale to new heights. Similarly, several Internet of Things and Machine to Machine projects are now underway in our laboratories.

Tailor-Made Best Practices Adapted to Unique Needs and Structure

We believe that a best practice for one enterprise client is not necessarily the best fit for another, and that best practices should be adaptable to the unique structure and needs of any given organization. Accordingly, we offer business consulting services to help our clients craft the set of best practices that fit an individual client, and configure them in software products to run its service operations.

Driving Excellence in Service Delivery

We believe that to drive excellence in service delivery our clients need to master every moment in the services delivery process. To master every moment, our clients need to use best practices and the best available technology tools so as to optimize workforce productivity. By doing so, our clients reach their service envelope and beyond, leading our clients to overall business success and increased market share, revenue growth and profitability.

Our Growth Engines

We are focused on three major growth engines: cloud services, mobility and increasing our addressable market.

(1) Cloud Services

We continue to upgrade our infrastructure to support our cloud-based offerings. We have a separate division fully dedicated to selling cloud-based solutions of all our products, including our cloud-based ClickWorkforce and ShiftExpert offerings for the SMB market and its built-in mobility component. With these offerings, we now have one of the best solutions for the field service mid-market where cloud-based solutions are popular. We capitalized on our momentum in this space in 2014 and intend to continue this momentum in the coming years. Additionally, we created our Smart product line (StreetSmart and additional apps) based on the acquisition of Xora, and this has become our cloud solution for smaller service businesses.

(2) Mobility

We believe that market penetration via mobility is a key to our growth. Customers now tend to first address workforce management improvement through mobility solutions, as opposed to optimization solutions. This trend is expected to significantly expand our addressable market. We have leveraged our leadership position in deploying large scale enterprise mobility solutions at some of the most demanding organizations in the world as well as rolling out our ClickAppStore for business mobility solutions. We are already working to broaden awareness of our patent-pending ClickButler technology, a context-aware intelligent inference engine that increases productivity of mobile workers. Once a customer uses ClickSoftware's mobility products, it dramatically increases the potential that we can upsell our schedule optimization and decision-making products. In addition, mobility solutions will assist us in selling our cloud-based offerings by enabling us to generate new business via small "apps" that are hosted in the cloud. We have also released functionality on "wearable computing" for workforce personnel to further accelerate our penetration in this space.

(3) Increasing our Addressable Market

We currently address a deeper and broader market share of the service sector than we have in the past, including individual service providers of all sizes as well as service networks. We include -- companies of all sizes (from 5 to 50,000 resources), in all verticals, in the cloud or on-premise, for office users or mobile users. Beyond the optimization of individual service providers, our products enable "win-win-win" harmony within a network of service providers collaborating on a variety of outsourcing and contracting arrangements to deliver top quality customer service. Our ability to help our clients create service networks adds an element of "stickiness" to our offerings. Large service providers typically utilize smaller service providers to deliver part or all of their customer service commitments through a variety of outsourcing and subcontracting arrangements. This structure requires software to manage workflows in a manner that balances the interests of each of the companies. For example, large service providers require visibility into the status of a job which is delivered by a contractor. Contractors would like to preserve their level of autonomy as they typically provide services to competing larger service providers. For example, if jobs are dispatched via email or other messaging techniques, the end result is unstructured text that provides minimal means for visibility and follow up. We provide applications to manage the dispatch process in a structured manner that enables monitoring as to the status of a job at any point in time including, for example, visibility on a geographic map as well as estimates for the expected time of arrival.

Our Vision and Mission

Our vision is to lead the revolution in customer experience, workforce productivity and overall operational excellence.

Our mission is to enable clients to be at their best at the moment that matters most: the service delivery moment.

In today's highly competitive environment, we enable service organizations to execute on their service commitments at the right time and place effectively (doing the right things) and efficiently (doing the things right). We achieve that goal by leveraging optimization and mobility technologies, as well as best practices, for real time on-going management of customers' commitments and the organization's resources. By so doing we improve the experience of our customers' customers, maximize productivity and service revenues and minimize the cost of service delivery. The end result is higher customer acquisition and retention as well as improved financial performance.

Our products and solutions incorporate best business practices, key business functions of service operations, and sophisticated decision-making algorithms that enable our customers to manage their service operations more efficiently in a scalable, integrated manner. Our products for daily management are mission critical applications

that manage incoming jobs from the moment a job is opened until it is successfully closed, including generating the appointment time for a customer, assigning the job to the appropriate technician, designing the optimal route for the technician to minimize travel, and monitoring progress. Mobility solutions on smartphones, tablets, laptops and wearables are also part of our offering aimed at on-going real time optimization of customer response and at increasing the productivity of technicians, supervisors, managers and executives. Our solutions have become the backbone of service operations management in many large scale leading organizations worldwide by addressing the fundamental question of job fulfillment: W6.

Our enterprise mobility initiative continues to serve as a major growth engine for our Company and generates value for our customers in several ways. First, at the group level of matching jobs and resources, it addresses the dynamic decision-making required during the day of service. Second, once a given resource receives its sequence of jobs for the day, our mobile software enhances his/her productivity. With the proliferation of new tablets and smartphones for consumer usage, businesses are looking for ways to leverage these new devices and technologies in their businesses. We view the mobile device as the field office of the technician, and accordingly offer functionality to facilitate his/her daily activities and to promote paperless operations. The market for enterprise mobility is expanding with the explosive growth in consumer-related mobile applications, or apps. With years of experience in developing and deploying business mobility solutions, we believe that we have the right platform at the right time to take full advantage of these opportunities. In 2014, our Mobility solutions and ClickAppStore won four categories in the 12th annual Mobile Star Awards™ program. We also received Frost & Sullivan's Innovation Award for developing a context-aware, AI-based software assistant for mobile field workers. In 2013, we received, together with our customer Portugal Telecom, the Global Telecoms Business Innovation Award for innovating through automated scheduling and mobility.

The enterprise mobility initiative is based on our ClickAppStore which includes numerous ready-to-use mobile business apps, as well as an integrated development environment in which IT professionals can assemble business apps into end-user solutions using primarily no-coding 'drag and drop' visual wizards. As more companies move to build their own application stores for smartphones and tablets, we believe that we have one of the best platforms for enabling IT professionals to develop their own application store with minimal time to market per app, and with considerably lower technical skills requirements.

In 2014, we achieved recognition for our enterprise mobility from analysts and partners. For example, Gartner, a leading information technology research and advisory company, included us in its Magic Quadrant for Mobile Application Development Platforms, or MADP. Gartner assessed 20 vendors based on their ability to execute and completeness of vision (source: Gartner Magic Quadrant for Mobile Application Development Platforms, by Ray Valdes, Van L. Baker, Richard Marshall, Jason Wong, published September 2, 2014).¹

We also partner with software vendors that supply other parts of the mobility software technology infrastructure, including SAP and IBM.

By offering scaled down versions of our products, or specially developed versions for medium and small businesses, or SMB, we now address the needs of service sector companies of all sizes - from companies with 50,000 employees to companies with five employees. Recognizing that many large service companies today outsource or utilize external contractors, we offer capabilities in our products to support such operations under a variety of arrangements between our client and its contractors.

Internal and External Interoperability

Our products operate on the same software architecture with extensive interoperability within our own products, as well as with external products. In 2009, we released Version 8 of our products which is based on Service Oriented Architecture (SOA), an architecture which, we believe, is the standard in the software industry. This

¹ *The Gartner Reports described herein, or the Gartner Reports, represent data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc., or Gartner, and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.*

architecture enables interoperability via web services and greatly facilitates integration with the outside world. The ease with which our products can be integrated with leading CRM, Enterprise Resource Planning, or ERP, and EAM solutions, often with standard interface adaptors, enables our customers to efficiently deploy our solutions. We continue to develop our products and currently offer Version 8.3 to our customers. We expect to release Version 9 during 2015 which we believe will have the most advanced Cloud-Mobile-Web architecture in the market enabling integration using an industry standard REST API.

In our ClickPlatform we have also adopted an extensive approach towards interoperability. Our Mobility Platform is infrastructure-agnostic and can integrate with various state-of-the-art vendors such as Microsoft (RDA), SAP (Sybase/SUP), IBM (Worklight) and pure HTML5/WebService. We further provide an innovative set of visual configuration tools and a flexible object model for building mobile business applications and storing them in our shared ClickAppStore. Our ClickStudio, using drag-&-drop functions, allows the creation of modules and workflows components based on ClickApps, with the ability to connect them together into one or more business applications.

Methodically Expanding the Industry Verticals We Address

Over the years we have been methodically expanding, and continue to expand, the industry verticals we address. Historically our focus was on mobile workforce for field service operations, including utility (electricity, gas and water) companies, telecommunication, computer and office equipment, medical equipment, and the like. A typical scenario would be optimal resource and time slot allocation for a stream of incoming service calls to install, repair or service customer or infra-structure/network equipment. Over the years, this group expanded to include insurance agents, home health care and Oil and Gas companies. With the introduction of enhanced shift scheduling (rostering) products, we expanded to cover industry verticals that operate a shift-based workforce - 24x7 or more than one shift. These verticals include both field service operations such as public transportation, airport security and in-house service operations such as prison contact centers, retail stores, and more. A typical scenario involves the assignment of people to shifts in such a way that estimated customer demand for service is optimally covered, employee desires are respected, and cost is minimized.

Value to Our Customers

We sell end-to-end solutions to support decision-making and execution needs across the service enterprise covering long, mid, and short term needs, including intense real time processes to address the dynamic aspects during the day of service. We sell to service operations that need to (1) optimize the delivery of their service commitments, and (2) grow the cost of service at slower pace than their revenue growth. We create value by considerably increasing compliance with service commitments, resource productivity and overall visibility and control.

We offer value to customers at several levels which can be generally categorized into two main categories. The first category is group productivity (W6). The second category is personal productivity – maximizing the resource's individual productivity and job quality.

Before optimization and mobility solutions are introduced to a service organization, W6 decisions are made manually by schedulers/dispatchers, and communication with the field during the day is non-existent or limited to voice communication. Our products are designed to markedly improve the customer experience in today's intense and demanding service world. Our goal is to eliminate the so called "service guy syndrome" – a situation we are all too familiar with of waiting at home endlessly for the service technician to arrive. In addition to improving customer service, which by itself has substantial impact on business success and market share, our products enable our clients to improve productivity by reducing travel time, reducing overtime, increasing on-site efficiency and minimizing overall time waste. The value delivered by our products is quantifiable and can be measured by business metrics that directly impact the financial results of our clients. These metrics include, for instance, impact on revenues derived from improvements in productivity as measured by an increase in the number of jobs delivered, or impact on operating profit. With our products, our clients can scale up their revenues and profits faster than the scale up needed in their cost of operation in order to achieve their business growth.

ClickAppStore and Enterprise Mobility

With the proliferation of smartphones and tablets for consumer use, business people are naturally looking for ways to use them for business needs. According to Forrester Research, the number of global smartphone subscribers is expected to reach 3.5 billion by 2019, crossing the 50% mark for smartphone penetration by

population in 2017 and reaching 59% by 2019, up from 28% in 2013 (source: Forrester Research World Mobile And Smartphone Adoption Forecast, 2014 To 2019 (Global), Analyst: Satish Meena, Updated: December 29, 2014).

The current enterprise mobility market is one of “apps in the cloud”. The trend is away from buying enterprise software as large monolithic do-everything solutions. Instead, enterprises are buying business apps, with each app serving specific goals and enabling the organization to achieve rapid selection, deployment and ROI. Our mobility strategy and solutions, as described below, are built to support this trend via a rich selection of apps in the ClickAppStore. One potential weakness of the replacement of enterprise software with separate apps is that typical apps are standalone, forcing users to repeatedly jump between apps and re-enter data. However, with ClickApps, once an organization chooses apps from the ClickAppStore, these apps automatically combine to create an environment with shared data and workflows.

Types of mobile users and advantages: Two main types of mobile business users can be distinguished: an office worker who is occasionally in the field, and a mobile worker who spends most of his/her working time in the field. Examples of the mobile worker are: utility and telecommunication engineers - for both consumer work as well as infrastructure work, oil and gas employees, technicians for office, high tech or medical equipment, insurance claim adjusters, home healthcare providers, field door to door sales agents, pharmaceutical agents, and the like. While the advantages of mobile devices for the occasional user are moderate, they offer tremendous benefits for the field mobile worker in terms of productivity gains and customer satisfaction. The mobile field user's attention (e.g., the cable technician or insurance agent) is focused on the mobile device for only short time slots as most of their time is devoted to interacting with people, servicing equipment, driving, or other tasks involved in getting the job done. Thus it is critical to have streamlined user interfaces that require minimal typing and easily handle all back-office communication. Without these prerequisites, users will resort back to paperwork and voice communication despite all their limitations, e.g., time consumption and errors.

Uniqueness of business mobile apps: The main difference between consumer mobile apps and business mobile apps is in the type of need they answer for the user of the mobile device. Consumer mobile apps are designed for the single user, typically are not interoperable and do not easily connect to enterprise back-end organizational systems. They are not geared for the tight security requirements of business systems. Additionally, business people often need to use multiple apps to carry out their business role, where the output of one app serves as the input for another app, and apps are assumed to be aware of common data (as opposed to having the user copy and paste data from one app to another). The need for streamlined workflow is critical for the business mobile apps. The benefits of these apps, specifically those designed for the enterprise, are that they work together and provide an end-to-end connection between the mobile device and the back-office enterprise IT systems. In addition to simplifying everyday processes and improving productivity, business apps provide the potential to significantly increase customer satisfaction by introducing processes that automate response or notifications to the customer.

The **ClickAppStore** is a virtual store implemented through an application website that contains a wide variety of business-oriented “ClickApps”. The ClickApps address a range of common business scenarios/processes for different industries, including upselling, employee collaboration, timesheet management, employee safety and travel navigation.

Using an integrated development environment called “ClickStudio,” discrete apps can be combined to form composite apps for complete end to end work flows and solutions. A significant portion of this process is accomplished via “drag & drop” operations with minimal coding and without having to upgrade the existing underlying infrastructure. Our ClickAppStore uses our ClickPlatform to keep track and maintain context across multiple mobile apps, in order to make these workflows seamless and friendly.

We have embedded the ClickButler technology serving as the user’s ultimate personal assistant in just about every ClickApp where it may be useful. Contemporary mobile solutions require too much swiping and typing which consume precious time and reduce user-acceptance and usage. ClickButler technology leads to significant efficiencies and improvement in compliance with company policies derived from prompts and reminders, minimal typing, health and safety aids, and more. The ClickButler concept is designed to improve the built-in “intelligence” of our mobile and non-mobile apps by anticipating what the user needs and acting on it proactively, and within the right context. Our notion of a “Context Board” and its related actions expands the definition of “state,” “context” and “action” to just about any parameter in the ‘Business Universe’ under consideration - such as customer contract, technician skill, spare-part availability or job urgency. Unlike the consumer world where location-awareness, time-awareness, and weather-awareness cover the vast majority of

the behaviors seen today, ClickButlers' generalized engine for context-aware computing, systematizes the creation of butler behavior, including tools to configure them at a group and individual level. (Certain butler behaviors are derived from company practices and policies and thus are common to all users, e.g. service technicians). Note that unlike the reactive interaction of "virtual assistance" which pervades today's consumer technology (the AI is activated only when the user explicitly asks it a question), ClickButler takes a proactive approach, popping up with suggestions – or automatically performing actions – when the situation requires it.

Suites, Products and Services

Our solutions are designed to deliver improvements in:

- workforce productivity;
- responsiveness to customers;
- customer service experience;
- profitability of the service operation;
- adhering to union and business regulations; and
- reduction in missed customer commitments.

Once we sell our products, we are frequently contracted to provide consulting services to help with their deployment. To ensure success and minimize cost to our customers, each of our services engagements follows a structured implementation methodology which has proven successful in hundreds of customer implementations. This methodology includes the following phases: planning, requirements gathering, design, delivery, training, testing, go-live and transition to worldwide support organization. Each phase requires the cooperation of and contributions from the customer in order to ensure a successful delivery. Unlike more traditional methodologies, when we start working with a new client, we do not start with a blank slate, ask the users what they want, write down the answers, and return months later with an implemented version, only to learn that certain points were missing or misunderstood. To deliver what the users really need, we have developed a set of "starter kits" and automatic adaptation processes that together deliver ready-to-go "close-enough" solutions. We work with the users on real-life scenarios on a working solution, and the users only need to point out what they like and what they want to change, leading to a much faster and more reliable process of delivering a usable solution. We call this methodology "WISIK", or "When I See (it) I'll Know (it)". Users are much better at adapting on a working system than they are at designing a system from scratch.

Suites

Our solutions are offered individually or packaged into four main suites which together comprise our Service Optimization Suite:

Field Service Daily Suite covers automatic decision making and optimization support to manage field service operations: commencing from appointment booking and scheduling during the period around the day of service, followed by real time scheduling and optimization during the day of service and culminating with reports and business metrics analytics after the day of service.

Roster (Shift Planning) Suite covers shift planning needs for both the manager as well as the employee to optimize the balance between staffing levels needed for serving customers and managing labor costs, and employee preferences. This suite is offered in several configurations for different industry verticals ranging from police forces to contact centers, and more.

Mobility Suite covers the needs of the mobile individual and back-office staff for field data communication, such as sending jobs from the back office to the person's hand-held device, and the person's ability to accept/decline the job, report on progress and job completion, as well as up-selling by a repair technician, capturing customers' signatures, or sending the person's own time sheet to the back office. Geography support, such as travel guidance and information about underground equipment are also covered. Together with the Field Service Daily Suite, the Mobility Suite offers a complete solution for the real time service enterprise, another concept which we have pioneered. The result is that any manager, dispatcher, field resource or other employee related to service delivery has digital access to the entire process at their fingertips, 24/7 on their handset or tablet, and is supported by intelligent algorithms to make service timely for the customer and cost effective for the service provider.

Forecasting and Planning Suite covers tactical short term resource planning, such as vacation requests and training needs, as well as longer term capacity planning that addresses the question: what should be the size and skill mix of the field force in each of the territories. To perform these planning questions we also offer forecasting capabilities by which our customer predicts the volume and type of service calls that will arrive at each territory unit for a given time horizon.

Products – Enterprise Market

ClickSchedule optimizes service scheduling and routing to improve workforce productivity by balancing customer, service and asset resources, and organizational preferences, including contractual commitments, priority, drive time, skills, and service and asset resources availability. Configuration capabilities, a high degree of scalability and use of standard service oriented architecture compliant web services interface coupled with graphic mapping tools are designed to ease and improve integration with other enterprise systems and deployment according to organizational business policies and processes. ClickSchedule is our main software platform and accounted for the majority of our license revenues in each of 2014, 2013 and 2012.

ClickMobile provides a highly flexible and scalable enterprise mobile workforce solution which can be configured with mobile business applications from the ClickAppStore. It is designed to support mobile field service users working in any kind of environment, offline and online, with rich features and full accessibility to back-office systems. ClickMobile is widely used across entire organizations by large enterprises with thousands of resources, using the system in mission critical environments.

ClickAnalyze and ClickDashboard provide reporting, monitoring and service business analytics for workforce performance measurement and strategic decision support. The offerings enable analysis of key performance indicators, including resource productivity, operational costs, and responsiveness to customers. Integrated within the Service Optimization Suite, these offerings provide executive level summaries, as well as operational detailed reporting and analysis by territory, job type, time frame and other criteria.

ClickLocate (LBS) captures the location information of a field service engineer and/or his or her vehicle obtained via GPS or other technology and integrates it with ClickSchedule for use in optimized scheduling. LBS then enables service organizations to improve their service operations by allowing them to make decisions and take actions based on location information, including near real-time engineer locations. In effect, LBS enables service managers to "see" the current location of the entire mobile workforce at one time.

ClickContact is a customer interaction management solution that enables self-service appointment booking, order updating, automatic customer notifications and customer satisfaction surveying. From scheduling the initial appointment through enabling a post-service follow-up survey, ClickContact provides enhanced customer interaction management throughout the service lifecycle.

ClickRoster provides interactive and automated workforce shift planning based on forecasted workload by quantities and skill requirements, rules and regulations, working contracts, engineer skills, calendar and preferences.

ClickPlan provides interactive and automated workforce planning for staffing and deployment of the field workforce based on forecasted workload. ClickPlan is designed to enable service organizations to resolve workforce shortages and surpluses weeks and months in advance. Comparing available resources to forecasted workloads, ClickPlan helps determine the best strategy to ensure the right people are in the right place at the right time.

ClickForecast provides field service workload forecasting to enable companies to project workforce capacity. ClickForecast can combine historical service workload with future business events to create a forecast for each territory, job type, or business unit. ClickForecast enables service managers, marketing, and sales to collaboratively determine the demand levels of customers, and to create multiple forecast scenarios, each with different business assumptions.

Products - ClickSoftware Cloud Services

ClickSoftware Cloud Services, or ClickCloud, enable the customer to utilize our full product offering in the cloud, thus gaining low total cost of ownership, shorter deployment period, minimal up-front investment, scalability and single sign-on from any location. ClickCloud offers medium and large market enterprise

customers an alternative to our classic on-premise deployment of the Service Optimization Suite. ClickCloud also enables a hybrid IT model, which is a solution comprised of a mix of Cloud and on-premise deployment. Using ClickCloud, customers can choose to control their maintenance and upgrade schedule, as well as the add-ons that they use to enhance their individual solution.

ClickWorkforce is an end-to-end mobile workforce management solution hosted on the cloud that provides optimized scheduling and mobility, fully integrated within salesforce.com.

Products – Medium Sized Market

ShiftExpert is a smart and easy shift scheduling and management solution, running 100% on the salesforce.com platform and using the ClickSoftware Optimization as a service engine.

FieldExpert, which we intend to release in the second quarter of 2015, is a smart tasks and appointments scheduling solution, targeting work-force of any kind, mobile or in-office, running 100% on the salesforce.com platform and using the ClickSoftware Optimization as a Service engine.

Products – Small Customers

Xora StreetSmart is a suite of mobile workforce management applications for field employees.

Xora InVehicle provides management tools for fleets of all sizes and vehicle types.

Verizon Field Force Manager was developed by Xora specifically for Verizon phones and tablets.

Enterprise Mobile Resource Manager, available through Sprint; includes a hard-mounted tracking device and portable navigator.

We also derive revenues from recurring annual support and maintenance contracts (when our products are installed “on-premise”) as well as from consulting services associated with the deployment of our products.

Principal Markets

Traditionally, we have focused on the large enterprise market. We have about 300 enterprise customers and dozens of smaller customers. Our workforce management and optimization solutions are utilized by leading organizations in a number of service industry segments, including: utilities and energy, telecommunications, oil and gas, retail, insurance, high-technology, computer and office equipment, industrial equipment, medical equipment, building automation, public security, home services and transportation.

In addition to expanding to new industry verticals, we continue to invest in marketing for Russia/Commonwealth of Independent States and Latin America.

We sell our products to a broad base of customers representing a variety of industries with unique needs. During 2014, our five largest customers together accounted for approximately 25% of our revenues. See Item 3.D – Risk factors “If our relationships with our key customers are terminated, our revenues will decline and our business will be adversely affected.”

With the introduction of additional products and services as described above we expanded our addressable market in a significant way as well as addressing new markets, as follows:

- (a) The Mobility Suite enables us to attract customers who prefer to start with mobility needs as opposed to optimization. See “Mobility Suite” above.
- (b) ClickSoftware cloud services enable us to attract customers who prefer cloud-based solutions as opposed to the more traditional on-premise software solutions. See “ClickSoftware Cloud Services” above.
- (c) The Xora product line enables us to address smaller customers, and customers with simpler requirements, with quick deployment, and adds telecommunications carriers as channels selling our products.
- (d) ClickWorkforce and the Expert offerings enable us to address customers who wish to remain within the salesforce.com environment.

The above offerings join our traditional workforce management and optimization products for our markets. We remain focused on the service sector, and intend to capitalize on the positive synergies between our offerings to

create force multipliers. For example, most enterprise field operations require a mobility solution. Thus a client for the Field Service Daily Suite is also a candidate for the Mobility Suite and vice versa. Many enterprise field operations employ small contractors that can use the SMB or cloud solutions, and via integration of the two a win-win situation is created to streamline the interaction between a service provider and its contractors. Finally, many in-house service operations that face intra-day scheduling challenges can also use our classic scheduling products.

Sales and Marketing Channels

We market and sell our products through our direct sales force located in North America, Europe and the Asia Pacific region, as well as through reseller agreements with partners. Recently we have increased our focus on markets in Latin America and Russia/Commonwealth of Independent States. We continue to create and strengthen partner relations. Our multidisciplinary sales teams consist of direct sales executives and sales executives who work with our resellers, sales support consultants and internal sales staff. The internal sales staff is responsible for generating leads and screening prospective customers. Sales support engineers assist the sales executives in the technical aspects of the sales process, including preparing demonstrations and technical proposals. Our sales executives are responsible for completing the sales process and managing the post-sale customer relationship, which consists of ongoing relationship management and the sale of additional licenses and products. Our management also takes an active role in our sales efforts. The knowledge gained by our sales, alliances and marketing force is also communicated to our product marketing group, which guides our development team. This enables our organization to align the functionality of our products with customer and partner needs.

We typically focus our direct sales and marketing efforts on the customer's executive officers, including the vice president of customer service, the chief information officer, the chief financial officer and other senior executives responsible for improving customer service at our customers' organization. To effectively promote product awareness, we engage in marketing activities in a wide variety of areas, including public relations and analyst relations, email campaigns, web seminars with our customers and industry analysts, newsletters and advertising creation and placement, direct mailings and trade shows.

In 2008, we entered into a global reseller agreement with SAP AG, pursuant to which SAP resells certain of our products. We also provide second-level support to SAP in connection with our products. Our products are included on SAP's global pricelist in specified bundles, and sold under the standard SAP end-user license agreement and global support commitments. We believe that our alliance with SAP increases our presence in our existing markets and assists with introducing our products into new markets. In 2011, we entered into a global solution partner agreement with Infor Global Solutions Limited, or Infor.

In 2013, we also engaged partner channels for our cloud-based offerings. We launched ClickWorkforce, a mobile workforce management application suite, on salesforce.com's AppExchange. In 2014, we launched ShiftExpert on the same platform. We also partnered with NetSuite, the industry's leading provider of cloud-based financials/ERP software suites, to build the ClickSoftware SuiteApp, built using NetSuite's SuiteCloud Computing Platform.

Our corporate development organization supports joint sales and marketing activities with our business partners. Our business relationships with large ERP, CRM, HCM and EAM enterprise software vendors enable us to use our partners' market presence and sales channels to create significant additional revenue opportunities. Our strategy is based on entering into reseller relationships with the leading enterprise software vendors. This strategy is further enhanced through our offering of adaptors that enable rapid integration and implementation of our products into other major ERP, HCM, CRM and EAM systems such as SAP ERP and CRM, Amdocs Clarify, and Infor EAM and ERP.

We also market our products through the systems integrator community, or SIs, including companies such as Accenture, IBM, Infosys and Cap Gemini. These relationships complement our enterprise software reseller agreements and extend our presence and brand name in new and existing markets. These SIs provide various levels of resources to integrate, customize and implement our solutions. Depending on the strength of the relationship, we have co-invested via our partner enablement program in jointly developing industry-specific solutions, training and certifying the partner's professional services teams, developing co-marketing programs, and incorporating our products into their marketing/referral strategies.

Seasonality

Historically, our quarterly revenues have been affected by seasonal factors. Typically, the fourth quarter tends to be our strongest quarter of the year, while our first quarter tends to be the weakest quarter. This trend often is a function of increased capital expenditures at the end of the year, most directly affecting our on-premise product offering.

Implementation Methodology and Implementation Partners

We also invested in the development of a methodology and a set of tools to support implementation processes which have evolved in a way that streamlines the deployment phase and shortens "time to value." This methodology and the tool set are used by both our internal project teams as well as by certified implementation partners. We also provide best-practice consulting on improving and transforming the service process.

Agile Development Methodology

Since 2010, our research and development department has implemented the "Agile" development methodology known as "scrum" framework. The Agile methodology allows us to be more flexible and dynamic and to deliver new features on short notice. Our customers can influence our product road map "on the fly" so that we can adjust our development plans on a monthly or even weekly basis. The Agile methodology brings our research and development efficiency to a new level of accuracy in meeting the demands of our customers. The Agile methodology is based on sophisticated electronic tools that support the procedures and processes of the scrum framework and provide monitoring and control mechanisms.

Competition

The market for our products is competitive and rapidly changing. Competition may increase in the future as the workforce management and optimization market gains size and increased business focus, current competitors expand their product offerings, and new companies enter the market. See Item 3D – Risk factors – "We face competition, which could make it difficult to compete successfully."

In 2014, Gartner named us a leader positioned the highest in execution and furthest in vision for field service management in Gartner's Magic Quadrant for Field Service Management (source: Gartner Magic Quadrant for Field Service Management, William McNeill, Michael Maoz, Jason Wong, published December 22, 2014).

Gartner also included ClickSoftware in the Gartner Magic Quadrant for Mobile Application Development Platforms, by Ray Valdes, Van L. Baker, Richard Marshall, Jason Wong, published September 2, 2014.

In the IDC report "IDC MarketScape: Worldwide Utilities Mobile Field Force Management Software, 2014 Vendor Assessment", doc #EIOS04W, July 2014, ClickSoftware was named a "Leader" out of the 10 vendors reviewed.

The principal competitive factors in the workforce management and optimization industry are:

- the technological capabilities and performance of the solution;
- installed base, domain expertise and experience with large-scale implementations;
- the acceptance and adaptability of the workforce management and optimization solution to the solution offerings of large SIs and CRM/ERP vendors, and the ability to form marketing alliances with the foregoing; and
- pricing.

We believe our solutions compare favorably with our competitors' solutions based on these competitive factors. Other key competitive factors include a broad base of users, strategic alliances, key reference customers, interoperability, integration of complementary products and services, technological leadership, pace of innovation, product performance, price, customer support, name recognition, relationships with partners and distribution channels, the ability to respond quickly to emerging opportunities and our financial strength.

Our current and potential competitors include:

- software application vendors that offer workforce management solutions with certain optimization modules as part of their overall offerings, either on-premise or via a hosted/cloud service including,

- but not limited to, Oracle, ServicePower Technologies plc., Ventyx (part of ABB Ltd.), TOA Technologies (acquired by Oracle in 2014), Astea and ServiceMax;
- systems integrators and internal information technology departments that may elect to develop a solution in-house;
 - software vendors developing solutions that compete with our shift management solutions, such as Quintiq, Kronos, Verint and Allocate Software; and
 - mobile field service vendors such as Syclo (an SAP company) and Antenna Software (acquired by Pegasystems, Inc. in 2013).

Intellectual Property

We believe that the improvement in our existing products and technologies and the development of new products are important in establishing and maintaining a competitive advantage.

We have been issued six patents – five in the United States and one in Israel. One of these patents, describing a method and system for assigning human resources to provide services, is a key part of our Service Chain Optimization technology. Some of the other patents are related to mobile workforce management, including context-based gathering of location and speed information. Our patents will expire during 2020-2022. We also have several patent applications pending in the United States and in Israel. As we continue to develop new applications of our products, we will consider submitting additional patent applications. Patents may not issue from any of these pending applications and, even if patents do issue, the claims allowed may not be sufficiently broad to protect our technology. In addition, patents issued to us may be challenged, invalidated or circumvented, and the rights granted thereunder may not adequately protect us.

We own several trademark registrations for various marks in the U.S., the European Community, the UK and Israel.

Our success and ability to compete substantially depend on our internally developed technology, which we protect through a combination of trade secrets, copyrights, trademarks, patents and intellectual property law, together with non-disclosure and invention assignment agreements. These legal protections provide only limited protection. See Item 3.D – Risk factors – "Our intellectual property could be used by third parties without our consent because protection of our intellectual property is limited" and this Item 4.B – Business Overview - "Competition". Although we rely on a combination of means by which to protect our intellectual property, we believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and reliable product maintenance are more essential to establishing and maintaining a technology leadership position than intellectual property protection.

We generally enter into non-disclosure agreements with our customers, business partners, employees and consultants and generally control access to and distribution of our software, documentation and other proprietary information. Also, our end-user licenses are designed to prohibit unauthorized use, copying and disclosure of our software and technology in the United States, Israel and other countries.

Substantial litigation regarding technology rights exists in the software industry, and we expect that software products may be increasingly subject to third-party infringement and ownership claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlap. See Item 3.D – Risk factors – "Our technology and other intellectual property may be subject to infringement claims".

Regulation

We do not operate in a market governed by specific regulations but our business is affected by certain government regulations. For example, our ability to manufacture products outside Israel without the approval of the OCS is restricted under law and we are required to pay increased royalties to the OCS of up to 300% with respect to any products manufactured outside Israel. See Item 3.D – Risk factors – "The government programs in which we have participated and the tax benefits we receive require us to satisfy prescribed conditions and may be delayed, terminated or reduced in the future." Also, any merger or acquisition of our Company will require the prior consent of the OCS.

As we expand our cloud services offering to the health care market, some of our customers require compliance with the Health Insurance Portability and Accountability Act of 1996, or HIPAA, which sets forth stringent

privacy guidelines with regard to protected health information, or PHI. To address this, we have been implementing appropriate safeguards (contractual, administrative, and otherwise) to prevent the use or disclosure of customer PHI, including the implementation of administrative, physical and technical safeguards to protect the confidentiality, integrity, and availability of any electronic protected health information. In 2014, we received certification from an independent consultant that our cloud services offering is HIPAA compliant.

4.C. Organizational structure

Our directly and indirectly held principal operating, wholly-owned subsidiaries and their countries of incorporation are:

- ClickSoftware, Inc. (United States)
- ClickSoftware Central Europe GmbH (Germany)
- ClickSoftware Europe Limited (United Kingdom)
- ClickSoftware Belgium N.V. (Belgium)
- ClickSoftware Australia Pty. Ltd. (Australia)
- ClickSoftware India Private Limited (India)
- ClickSoftware Singapore Pte. Ltd. (Singapore)
- ClickSoftware Technologies (Pty) Ltd. (South Africa)
- ClickSoftware Brasil Soluções em Gestão de Forças de Trabalho Ltda. (Brazil)
- ClickSoftware Limited Liability Company (Russia)
- Xora, Inc. (United States)
- Xora Software Systems Private Limited (India)
- Xora Australia Pty Ltd. (Australia)

4.D. Property, plants and equipment

We have a lease for approximately 61,500 square feet of office space located in Petach Tikva, Israel. This lease expires in January 2016 and includes an option allowing us to extend the lease term to January 2017. This office space is used for management, marketing, sales, research and development and implementation activities.

Our subsidiaries lease offices in several locations and typically engage in sales and marketing, implementation and support, and administration activities.

Our U.S. subsidiary headquarters operates from a leased facility of approximately 25,000 square feet of office space located in Burlington, Massachusetts. This lease expires in May 2017.

Our U.S. subsidiary also operates from a leased facility of approximately 5,000 square feet of office space located in Irvine, California. This lease expires in May 2015 and will be replaced by a new lease in the same location for approximately 9,000 feet. The new lease expires in May 2020.

Our U.K. subsidiary operates from a leased facility of approximately 11,500 square feet located in Burnham, near London. This lease expires in March 2023 and includes an early termination right allowing us to terminate the lease term in March 2018.

Our Australian subsidiary operates from a leased facility of approximately 10,000 square feet located in Melbourne. This lease expires in January 2018 and includes an option allowing us to extend the lease term to December 2022.

Our Indian subsidiary operates from a leased facility of approximately 22,000 square feet located in Gurgaon near New-Delhi. This lease expires in December 2015 and includes an option allowing us to extend the lease term to December 2021.

Xora currently operates from two locations –

- (a) A leased facility of approximately 5,000 square feet of office space located in Eagan, Minnesota. This lease expires in April 2015 and will be replaced by a new lease for approximately 8,000 square feet of office space located in Mendota Heights, Minnesota. The new lease is scheduled to expire in April 2019; and

(b) A leased facility of approximately 10,000 square feet of office space located in Bangalore, India. This lease expires in April 2017.

Due to restructuring efforts in the second half of 2014, our leased facility of approximately 17,000 square feet of office space located in Mountain View, California, was closed.

We also lease additional smaller offices in various sites in the Americas, Europe and Asia.

We consider that our current office space is sufficient to meet our anticipated needs for the foreseeable future and is suitable for the conduct of our business.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We are a leading provider of an optimizing solution that efficiently increases productivity of the workforce. We are a versatile solution company delivering a complete end-to-end mobile workforce solutions on cloud or on premise. We derive revenues from the licensing of our software products and the provision of services such as consulting, support and cloud transactions.

Highlights

Our revenues grew by 22% in 2014 compared to 2013, representing mainly growth in cloud subscriptions and support revenues. These revenues include \$14.1 million from Xora operations, which were acquired by ClickSoftware in 2014. Our growth in cloud subscriptions and support was primarily attributable to the increase in the number of new cloud customers as well as an increase of the number of customers under support contracts. We also had a small increase in our license revenues and consulting revenues, mainly due to the trend of shifting to smaller cloud deals.

Net loss for 2014 was \$3.0 million compared to net loss of \$4.2 million in 2013. We used \$1.0 million in cash-flow from operations in 2014 compared with generating \$6.4 million in positive cash-flow from operations in 2013.

As of December 31, 2014, our cash and cash-equivalents, and short and long-term investments decreased to \$45.0 million from \$58.0 million as of December 31, 2013, due in large part to the acquisition of Xora for an amount of \$12.1 million (net of \$2.3 million cash acquired).

Critical Accounting Policies

In preparing our consolidated financial statements, we are required to make estimates, judgments and assumptions that affect the reported amounts of revenues and expenses, assets and liabilities and contingent assets and liabilities at the date of the financial statements.

On an ongoing basis, we evaluate our estimates, judgments and assumptions, including those related to revenue recognition, allowances for doubtful accounts, stock-based compensation and goodwill and other intangible assets. We base our estimates, judgments and assumptions on historical experience and forecasts, and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that the following critical accounting policies affect our more significant estimates, judgments and assumptions used in the preparation of our consolidated financial statements.

Revenues

Revenue results are difficult to predict, and any shortfall in revenues or delay in recognizing revenues could cause our operating results to vary significantly from quarter to quarter and could result in future operating

losses. In addition, the timing of recognizing revenue influences the timing of certain expenses being recorded or deferred, such as commissions and royalties. We follow very specific and detailed guidelines in measuring revenues; however, certain judgments affect the application of our revenue recognition policy.

We derive revenues from the licensing of our software products and the provision services such as consulting, support and cloud transactions. We recognize revenues in accordance with the Accounting Standards Codification Topic, or ASC 985-605 ("Software Revenue Recognition") and ASC 605 ("Revenue Recognition") (see Note 2 of the notes to our consolidated financial statements included later in this annual report).

Service revenues are comprised of revenues from consulting, training, post-contract customer support and cloud transactions. Consulting services are billed at an agreed-upon rate, plus incurred expenses, or in a fixed price contract. Post-contract customer support arrangements provide the customer technical support and the right to software updates. Post-contract customer support revenues are charged as a percentage of license fees depending on the level of support coverage requested by the customer. Our support contracts typically renew automatically for successive 12-month periods, unless the customer informs us of its desire not to renew. Our cloud transactions generally provide customers access to our software within a cloud-based information technology environment that we manage and offer to customers on a subscription basis.

We also enter into software arrangements with resellers whereby revenues are recognized upon sale to the end user by the reseller.

Our standard payment terms are between 30 and 120 days. Our policy is not to grant extended payment terms to our customers over 120 days.

We generally do not grant a right-of-return to our customers. We generally provide a warranty period of between 30-90 days at no extra charge. As of December 31, 2014 and 2013, the provision for warranty cost was immaterial.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts using estimates that we make based on factors we believe appropriate, such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, customer creditworthiness and current economic trends. If we used different assumptions, or if the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions for doubtful accounts would be required and would increase our bad debt expense.

In judging the probability that we will be able to collect software license fees, we continuously monitor collection and payments from our customers and maintain a provision for estimated credit losses based on our historical experience generally, as well as our experience with specific customers. In connection with customers with whom we have no previous experience, we typically utilize public financial information or independent resources to evaluate the creditworthiness of these customers. We perform on-going credit evaluations of our customers.

Identifiable Intangible Assets

Intangible assets were recognized as part of our business combinations. In accordance with ASC 805 ("Business Combinations"), total purchase price in the business combination was allocated to the assets acquired and liabilities assumed based on their estimated fair values as set forth below as of the acquisition date. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The fair value of intangible assets was based on a third party valuator using the income approach and assumptions provided by management.

Intangible assets are recorded at cost less accumulated amortization, where amortization is recorded over the estimated economic useful lives of the intangible asset. We perform an annual impairment test for intangible assets in the fourth quarter.

Goodwill

Goodwill represents the excess purchase price paid by us over the fair value of identifiable intangible assets as a result of purchasing a business. Goodwill is not amortized but instead is tested for impairment annually or

more frequently if events or changes in circumstances indicate that it may be impaired. Goodwill impairment testing is a two-step process and may be preceded by a qualitative impairment assessment. Qualitative impairment assessment should be made to changes in circumstances and events indicating whether some of the intangible assets were impaired. When determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The first step involves comparing the fair value of a company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

5.A. Operating Results

Our operating results for each of the three years ended December 31, 2014, 2013 and 2012 expressed as a percentage of revenues are as follows:

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Software license	22%	26%	34%
Cloud subscriptions	15	2	1
Support	27	30	26
Cloud subscriptions and Support	42%	32%	27%
Consulting	36	42	39
Total revenues	100%	100%	100%
Cost of revenues:			
Software license	2	2	3
Cloud subscriptions and Support	12	6	5
Consulting	29	35	31
Total cost of revenues	43%	43%	39%
Gross profit	57%	57%	61%
Operating expenses:			
Research and development	15	15	13
Selling and marketing	36	39	32
General and administrative	8	9	9
Restructuring and related expenses	1	-	-
Total operating expenses	60%	63%	54%
Operating (loss) income	(3%)	(6%)	7%
Other income	-	-	0
Financial income, net	1	1	0
Net (loss) income before taxes	(2%)	(5%)	7%
Taxes on income (Tax benefit)	0	(1)	0
Net (loss) income	(2%)	(4%)	7%

Our operating results for each of the three years ended December 31, 2014, 2013 and 2012 are as follows:

	YEAR ENDED DECEMBER 31,		
	<i>(In thousands)</i>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Software license	\$ 27,277	\$ 27,083	\$ 33,882
Cloud subscriptions	18,723	1,596	659
Support	34,437	31,040	26,564
Cloud subscriptions and Support	\$ 53,160	\$ 32,636	\$ 27,223
Consulting	45,776	43,462	38,941
Total revenues	\$ 126,213	\$ 103,181	\$ 100,046
Cost of revenues:			
Software license	2,562	2,471	2,649
Cloud subscriptions and Support	14,632	6,189	4,959
Consulting	36,808	35,647	31,263
Total cost of revenues	\$ 54,002	\$ 44,307	\$ 38,871
Gross profit	\$ 72,211	\$ 58,874	\$ 61,175
Operating expenses:			
Research and development	19,163	15,970	13,146
Selling and marketing	45,753	39,706	31,977
General and administrative	10,901	9,121	8,779
Restructuring and related expenses	749	-	-
Total operating expenses	\$ 76,566	\$ 64,797	\$ 53,902
Operating (loss) income	\$ (4,355)	\$ (5,923)	\$ 7,273
Other income	-	-	110
Financial income, net	1,275	839	274
Net (loss) income before taxes	\$ (3,080)	\$ (5,084)	\$ 7,657
Taxes on income (Tax benefit)	(48)	(924)	169
Net (loss) income	\$ (3,032)	\$ (4,160)	\$ 7,488

Comparison of results for years ended December 31, 2014, 2013 and 2012:

Revenues

	<u>Revenue Breakdown</u>				
	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>
	<i>(In thousands)</i>				
Revenues:					
Software license	\$ 27,277	1%	\$ 27,083	(20%)	\$ 33,882
Percentage of total revenues	22%		26%		34%
Cloud subscriptions	\$ 18,723	1,073%	\$ 1,596	142%	\$ 659
Percentage of total revenues	15%		2%		1%
Support	\$ 34,437	11%	\$ 31,040	17%	\$ 26,564
Percentage of total revenues	27%		30%		26%
Consulting	\$ 45,776	5%	\$ 43,462	12%	\$ 38,941
Percentage of total revenues	36%		42%		39%
Total Revenues	\$126,213	22%	\$103,181	3%	\$100,046

Revenues increased 22% to \$126.2 million in 2014, compared with \$103.2 million in 2013 and \$100.0 million in 2012. The change in revenues in 2014 was attributable to an increased demand for cloud subscriptions and post-contract services. The revenues we derived from cloud transactions were \$18.7 million in 2014 compared

to \$1.6 million in 2013. The 2014 cloud revenues include revenues amounting to \$14.1 million from operations of Xora, which were acquired by the Company in 2014. In addition, the strengthening of the U.S. dollar against other currencies decreased our revenue growth from about 25% to about 22%.

The change in revenues in 2013 compared to 2012 was attributable to an increased demand for professional services and post-contract services offset by a decrease in revenues from software licenses primarily due to an emerging customer preference towards smaller initial transaction size and smaller cloud transactions. The revenues we derived from cloud transactions were immaterial.

Revenues by Territory

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
		<u>Revenues</u>		<u>Revenues</u>		<u>Revenues</u>
	<i>(In thousands)</i>					
Revenues:						
Americas	\$ 76,264	60%	\$ 50,573	49%	\$ 60,123	60%
EMEA	40,210	32%	42,548	41%	32,888	33%
Israel	177	0%	245	0%	456	0%
Asia Pacific	<u>9,562</u>	8%	<u>9,815</u>	10%	<u>6,579</u>	7%
Total Revenues	<u>\$126,213</u>	100%	<u>\$103,181</u>	100%	<u>\$100,046</u>	100%

In 2014, 60% of our revenues were generated in the Americas (with 52% in the United States and 8% in Canada and Latin America), 32% in EMEA (including 12% in the United Kingdom with the balance in other European countries), and 8% in Asia Pacific (with the majority in Australia and New Zealand). Revenues in the Americas increased by \$25.7 million, or 51%, compared to 2013. Revenues in the Americas for 2014 includes \$14.0 million generated by Xora operations acquired in 2014. Revenues in EMEA decreased by \$2.4 million, or 5%, compared to 2013. Revenues in Asia Pacific decreased by \$0.2 million, or 3%, compared to 2013. The improved macro-economic climate in Americas improved our revenues and growth opportunities.

The continued weakness in the macro-economic situation in Europe and specifically in Russia caused a decrease in revenues we derive from this region.

The high adoption rate of SaaS technologies in Australia and New Zealand, combined with the preference towards a smaller initial transaction size, resulted in a decline in revenue in Asia Pacific.

In 2013, 49% of our revenues were generated in the Americas (with 35% in the United States, 12% in Canada and 2% in Latin America), 41% in EMEA (including 18% in the United Kingdom, with the balance in other European countries), and 10% in Asia Pacific (including 6% in Australia). Revenues in the Americas decreased by \$9.6 million, or 16%, compared to 2012. Revenues in EMEA grew by \$9.7 million, or 29%, compared to 2012. Revenues in Asia Pacific increased by \$3.2 million, or 49%, compared to 2012. The emerging customer preference towards smaller initial transaction size and smaller cloud transactions impacted the Americas more than other territories due to the faster adoption of cloud transactions in the Americas.

In 2012, 60% of our revenues were generated in the Americas (with 42% in the United States, 11% in Canada and 7% in Latin America), 33% in EMEA (including 15% in the United Kingdom, with the balance in other European countries), and 7% in Asia Pacific (including 4% in Australia).

Software Licenses

Software license revenues were 27.3 million, or 22% of revenues in 2014, compared with \$27.1 million, or 26% of revenues, in 2013, and \$33.9 million, or 34% of revenues, in 2012. The flat increase in software license revenues from 2013 to 2014 of \$0.2 million as well as the decrease in software license revenues from 2012 to 2013 of \$6.8 million, or 20%, was primarily due to customer preference towards smaller initial transaction size and the shift towards cloud transactions. Despite this trend, we did see an overall increase in the number of new customers.

Cloud Subscriptions

Cloud subscriptions revenues were \$18.7 million, or 15% of revenues in 2014, compared with \$1.6 million, or 2% of revenues, in 2013, and \$0.7 million, or 1% of revenues, in 2012. The increase in cloud subscriptions

revenues from 2013 to 2014 of \$17.1 million, or 1,073%, was primarily due to \$14.1 million generated by Xora operations acquired in 2014 combined with about three times as much revenues from enterprise customers. As enterprise cloud customers tend to sign smaller initial transactions, we saw a significant increase in the number of new customers.

Support

Support revenues were \$34.4 million, or 27% of revenues in 2014, compared with \$31.0 million or 30% of revenues in 2013 and \$26.6 million, or 26% of revenues in 2012. The increase in support revenues from 2013 to 2014 as well as from 2012 to 2013 was due to our increased customer base.

Consulting

Consulting revenues were \$45.8 million, or 36% of revenues in 2014, compared with \$43.5 million or 42% of revenues in 2013 and \$38.9 million, or 39% of revenues in 2012. The increase in service revenues from 2013 to 2014 as well as from 2012 to 2013 was due to increased demand for our professional services. The increase in professional services was due to new customer implementations as well as repeat business.

Cost of revenues

Cost of revenues consists of cost of software license revenues, cost of cloud subscriptions and support, and cost of services. Cost of software license revenues consists of expenses related to costs of software purchased or licensed for resale. Cost of cloud subscriptions and support consist of expenses related to revenue share with partners, costs related to hosting and support (including salaries and subcontractors). Cost of services consists of expenses related to salaries and expenses of our professional services organizations, costs related to third-party consultants, and equipment costs.

Cost of revenues was \$54.0 million, or 43% of revenues, in 2014, compared with \$44.3 million, or 43% of revenues, in 2013 and \$38.9 million, or 39% of revenues, in 2012. The increase in the cost of revenues from 2013 to 2014 was primarily due to higher costs associated with increased investment in cloud infrastructure (including due to added costs from our acquisition of Xora). The cost of revenues increased at the same pace as the increase in revenues, as explained below, resulting in the same level of profitability for both 2014 and 2013.

The increase in the cost of revenues from 2012 to 2013 was primarily due to higher costs associated with meeting increased demand for our services, and software and increased investment in cloud infrastructure. In 2013, the cost of licenses increased while license revenues decreased, resulting in lower profitability compared to 2012. The cost of services increased at the same pace as the increase in service revenues, as explained below in "Cost of Consulting" resulting in the same profitability from services for both 2013 and 2012.

Cost of Software Licenses

Cost of software license revenues was \$2.6 million, or 2% of revenues, in 2014, compared with \$2.5 million, or 2% of revenues, in 2013 and \$2.6 million, or 3% of revenues, in 2012. The costs remain stable due to long term contracts with our major subcontractors.

Cost of Cloud Subscriptions and Support

Cost of cloud subscriptions and support revenues was \$14.6 million, or 12% of revenues, in 2014, compared with \$6.2 million, or 6% of revenues, in 2013 and \$5.0 million, or 5% of revenues, in 2012. The increase in cost of cloud subscriptions and support revenues from 2013 to 2014 was primarily due to an increase of \$3.6 million in costs related to revenue share with partners and subcontractors costs, an increase of \$1.8 million in payroll expenses, an increase of \$1.1 million of amortization costs due to the acquisition of Xora, and an increase in other costs, mainly overhead (primarily payroll, office leases and IT services), of \$1.9 million. The increase in cost for cloud subscriptions and support from 2013 to 2014 was primarily caused by the cost associated with the acquisition of Xora cloud operations and from the increase in organic operations. In addition, the overall impact of the stronger U.S. dollar against certain currencies in 2014 spread over the various expense items above decreased our cost of cloud subscriptions and support costs by approximately \$0.3 million.

The increase in cost of cloud subscriptions and support revenues from 2012 to 2013 was primarily due to an increase of \$0.5 million in payroll expenses, an increase of \$0.4 million in subcontracts mainly for hosting environments and an increase in other costs, mainly overhead of \$0.3 million. The increase in cost for cloud subscriptions and support from 2012 to 2013 is due to a planned increase in investments in cloud activities.

Cost of Consulting

Cost of consulting revenues was \$36.8 million, or 29% of revenues, in 2014, compared with \$35.6 million, or 35% of revenues, in 2013 and \$31.3 million, or 31% of revenues, in 2012.

The increase in the cost of services revenues from 2013 to 2014 of \$1.2 million, or 3%, was primarily due to higher expenses associated with the provision of our services. Compared with our costs relating to providing services in 2013, in 2014 there was an increase primarily in our related payroll expenses of \$1.5 million and a decrease of \$0.4 million in amortization and impairment costs. In addition, the overall impact of the stronger U.S. dollar against certain currencies in 2014 spread over the various expense items above decreased our cost of consulting and support costs by about \$1.0 million.

The increase in the cost of services revenues from 2012 to 2013 of \$4.3 million, or 14%, was primarily due to higher expenses associated with the provision of our services as described below. In 2013, services revenues grew roughly at the same pace as cost of services resulting in steady profitability. Compared with our costs relating to providing services in 2012, in 2013 there was an increase in our related payroll expenses of \$3.9 million, a decrease in subcontractors' costs of \$1.1 million and an increase of \$1.5 million in other costs, mainly overhead. In addition, the overall impact of the weakening U.S. dollar against certain currencies in 2013 spread over the various expense items above increased our costs by about \$0.4 million.

Gross Profit

Gross profit was \$72.2 million, or 57% of revenue in 2014, compared with \$58.9 million, or 57% of revenues in 2013, and \$61.2 million, or 61% of revenues in 2012. The increase in gross profit in absolute terms from 2013 to 2014 of \$13.3 million, or 23%, was due to the significant increase in cloud subscription revenues. The decrease in gross margin from 2012 to 2013 was mainly due to change in revenue mix towards higher service revenues (which generates lower gross margins and lower license revenues).

Operating Expenses

Operating expenses are categorized into research and development expenses, selling and marketing expenses and general and administrative expenses. Total operating expenses were \$76.6 million, or 61% of revenues in 2014, compared with \$64.8 million, or 63% of revenues in 2013, and compared with \$53.9 million and 54% of revenues in 2012.

The increase in operating expenses from 2013 to 2014 of \$11.8 million, or 18%, was primarily due to an increase in research and development expenses and selling and marketing expenses including additional costs from adding Xora operations. The increases in selling and marketing expenses and research and development expenses resulted from our efforts to accelerate our growth, maintain our competitive advantage in the market and capture additional market share. Due to our growth plans for 2015, we anticipate an increase in operating expenses.

The increase in operating expenses from 2012 to 2013 of \$10.9 million, or 20%, was primarily due to an increase in research and development expenses and selling and marketing expenses. The increases in selling and marketing expenses and research and development expenses resulted from our efforts to accelerate our growth, maintain our competitive advantage in the market and capture additional market share.

Research and Development Expenses

Research and development expenses consist primarily of personnel costs for product development. In return for some of these grants, we are obligated to pay the Israeli government royalties as described below which are included in cost of revenues. In 2008, we completed repayment of our royalty commitments to the OCS, but remain subject to continued compliance with the conditions of the grants we received. Grants which we received in 2009 through 2010 are not subject to royalty payments. See Item 3.D – Risk factors – "The government programs in which we have participated and the tax benefits we receive require us to satisfy prescribed conditions and may be delayed, terminated or reduced in the future." Software research and development costs incurred prior to the establishment of technology feasibility are included in research and development expenses as incurred. Software development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability of the products are capitalized, if material, after consideration

of various factors, including net realizable value. To date, software development costs that are eligible for capitalization have not been material and have been expensed.

Research and development expenses were \$19.2 million, or 15% of revenues in 2014 compared with \$16.0 million, or 15% of revenues in 2013, compared with \$13.1 million, or 13% of revenues, in 2012. The increase in research and development expenses from 2013 to 2014 of \$3.2 million, or 20% was primarily due to an increase of \$2.2 million in payroll expenses, and an increase in other costs, mainly overhead of \$1.0 million. The increased efforts in research and development (which continued from the previous year) were aimed at improving our product and cloud platforms, our mobility offering and integration of Xora products. However, the overall impact of the weakening of the NIS against the U.S. dollar in 2014 spread over the various expense items above decreased our research and development costs by about \$1.5 million.

The increase in research and development expenses from 2012 to 2013 of \$2.9 million, or 21% was primarily due to an increase of \$1.3 million in payroll expenses, an increase of \$1.0 million in subcontractors' costs and an increase in other costs, mainly overhead of \$0.6 million. The increased efforts in research and development (which continued from the previous year) were aimed at improving our product and cloud platforms, our mobility offering, including our ClickAppStore as well as ClickRoster. In addition, the overall impact of the weakening of the U.S. dollar against the NIS in 2013 spread over the various expense items above increased our research and development costs by about \$0.4 million.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of personnel and related costs for marketing and sales functions, including related travel, direct advertising costs, expenditures on trade shows, market research and promotional printing.

Selling and marketing expenses were \$45.8 million, or 36% of revenues in 2014, compared with \$39.7 million, or 39% of revenues in 2013, and \$32.0 million, or 32% of revenues in 2012. The increase in the selling and marketing expenses from 2013 to 2014 of \$6.1 million, or 15%, was due to an increase of \$4.5 million in payroll expenses, partially related to the integration of Xora, along with an increase of \$1.6 million in overhead. In addition, the overall impact of the stronger U.S. dollar against certain currencies in 2014 spread over the various expense items above decreased our selling and marketing costs by about \$0.6 million.

The increase in the selling and marketing expenses from 2012 to 2013 of \$7.7 million, or 24%, was due to an increase of \$3.9 million in payroll expenses and an increase in soft marketing of \$3.8 million. In addition the overall impact of the weakening U.S. dollar against certain currencies in 2013 spread over the various expense items above increased our selling and marketing costs by about \$0.7 million.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel and related costs for corporate functions, including information services, finance, legal, accounting, human resources, facilities, provision for doubtful accounts and costs related to our status as a public company.

General and administrative expenses were \$10.9 million, or 8% of revenues in 2014, compared with \$9.1 million, or 9% of revenues in 2013, and \$8.8 million, or 9% of revenues in 2012. The increase of \$1.8 million in general and administrative expenses from 2013 to 2014 was mostly due to an increase of \$0.8 million in payroll expenses, partially related to the integration of Xora, \$0.5 million in professional fees, and \$0.5 million of provision for doubtful debts. In addition, the overall impact of the stronger U.S. dollar against certain currencies in 2014 spread over the various expense items above decreased our general and administrative costs by about \$0.2 million.

The increase of \$0.3 million in general and administrative expenses from 2012 to 2013 was mostly due to an increase of \$0.1 million in payroll expenses and an increase in other costs, mainly professional fees, of \$0.2 million.

Restructuring and Related Expenses

During the second half of 2014, we implemented a restructuring plan to merge Xora activities with ClickSoftware activities. The restructuring efforts included the closing of a leased facility of approximately

17,000 square feet of office space located in Mountain View, California. The restructuring costs included costs related to the separation of a number of personnel mainly in the Mountain View office.

The total restructuring expenses were \$0.7 million. We expect to have additional immaterial restructuring expenses during 2015.

Impairment of Goodwill and Other Intangible Assets

We perform our annual impairment tests in the fourth quarter. For impairment testing we identified two separate reporting units: ClickSoftware and Xora (acquired in 2014). For both ClickSoftware and Xora the fair value was significantly higher than the carrying amount and no impairment was recorded.

Financial Income, Net

Financial income includes interest income, gains and dividends earned on our cash and investments, including marketable securities as well as the effects of foreign currency fluctuations offset by interest expense.

Financial income net of interest expenses was \$1.3 million, or 1% of revenues in 2014 compared with \$0.8 million, or 1% of revenues, in 2013 and \$0.3 million, or 0% of revenues in 2012. The increase in financial income from 2013 to 2014 was attributable to the sale of some of our investment holdings in securities. The increase in financial income from 2012 to 2013 was attributable to increases mostly in dividend income received from our holdings in dividend yielding securities and lower foreign currency exchange rate fluctuations.

Income Taxes

Income taxes expenses consist of deferred taxes and current taxes.

We had no income tax benefit in 2014, compared with income tax benefit of \$0.9 million, or 1% of revenues, in 2013, and income tax expenses of \$0.2 million, or 0% of revenues, in 2012. The tax benefit decrease from 2013 to 2014 was mainly due to a decrease in the current year tax losses generated in Israel.

The tax benefit change from 2012 to 2013 was mainly due to the pre-tax loss incurred during 2013 which resulted in changes in deferred taxes and lower taxable income. See Note 14 to our consolidated financial statements for further information.

Our future consolidated tax expense is expected to reflect various statutory tax rates in the United States, Israel, United Kingdom, Germany, Australia, India, Brazil, South Africa and Russia.

As of December 31, 2014, net operating loss carry forwards in Israel amounted to approximately \$4.9 million. Tax loss carry forwards of approximately \$95 million at the federal level and approximately \$1.0 million at the state level remain attributable to our U.S. subsidiaries. We also have additional tax carry forwards of approximately \$1.5 million in Brazil. Other tax loss carry forwards in other jurisdictions are immaterial. The U.S. net operating loss carry forwards will expire gradually from 2015 through 2029. Utilization of U.S. net operating losses would be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state law provisions. The annual limitations would result in the expiration of significant part of net operating losses before utilization.

In November 2012, a law was enacted in Israel to incentivize companies to pay taxes on those Approved Enterprises exempt earnings as if distributed, and effectively release the earnings from any further tax liabilities at the parent company level. The law, although not mandatory, offers lower tax rates on those earnings, accumulated through the year ended December 31, 2011, elected to be "released" which as applicable to us will be approximately 6%. During 2013, we elected to use the incentive available under the law, releasing 2011 tax-exempt earnings of \$12.2 million for future dividend distributions, by paying tax of \$0.7 million. We distributed during 2013 a dividend in the amount of \$6.7 million. Part of this dividend was under the release of 2011 tax-exempt earnings, and therefore, although paid from Approved Enterprises earnings, such distribution did not result in additional Israeli tax liability. Deferred tax provision was included in our financial statements for the year ended December 31, 2012.

Net Income (Loss)

Net loss for 2014 was \$3.0 million, or \$0.09 per fully diluted share, or 2% of revenues, compared with net loss of \$4.2 million, or \$0.13 per fully diluted share, or 4% of revenues, in 2013 and net income of \$7.5 million, or \$0.23 per fully diluted share, or 7% of revenues, in 2012. Net loss in 2014 was lower as compared to net loss in 2013 due to an increase in revenues and an increase in financial income. We incurred a net loss in 2013 relative to net income in 2012 due to increased operating and cost of revenues expenses.

Foreign Currency Fluctuations

Our reporting and functional currency is the U.S. dollar. A significant portion of our expenses related to our Israeli operations are incurred in NIS, and a portion of our revenues and expenses are incurred in British pounds, Euros, Australian dollars and Indian Rupees. The results of our operations are subject to fluctuations in these exchange rates. In 2014, 64% of our expenses and 42% of our revenues were incurred in non-U.S. dollar currencies. We engage in non-speculative forward contracts related to foreign currencies in order to minimize the impact of changes in foreign currency exchange rates on our earnings. In 2014, the net effect of the change in value of the U.S. dollar against other currencies was a decrease in revenues by \$2.6 million, a decrease in costs of revenues by \$1.2 million and a decrease in operating expenses by \$2.4 million. See Item 3.D – Risk factors "Our risk exposure to foreign currency fluctuations is increasing, and we may not be able to fully mitigate the risk."

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. 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 the products covered by such programs either duty-free or at reduced tariffs. Israel is also a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD's main goal is to promote policies that will improve the economic and social well-being of people around the world.

Israel and the European Union Community, known now as the European Union, concluded a Free Trade Agreement in 1975 that confers some advantages with respect to Israeli exports to most European countries and obligated 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 some non-tariff barriers on most trade between the two countries. In 1993, an agreement between Israel and the European Free Trade Association, known as the EFTA, established a free-trade zone between Israel and the EFTA nations. In 1995, Israel entered into a new agreement with the European Union, which includes a redefinition of rules of origin and other improvements, such as allowing 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 Russia, China, India, Turkey and other nations in Eastern Europe and Asia.

5.B. Liquidity and capital resources

Our cash and investments decreased by \$13.0 million (including net \$12.1 million used for our acquisition of Xora), or 22%, to \$45.0 million as of December 31, 2014, compared with \$58.0 million as of December 31, 2013, which was a decrease of \$1.4 million, or 8%, compared with \$59.4 million as of December 31, 2012. Our primary sources of cash and investments during 2014 were a cash flow of \$1.7 million from exercises of employee stock options offset by a negative cash flow of \$1.0 million from operations. Our primary sources of cash and investments during 2013 were cash flows of \$6.4 million generated from operations and \$2.0 million from exercises of employee stock options. During 2013, we distributed cash dividends in an aggregate amount of \$6.7 million. Our primary sources of cash and investments during 2012 were cash flows of \$16.2 million generated from operations and \$0.7 million from exercises of employee stock options. During 2012, we distributed cash dividends in an aggregate amount of \$10.1 million.

As of December 31, 2014, we had cash and cash equivalents of \$30.6 million, short-term deposits of \$3.2 million, marketable securities of \$9.9 million and long-term deposits of \$1.3 million. As of December 31, 2014, \$0.9 million in long-term deposits had been deposited with banks to secure letters of credit totaling \$0.9 million,

which are described below. Our cash, short-term deposits and long-term deposits are deposited primarily in low-risk and predominantly U.S. dollar denominated investments and bank deposits. The bank deposits are typically held in the form of certificates of deposit for a period of more than three months and up to 12 months and bear fixed income interest. As of December 31, 2014, these bank deposits had an average interest rate per annum of 1.5%. Our marketable securities are invested in government and corporate bonds and had an average annual yield of 0.8%. We adhere to an investment policy which requires investment in high-quality investment-grade securities, provided, however, that up to \$10 million of our total cash and investments may be invested in equities of companies that have a policy to regularly distribute dividends or in ETF of a similar nature. As of December 31, 2014, we do not have any investment in dividend yielding equity securities.

Nearly all of our cash and investments are not insured by the FDIC or other similar governmental insurance limits. See Item 3.D – Risk Factors "Our cash may be subject to risk of loss and we may be exposed to fluctuations in the market value of our portfolio investments and in interest rates."

	<u>Cash and Investments</u>				
	<u>December 31,</u>				
	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>
	<i>(In thousands)</i>				
Cash and cash equivalents	\$ 30,605		\$ 25,346		\$ 12,793
Short-term deposits	3,205		9,001		30,310
Marketable securities	9,855		22,586		15,635
Long-term deposits	1,335		1,072		621
Total cash and investments	<u>\$ 45,000</u>	(22%)	<u>\$ 58,005</u>	(2%)	<u>\$ 59,359</u>

For the year ended December 31, 2014, net cash used in operations was \$1.0 million, comprising net loss of \$3.0 million, an increase in trade receivables of \$0.9 million, an increase in deferred taxes of \$1.2 million, a decrease in other receivables of \$0.9 million, a decrease in accounts payable of \$1.6 million, and a decrease in deferred revenues of \$1.0 million, which was partially offset by non-cash charges of \$5.8 million.

The decrease in cash provided from operations in 2014 compared to 2013 was mostly due to higher expenses than revenues, which impacted our profitability and cash generation.

For the year ended December 31, 2013, net cash provided by operations was \$6.4 million, comprising net loss of \$4.2 million, an increase in trade receivables of \$0.7 million, an increase in deferred taxes of \$2.3 million, an increase in other receivables of \$0.8 million, an increase in accounts payable of \$1.2 million, and an increase in deferred revenues of \$7.5 million, which was partially offset by non-cash charges of \$5.7 million.

The decrease in cash provided from operations in 2013 compared to 2012 was mostly due to higher expense levels and moderate growth rate which impacted our profitability and cash generation.

For the year ended December 31, 2012, net cash provided by operations was \$16.2 million, comprising net income of \$7.5 million, a decrease in trade receivables of \$1.6 million, an increase in deferred taxes of \$0.5 million, an increase in other receivables of \$0.1 million, an increase in accounts payable of \$2.9 million, and a decrease in deferred revenues of \$0.8 million, which was partially offset by non-cash charges of \$5.7 million.

Net cash provided by investment activities was \$5.1 million in 2014, consisting of \$5.5 million used in investments in deposits, \$7.5 million invested in marketable securities, \$21.7 million provided by the sale of marketable securities, \$12.1 million used for our acquisition of Xora (net of \$2.3 million cash acquired) and \$2.5 million used for purchases of equipment and systems, including computer equipment and fixtures and furniture and for leasehold improvements.

Net cash provided by investment activities was \$10.8 million in 2013, consisting of \$20.9 million used in investments in deposits, \$15.7 million invested in marketable securities, \$9.2 million provided by the sale of marketable securities and \$3.5 million used for purchases of equipment and systems, including computer equipment and fixtures and furniture and for leasehold improvements.

Net cash used in investment activities was \$8.6 million in 2012, consisting of \$1.6 million used in investments in deposits, \$7.5 million invested in marketable securities and \$2.5 million used for purchases of equipment and systems, including computer equipment and fixtures and furniture and for leasehold improvements, partially offset by \$2.9 million provided by proceeds from sales of marketable securities.

Net cash provided by financing activities was \$1.1 million in 2014, consisting of \$1.7 million from the exercise of employee stock options which was partially set off by \$0.7 million used in repayment of long term debts due to assumed liabilities from Xora.

Net cash used in financing activities was \$4.7 million in 2013, consisting of \$6.7 million used for cash dividends, which was partially offset by exercise of employee stock options of \$2.0 million.

Net cash used in financing activities was \$9.5 million in 2012, consisting of \$10.1 million used for cash dividends, which was partially offset by exercise of employee stock options of \$0.7 million.

As of December 31, 2014, we had outstanding trade receivables of approximately \$25.8 million, which represented approximately 20% of revenue in 2014. As of December 31, 2013, we had outstanding trade receivables of approximately \$22.5 million, which represented approximately 22% of revenue in 2013. As of December 31, 2012, we had outstanding trade receivables of approximately \$21.8 million, which represented approximately 22% of revenue in 2012. Our standard payment terms are typically between 30 and 120 days and our policy is not to grant extended payment terms to our customers over 120 days. Days sales outstanding, or DSO, calculated based on revenues for the most recent quarter and accounts receivable at the balance sheet date, increased to 67 DSO as of December 31, 2014 compared to 66 DSO as of December 31, 2013 and 69 DSO as of December 31, 2012, due to timing of booking towards the end of the quarter and specific customer milestones.

Our capital requirements depend on numerous factors, including market demand and acceptance of our products, the resources we devote to developing, marketing, selling and supporting our products, the timing and extent of establishing additional international operations, investments in computers, office equipment and office fixtures and our acquisition activities. We intend to continue investing significant resources in our selling and marketing, research and development operations in the future and expect to continue investing in computers, office equipment and office fixtures. We also intend to continue exploring acquisition opportunities.

On March 4, 2014, we closed the acquisition of Xora in consideration for the payment of approximately \$14.4 million in cash from our cash resources to Xora shareholders. Due to the acquisition we obtained \$2.3 million in cash. The Agreement and Plan of Merger, or the Merger Agreement, with Ajax Acquisition Corporation, a Delaware corporation and our wholly-owned subsidiary, or Sub, Xora, a Delaware corporation, Ned Carlson as Stockholder Representative, and other stockholders listed in the Merger Agreement includes customary representations, warranties and covenants by the parties, which survived the closing and, in general, expire on March 3, 2016. Under the Merger Agreement, certain stockholders of Xora agreed to indemnify the Company for damages arising out of breaches or inaccuracies of Xora's or Xora stockholders' representations, warranties and covenants subject to certain limitations, including, in general, that Xora stockholders shall not be liable for any losses until the aggregate amount of losses exceeds \$100,000, or the Threshold, and once such Threshold has been reached, the Xora stockholders shall be liable for their pro rata portion of such losses, including the Threshold. Notwithstanding the foregoing, the Threshold will not apply to any losses arising from fraud or willful breach of the Merger Agreement, Xora's breach of the representations and warranties regarding organization, company capital structure, authority or tax matters, and certain other losses as specified in the Merger Agreement. The indemnification obligation of the Xora stockholders is capped at 15% of the purchase price, excluding working capital and cash adjustments, or the Cap. The amount of the Cap is subject to an escrow, which terminates on March 3, 2016. The Cap is subject to certain exceptions similar to those applicable to the Threshold, but in no event shall a stockholder be liable for more than rata portion of any particular loss or an amount in excess of the consideration it is eligible to receive under the Merger Agreement. In 2015 we expect approximately a \$1.5 million cost in amortization of other intangibles. See also Item 10.C (Material Contracts).

We believe that we have sufficient cash to fund our operations for at least the next 12 months.

5.C. Research and development, Patents and Licenses, etc.

We have invested significant time and resources in creating a structured process for undertaking all product development projects. These include documenting product requirements, specifying product features and workflow, developing software, performing quality assurance and creating documentation and packaging. Our

research and development center in Israel is ISO 9001 compliant and continuously updates its software development procedures to maintain an ongoing improvement process and high quality products.

Our future research and development strategies will concentrate on strengthening our product offerings in decision support and optimization, mobility, forecasting, capacity and shift planning and monitoring; continuing to enhance the technology and scalability of our products; continuing to improve our mobile and location-based capabilities; and continuing the development of offerings for specific vertical industries.

We invested \$19.2 million in 2014, \$16.0 million in 2013 and \$13.1 million in 2012 in research and development activities.

5.D. Trend information

We operate in the rapidly evolving market for workforce management and optimization for the service sector including field and in-house resources. Workforce management spending remained strong in 2014. Despite the current uncertainties in the global economy, we have continued to experience strong demand for our products and services. This is supported by analyst findings. For example, “Gartner research puts the revenue for packaged field service dispatch and workforce management software applications, including maintenance and service revenue, at approximately \$1.3 billion annually” (source: Gartner Magic Quadrant for Field Service Management, William McNeill, Michael Maoz, Jason Wong, published December 22, 2014).

We believe that the market for field service management is largely untapped. Frost & Sullivan, using a similar definition of “Mobile Workforce Management”, identified ClickSoftware as one of the vendors with the largest market share in this space, and estimates the compound annual growth rate for this market from 2013 to 2017 at 40.5%, leading to market size of about \$3 billion by 2018 (Source: Mobile Workforce management Market: Prepackaged Mobile Field-Based Worker Applications in North America, Frost & Sullivan report NC4B-65, December 2013). The acquisition of Xora is intended to enable us to quickly expand our access to this growing market and extend our market leading position, including leveraging their distribution channels via carriers.

As previously discussed, the major strategic importance of customer care and service quality is now widely recognized among our customer base. We believe that we can also leverage the penetration of intelligent automation in the technology sector, as we pioneered this approach in the service sector.

Furthermore, we believe that new business models and new technologies are coming into play in the field service management space, with the potential to transform the industry and create new opportunities for all – customers of field service, providers of field service, and software vendors such as ClickSoftware:

- **Service networks:** As discussed in Item 4 “Information on the Company”, service networks are a key part of the business model transformation in field service. The idea of service contracting and outsourcing is not new, but we believe it is going through an accelerated period of growth in size, ecosystem complexity, and operational requirements -- it is no longer acceptable for a company to subcontract service to a contractor who will appear at the customer’s location without sufficient information about the customer, the service task or the equipment’s service history; nor is it acceptable to tell the customer that since the task was contracted out, there is no information about when the contractor will arrive. ClickSoftware has been providing service network solutions for years, and has proven its ability to support these requirements at any scale, from the smallest contractor to the largest enterprise.
- **Wearable computing:** Wearable devices, including smart watches and smart glasses, started their penetration in the consumer market, but it was quickly realized that their growth (especially for smart glasses) will come from business-oriented applications. The mobile worker, more than any other worker, should focus on the job at hand rather than staring at a laptop, tablet or smartphone, but should still receive the maximum support and advice available from mobile technology. We anticipate a growing demand for this technology in many types of use among mobile workforces, and – as previously mentioned – have already extended our solutions to address that demand.
- **Internet of Things, or IoT:** With the rapidly rising trend towards connecting “things” (vehicles, devices, sensors, machines and more) to the internet, a lot of information will be collected using various cloud platforms which communicate with the connected devices and gather information from them.

However, comparatively less attention is given to the business and operational apps using the collected data to achieve some improvement: For example, IoT enables the prediction of device failure and proactive dispatch of service engineers before the failure. With our partners and customers, we have identified this and additional use cases and expect to have a great potential to dramatically improve service quality while reducing service costs.

Marketing: Our strategy is to continue to increase marketing efforts through our channel and strategic partners to target these potential customers, side by side with our direct sales force. Companies in the mid-market are also seeking solutions to improve productivity, and we address this need with some of our offerings including ClickExpress and ClickCloud.

Enterprise Mobility: Since 2009, we have invested significantly in our mobility offering. We believe there is a global trend of moving enterprise software to mobile devices to enable service people to manage applications through their mobile devices. Overall, there is a growing focus on mobility, outpacing even social media. This focus is prominent in corporate strategies. Driven by major technology trends in both consumer and enterprise markets, the mobile enterprise application development platform market (enterprise MADP) is in a period of rapid growth. In 2013, IDC believed the total market reached a size of \$1.2 billion. The market will experience a 24.6% compound annual growth rate to reach \$3.7 billion by 2018. (Source: “Worldwide Mobile Enterprise Application Development Platform 2014–2018 Forecast and 2013 Vendor Shares”, IDC Doc #252955, by Stacy K. Crook and Al Hilwa, published December 2014). As noted above, Gartner placed ClickSoftware in their MADP Magic Quadrant for 2014.

Territories: As part of our strategic plan, we expect increased sales from new territories. We continue to believe that developing countries such as those in Latin America are investing in solutions which provide improved quality of service and efficiency, reduce cost and increase regulatory compliance.

Purchasing Dynamics: We have detected a pattern in the IT area towards smaller initial transactions relative to the approach we saw in prior years. In particular, there is a tendency of customers to shift to the SaaS model in order to lower up-front investment. This has led to a smaller initial transaction size with new customers, and will require us to scale up the volume of our transactions in order to maintain our growth. We believe the shift from traditional on-premise transactions to the SaaS model will continue.

In 2013 and 2014, the ratio of our license revenues to total revenues decreased. We expect license revenues to grow in 2015 but less than the cloud and support revenues. We expect to continue to grow our revenues in 2015 despite the continued uncertainty in the economic conditions. In 2014, our results in the Americas grew whereas EMEA and Asia Pacific declined, but we expect revenue from all regions to grow in 2015.

Global Economy: We believe that companies focused on cost control are likely to demand products and services, such as our workforce management and optimization solutions, that aim to maximize efficiency and decrease customers' operating expenses. As of December 31, 2014, we had a short-term backlog of approximately \$31.6 million, compared to \$42.7 million at the end of 2013.

The economic uncertainties may affect the competitive environment in our industry. For example, larger, better capitalized companies may seek to acquire smaller, weaker rivals that have been adversely affected by the economic downturn.

In 2014, approximately 42% of our revenues and 64% of our expenses were denominated in non-U.S. dollar currencies. Any changes in the value of the U.S. dollar against these currencies affect our reported earnings in U.S. dollars. In 2014, the net effect of the change in value of the U.S. dollar against other currencies was a decrease in revenues by \$2.6 million, a decrease in costs of revenues by \$1.2 million and a decrease in operating expenses by \$2.4 million. At the start of 2015, the U.S. dollar has strengthened against each of the NIS, Euro, British Pound, Brazilian Real, Australian Dollar and other currencies. The expected net effect on our financial results is positive.

5.E. Off-balance sheet arrangements

Except for the arrangements with the OCS discussed in Item 5.A above, we do not have any off-balance sheet arrangements.

5.F. Tabular disclosure of contractual obligations

We have various commitments primarily related to guarantees, letters of credit and capital lease obligations. The following table provides details regarding our contractual cash obligations and other commercial commitments as of December 31, 2014:

Contractual Obligations	Payments Due by Period (in thousands)				Total
	2015	2016	2017-2019 (aggregate amount)	2020-2021 (aggregate amount)	
Office Lease Obligations	\$ 3,947	\$ 2,218	\$ 2,546	\$ 309	\$ 9,020
Net Severance Pay Obligations	-	-	-	2,557	2,557
Xora Capital Lease Obligations	103	70	-	-	173
Total	\$ 4,050	\$ 2,288	\$ 2,546	\$ 2,866	\$ 11,750

Commercial Commitments	Total Amounts Committed (in thousands)	Amount of Commitment Expiration Per Period (in thousands)
		2015-2018
Guarantees/Letters of Credit*	\$ 864	\$ 864

* We have entered into standby letter of credit agreements with banks and financial institutions primarily relating to the guarantee of rental agreements. As of December 31, 2014, contingent liabilities on outstanding letter of credit agreements aggregated \$0.9 million. We expect to renew most of these letters of credit. The letters of credit are secured by \$0.9 million in deposits to cover potential payments under the guarantees.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and senior management

Senior Management

The members of our executive management are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dr. Moshe BenBassat	67	Chief Executive Officer
Joel Jeselsohn	48	Chief Financial Officer
Zvi Piritz	50	President EMEA and Asia Pacific
Stephen Timms	44	President Americas

DR. MOSHE BENBASSAT co-founded ClickSoftware in 1979 and has served as our Chief Executive Officer since our inception. Dr. BenBassat also served as our Chairman from inception until 2013. From 1987 to 1999, Dr. BenBassat served as a Professor of Information Systems at the Faculty of Management at Tel-Aviv University. Dr. BenBassat has also held academic positions at the University of Southern California and the University of California in Los Angeles. Dr. BenBassat holds B.S., M.S. and Ph.D. degrees in Mathematics and Statistics from Tel-Aviv University. Dr. BenBassat pioneered the field of 'service chain optimization', a term he coined in the 1990s and is considered to be one of the world's leading experts in the field.

JOEL JESELSON has served as our Chief Financial Officer since November 2014. Prior to this role, Mr. Jeselsohn served as our Vice President Finance and Operations of the Americas. He has been with the Company since 2003 serving in various financial and business roles. Prior to joining ClickSoftware, Mr. Jeselsohn served as the VP Finance & Chief Financial Officer at Nur America, at that time the American subsidiary of Nur

Macroprinters Ltd., a leader in the wide format printing industry. Mr. Jeselsohn holds a Bachelor of Arts degree in Accounting and Economics, as well as an M.B.A with specialization in Finance, from Bar-Ilan University in Israel, and is a Certified Public Accountant in Israel.

ZVI PIRITZ has served as our Executive Vice President World Wide Sales and Marketing from 2011 to 2014 and as our President of EMEA and Asia Pacific since 2014. Previously, Mr. Piritz served as our Senior Vice President World Wide Sales and managed our sales organization worldwide. He has been with the Company since 1999 serving in various executive management roles. Prior to joining us, Mr. Piritz held various positions with international software companies, leading both the operational and the sales and marketing teams. Mr. Piritz holds a B.A. degree in Economics from Tel Aviv University, Israel and an M.B.A. degree in Marketing & International Accounting from Fordham University, New York, USA.

STEPHEN TIMMS has served as our Senior Vice President of Sales in Americas from 2010 to 2014 and as our President of Americas since 2014. Prior to moving to the United States, from 2005 to 2009, Mr. Timms held various positions in our sales organization, serving as our Vice President of Sales in EMEA and as the Director of Sales in West Region, EMEA. Before joining us, Mr. Timms served as Director for UK Business and as International Sales Executive at IDVelocity, a software company in the manufacturing and service industry. Prior to that he held several positions that included sales roles with leading software vendors, and very deep technical roles which required delivering training to post-graduate students. Mr. Timms graduated Harvard Business School Executive Education – General Manager Program, in 2013.

Our executive officers serve at the discretion of our board of directors. The employment of each of our executive officers is at will and may be terminated at any time, with or without cause, subject to contractual notice provisions.

Directors

Our articles of association provide for a minimum of two members and a maximum of eleven members on our board of directors. Except for External Directors (as defined in the Companies Law), all directors are classified into three classes, as nearly equal in number as possible, based on the amount of time they have held office, with the members of each class to hold office until their successors have been duly elected and qualified. At each annual meeting, the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting to be held in the third year following their election and until their successors have been duly elected and qualified.

Generally, at each annual meeting of shareholders, directors are elected by a vote of the holders of a majority of the voting power represented and voting at such meeting. All the members of our board of directors (except the external directors as detailed below) may be reelected upon completion of their term of office. Directors (other than external directors) may be removed earlier from office by a resolution passed at a general meeting of our shareholders. Our board of directors may temporarily fill vacancies in the board or add to their body until the next annual meeting of shareholders, provided that the total number of directors will not exceed the maximum number permitted under our articles of association.

We have a classified board of directors as set forth below:

<u>Name of Director and Class</u>	<u>Age</u>	<u>Term Expires</u>	<u>Independent Director (1)</u>	<u>Member of Audit Committee</u>	<u>Member of Compensation Committee</u>	<u>Member of Corporate Governance and Nominating Committee</u>
Israel Borovich, Class II (Chairman)	73	2017	X			
Gil Weiser, Class II	73	2017	X	X		
Moshe BenBassat, Class III	67	2015				
Shlomo Nass, Class III (2)	54	2015	X	X		X
Nira Dror, External Director (3)	60	2015	X	X	X	X
Shai Beilis, External Director	66	2015	X	X	X	X
Menahem Shalgi, External Director	64	2016	X	X	X	

(1) as defined under Rule 5605(a)(2) to the Nasdaq Listing Rules, or the Nasdaq Rules.

(2) "Audit Committee Financial Expert" under SEC rules and requisite experience under Nasdaq Rules with respect to membership on the Audit Committee. See Item 16A below.

(3) "Financial Expert" as required by the Companies Law with respect to membership on the Audit Committee.

DR. ISRAEL BOROVICH rejoined the board of directors in 2011, having previously served as a director of the Company from 1997 (and as an External Director according to the Companies Law from 2001) until March 2009. In 2013, Dr. Borovich was appointed Chairman of our Board of Directors. Dr. Borovich serves as the Dean of the School of Business and Economics at the Academic College of Tel Aviv-Jaffa. From 2005 to 2011, Dr. Borovich served as a member of the Board of Directors of El Al Israel Airlines Ltd. and as its Chairman from 2005 until 2008. From 1993 until 2006, he served as President and Chief Executive Officer of Knafaim Holdings Ltd., from 2006 to 2010, he served as its Vice Chairman, and from 1994 until now, he serves as a director on its Board of Directors. Dr. Borovich serves as a director of Knafaim Global Ltd. since 2007. From 1998 until 2015, Dr. Borovich served as Chairman of the Board of Ayalon Highways Co. Ltd. From 1999 until 2006, Dr. Borovich served as Chairman of Granit Hacarmel Investments Ltd. From 2006 until 2010, Dr. Borovich served on the Board of Trustees of the Polytechnic Institute of New York University in New York. From 2006 to 2008, he served as Chairman of the Board of Governors of Afeka Tel Aviv Academic College of Engineering. From 2008 until 2011, he served as Chairman of Alut Society for Autistic Children. From 2008 until 2012, he served as Chairman of the Board of Trustees of Wingate Institute. From 2010 until 2014, he served as director of Kenes International. From 2010 until 2012, he served as member on the advisory board of All Cargo Logistics Services, and from 2011 until 2012, as Chairman of the Board of Galil Cargo. Currently, Dr. Borovich serves as director of the Interdisciplinary Center Herzliya (since 1994). Dr. Borovich previously served as a Professor on the Faculty of Management of Tel Aviv University where he is currently a Professor Emeritus. Dr. Borovich holds B.Sc. and M.Sc. degrees in Industrial Engineering and a Ph.D. degree in Operations Research from the Polytechnic Institute in New York City.

GIL WEISER has served as a director of the Company since 2003. Mr. Weiser has been active in the high tech industry for the past 30 years. He is currently Chairman of the Board of BG Negev Technologies and a member of the board of Attunity Ltd. Mr. Weiser served as CEO of Orsus Solutions Ltd., Hewlett-Packard Israel, Fibronics Corporation and Digital Corporation Israel. He has also served as director of numerous companies including the Tel Aviv Stock Exchange. Mr. Weiser served as Chairman of the Executive Committee of Haifa University from 1994 to 2006. He holds a B.Sc. degree from the Technion Institute and an M.Sc. degree from the University of Minnesota in Minneapolis.

DR. SHLOMO NASS has served as a director of the Company since 2009. Dr. Nass currently serves as Senior Partner in Dr. Shlomo Nass & Co., an Israeli law firm that he founded in December 2002, specializing in real estate, liquidations, receiverships and corporate rehabilitation, arbitration, corporate and commercial law. Since 2008, he has served as a director of The Blue Shore Development Company (Tel Aviv-Herzliya) Ltd., and as a director of Aviv Alron Ltd. (former Yuli Capital Markets Ltd.). Since 1991 he serves as Vice Chairman of the public advisory committee on Trade Levies. From 2011 until 2014, Dr. Nass served as a director of City-Group Financial Products Israel Ltd. from City Bank Group. From 2009 until 2013, he served as a director, as a member of the investment committee and as a member of the auditing committee of Partner Communications Company Ltd. From 2011 until 2013, he served as a director and a member of the auditing committee of Tempo Beer Industries Ltd. From 2006 until 2011, he served on the Board of Directors of NMC United Entertainment Ltd. From 2003 until 2010, he served as Chairman of the financial statement and auditing committee of Formula Systems (1985) Ltd. From 2003 until 2009, he served as Chairman of the financial statement committee and as a member of the Board of Directors of IBC-Industrial Buildings Corporation Ltd. From 2005 until 2008, he served as the Chairman of the Board of Directors of Ayalon Insurance Co. Ltd. and Ayalon Financial Solutions Ltd. Dr. Nass also serves as Chairman of the Board of Directors of the following companies: since 2013 of S.A.L. Mishkenot Haretz, since 2011 of Hevruta Marketing Ltd. and Hevruta Consumering Ltd., since 2010 of Kada Buildings, since 2008 of Chaniman Entrepreneurship Ltd., since 2005 of M.D.K Touch Ltd. and since 2004 of Shir-Lak Ltd. Dr. Nass received his Ph.D. and LL.B. in Law and B.Sc., Economics and Accounting from Bar-Ilan University, and completed a Mediators Course of the Ministry of Justice. He is a member of the Israeli Bar Association and is a Certified Public Accountant in Israel. Dr. Nass is also a Certified Information System Auditor, C.I.S.A (USA). Dr. Nass is a lecturer on Corporate Law at IDC – Interdisciplinary Center Herzliya, and Bar-Ilan University. He is also a lecturer in the Directors' Training seminar at "Lahav" Executive Education at the Recanati Faculty of Management in Tel-Aviv University. In his military service, Dr. Nass served as an officer in the Israeli Defense Forces, or IDF, the Information Systems Auditing Team for the Paymaster General Administration.

NIRA DROR has served as a director of the Company since 2009. Ms. Dror is the owner and the General Manager of Nira Dror Ltd., a company which she founded in 2006 that provides consulting and representation services. From 2003 to 2005, Ms. Dror served as Deputy General Manager and as General Manager of North

America at El Al. From 1999 to 2003, she served as General Manager of Eastern Europe and East Mediterranean at British Airways, and from 1989 to 1999, as General Manager for Israel. From 1986 to 1989, Ms. Dror served as the General Manager of Histour Ltd., a tourism company, and from 1979 to 1985, she served as the chief economist for Teus Azorei Pituach Ltd. Ms. Dror currently serves as chairperson of the board of BHI Global Investments (Israel). She also currently serves on the board of directors and as a member of the audit committee of the following companies: Shlomo Insurance Company, S. Shlomo Holding Ltd., Sharonim Ltd., and Collplant Holdings Ltd. From 2012 to 2014, Ms. Dror served on the board of directors and as chairperson of the audit committee of Shemen Oil and Gas Resources Ltd. and Gas Resources Limited. She served on the board of directors and as a member of the audit committee of Tzur Shamir Holdings Ltd. from 2006 to 2013, of Dikla Insurance Company Ltd. from 2006 to 2015, and as a member of the board and as a chairperson of the audit committee of Bank Hapoalim Ltd. from 2006 to 2012. She was a member of the board of directors of H&O Ltd. from 2005 to 2008, and of Chamei Yoav Tourism from 2005 to 2008. Ms. Dror was also a member of the executive committee of the panel of airlines in Israel from 1990 to 1999. Ms. Dror holds a B.A. in Economics and Business Administration and an M.B.A. from Tel Aviv University.

SHAI BEILIS has served as a director of the Company since 2009. Mr. Beilis is currently Chairman of the board of Keebali Media Ltd. and BotanoCap Ltd. and a member of the board of directors of Earnix Ltd. Mr. Beilis founded Formula Ventures (within the Formula Group) in 1998 and has been the Chairman of the board since its inception. Formula Ventures Ltd. was the advisor and General Partner of two venture capital funds: Formula Ventures I and Formula Ventures II. Mr. Beilis joined the Formula Group in 1994 as Chief Executive officer of Argotec. Mr. Beilis was CEO of Clal Computers and Technology Ltd. from 1993 to 1995, an Israeli IT holding company traded in the Tel-Aviv Stock Exchange. From 1987 to 1993, Mr. Beilis was Vice President at Digital Equipment Corporation Israel. From 1978 to 1986, he was Chief Executive Officer of Yael Software and Services. From 2002 to 2006, Mr. Beilis was the Chairman of Formula Vertex UK Ltd., which was the advisor for the European Technology Venture Portfolio of UBS Capital. Mr. Beilis has served as director or chairman of over sixty Israeli high tech companies (including the following Nasdaq listed companies: Wiztec Solutions Ltd. (1996 to 1999), BluePhoenix Solutions Ltd. (1995 to 2008), RadView Software Ltd. (1998 to 2010), and Formula Systems (1985) Ltd. (1997 to 2005)). Mr. Beilis holds an M.Sc. in Computer Science from the Weizmann Institute of Science in Rehovot, Israel, and a B.Sc., cum laude, in Mathematics and Economics from the Hebrew University in Jerusalem, Israel.

MENAHM SHALGI has served as a director of the Company since 2010. Mr. Shalgi served at Amdocs Ltd. as Vice President of Business Development and M&A from 1998 to 2003, and as Vice President and Executive Account Manager from 1993 to 1998, and at various other positions from 1985 to 1993. Mr. Shalgi has served as an external director of Mind CTI since April 2005 and serves as the chairman of AfterDox Ltd., an investment house in Israel, since June 2007, and as a director at TodaCell Ltd. since 2014. Mr. Shalgi served as a director of Pilat Media PLC in the UK from 2006 until mid-2009. Mr. Shalgi holds a B.A. in Economics and Statistics from Tel-Aviv University and an M.Sc. in Computer Sciences from the Weizmann Institute of Science.

There are no family relationships between any members of our executive management and our directors.

There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of our executive management or our directors were selected.

6.B. Compensation

Dr. BenBassat provides management and consulting services (as more fully described below) as a consultant and not an employee pursuant to two agreements.

One agreement is between the Company and an Israeli company substantially all of whose shares are owned by Dr. BenBassat, his wife and family members, for services provided to the Company, or the Israeli Agreement, and a second agreement between ClickSoftware Europe Limited, the Company's UK subsidiary and a Cypriot company owned by Dr. BenBassat and his wife, for services provided to non-Israeli subsidiaries of the Company, or the EU Agreement, and jointly with the Israeli Agreement, the Agreements. The percentage of time devoted to provide services to each entity are determined on an as-needed basis.

Dr. BenBassat through the relevant company, or, each, a Consulting Company, provides management and consulting services to the Company and its affiliates and acts as the Chairman and CEO of the Company. These services are provided exclusively by Dr. BenBassat on behalf of the Consulting Company. Dr. BenBassat undertook to devote sufficient time, as needed, to provide consulting services to the business and affairs of the

Company and its subsidiaries. No employer-employee relationship exists between the Company and its affiliates and the relevant Consulting Company or Dr. BenBassat and the Consulting Company and Dr. BenBassat have undertaken to indemnify the Company and its subsidiaries for any payment and expense actually paid or required to be paid by the Company in connection with any decision to the contrary to the fullest extent permitted by law, up to the amounts actually received by Dr. BenBassat's company pursuant to each of the Agreements, plus reasonable legal expenses relating to any claim. The Agreements are effective as of January 1, 2010 until terminated by a party thereof. Each Agreement may be terminated by a party thereto at any time by providing 90 days' prior written notice to the other party. In case of Cause (as defined in the Agreements), the Agreements may be terminated without prior notice.

The aggregate monthly consulting fee payable under both Agreements is \$37,500, plus VAT, if applicable, or the Monthly Fee. The Monthly Fee is all inclusive (e.g. it includes the cost of all medical insurance, severance pay, Company car and all other fringe benefits customarily paid under employment agreements with senior executives) and represents the total cost to the Company and its affiliates and no other compensation is payable to the Consulting Companies and Dr. BenBassat except for the performance bonus and reimbursement of expenses mentioned below. For reference, the monthly base salary (excluding benefits) of Dr. BenBassat when he was employed under the employment agreement dated January 1, 2004, as amended, or the Employment Agreement, was \$25,000, and thus the gross up for the "all inclusive" arrangement is 50%. In addition to the Monthly Fee, the Consulting Company may earn an annual performance bonus which will not exceed 133% of the aggregate Monthly Fee paid during the relevant calendar year, or the Bonus. The amount of the Bonus and the determination of the target milestones upon which the Bonus will be based are both be set by the Company's compensation committee after consultation with the Consulting Company. The Bonus may be reviewed annually by the Company's compensation committee for possible changes in light of Consulting Company's performance, subject to required corporate approvals.

The Company will reimburse the Consulting Company for (i) reasonable travel, entertainment or other expenses, (ii) professional literature, magazines, conferences and events, and (iii) communication expenses (including internet and landline for Dr. BenBassat's office and mobile phone) incurred by Dr. BenBassat in the furtherance of or in connection with the provision of the Consulting Services, provided they have been incurred in accordance with the Company's expense reimbursement policy as in effect from time to time, and subject to invoices submitted by the Consulting Company to the Company. Dr. BenBassat is entitled to up to 26 vacation days per year. The amount of unutilized vacation days can be accumulated for a period of three (3) years. In the event of a "Change of Control" (as defined in each of the Agreements) of the Company that occurs prior to the termination of the Agreements, all Options to purchase the Company's Ordinary Shares held by Dr. BenBassat and/or Dr. BenBassat's companies will have their vesting accelerated so as to become 100% vested. Thereafter, the Options will continue to be subject to the terms, definitions and provisions of the Company's share option plan pursuant to which the Options were granted, and the option agreements pursuant to which the Options were granted. If a Consulting Company's engagement with the Company terminates other than for "Cause" (as defined in the Agreements), and the applicable Consulting Company complies with its confidentiality, non-compete and non-solicitation undertakings under the applicable Agreement, then the Consulting Company shall be entitled to receive continuing payments of its portion of the Monthly Fee (less applicable withholding taxes, if any), as then in effect, for a period of 12 months from the date of such termination. The equivalent provision of the Employment Agreement regarding 12 months' severance payment has been incorporated into the Agreements. The Agreements contain provisions regarding confidentiality of Company information, ownership of inventions, as well as a twelve-month non-compete and non-solicitation undertaking of Dr. BenBassat. The EU Agreement is governed by English law and the Israeli Agreement is governed by Israeli law. The Consulting Company and Dr. BenBassat are solely responsible for paying all taxes and other compulsory payments with respect to the fees payable in accordance with the agreement and the Company and its subsidiaries withhold all taxes if and to the extent required (on the basis of legal and tax advice from its advisors).

The aggregate amount of compensation paid or accrued to all of our directors and executive officers as a group of 11 persons with respect to 2014 was \$3.0 million in salaries, consulting fees, directors' fees, and bonuses and other related costs compared to \$1.8 million in 2013 and in 2012, and \$0.3 million in amounts set aside or accrued for pension, retirement or similar benefits but does not include expenses (including business travel, professional and business association dues) compared to \$0.2 million in 2013 and \$0.4 million in 2012. The increase is related to the compensation of both the outgoing and incoming Chief Financial Officer reflected here, and an increased overall number of executives.

In 2014, we granted an aggregate of 319,600 options to purchase Ordinary Shares to our officers (including the option granted to Dr. Moshe BenBassat, described below) at an average exercise price of \$6.23 per share. At

our June 19, 2014 Annual Shareholders Meeting, or 2014 ASM, our shareholders approved the grant of options to Dr. Moshe BenBassat (or a consulting company through which he provides services to us) to purchase 90,000 Ordinary Shares at an exercise price of \$7.65, the closing sale price of our Ordinary Shares on the trading day immediately preceding the 2014 ASM.

In 2013, we granted an aggregate of 458,000 options to purchase Ordinary Shares to our officers (including the option granted Dr. Moshe BenBassat, described below) at an average exercise price of \$7.80 per share. At our July 28, 2013 Annual Shareholders Meeting, or 2013 ASM, our shareholders approved the grant of options to Dr. Moshe BenBassat (or a consulting company through which he provides services to us) to purchase 90,000 Ordinary Shares at an exercise price of \$8.41, the closing sale price of our Ordinary Shares on the trading day immediately preceding the 2013 ASM.

In 2012, we granted an aggregate of 250,000 options to purchase Ordinary Shares to our officers (including the option granted Dr. Moshe BenBassat, described below) at an average exercise price of \$10.03 per share. At our June 28, 2012 Annual Shareholders Meeting, or 2012 ASM, our shareholders approved the grant of options to Dr. Moshe BenBassat (or a consulting company through which he provides services to us) to purchase 100,000 Ordinary Shares at an exercise price of \$8.22, the closing sale price of our Ordinary Shares on the trading day immediately preceding the 2012 ASM.

Options granted to our officers in 2012, 2013 and 2014 expire seven years after the date of the grant and vest as follows: 25% on the first anniversary date of grant and 1/48 at the end of each month thereafter.

In addition, we granted an aggregate of 49,600 restricted stock units, or RSUs, in 2014 and 48,000 RSUs in each of 2012 and 2013 to our non-employee directors in accordance with our 2000 Share Incentive Plan, as amended, or the Plan. The exercise price of the RSUs equals the par value of our Ordinary Shares, which is NIS 0.02. The Plan provides that (i) each non-employee director who is appointed as our director in 2011 or thereafter is automatically granted 8,000 RSUs, or the First Grant, upon the date such individual first becomes a director; and (ii) each non-employee director is automatically granted 8,000 RSUs, or the Subsequent Grant, following each annual meeting of our shareholders, beginning in 2011, if on such date he or she shall have served on our board of directors for at least the preceding six months. The terms of each RSU are as follows: (i) the term of the RSU shall be seven years; (ii) the exercise price per share shall be equal to the par value of each share underlying the RSU; (iii) the first grant shall vest on the first anniversary of the date of grant, provided that the grantee continues to serve as a director on such date; and (iv) each subsequent grant shall vest in twelve equal monthly installments after the date of grant, provided that the grantee continues to serve as a director on the applicable vesting date. In accordance with the approval at the 2014 ASM, there is an additional annual grant of 1,600 RSUs to Dr. Israel Borovich for as long as he serves as Chairman.

In addition to equity compensation, each non-employee director receives an annual cash compensation package of \$22,000 (\$26,400 with respect to that Dr. Israel Borovich for as long as he serves as Chairman in accordance with the approval at the 2014 ASM) plus VAT, if applicable, and reimbursement of expenses incurred by such director in connection with participation in meetings of the board of directors or committees thereof.

Our executive officers participate in a bonus plan in which they may receive bonuses based on achieving Company goals on revenues and operating profit, and based on achieving personal performance-related goals. The goals for our Chief Executive Officer are determined on an annual basis by the compensation committee, and the goals for our other executive officers are determined by the Chief Executive Officer.

In December 2012, an amendment to the Companies Law, or Amendment 20, became effective, requiring companies to appoint a compensation committee. Our existing compensation committee as detailed in Item 6.C. "Board Practices. Compensation Committee" below meets this requirement.

Amendment 20 also required that companies adopt a compensation policy by September 11, 2013, which will set forth company policy, or the Compensation Policy, regarding the terms of office and employment of office holders, including compensation, equity awards, severance and other benefits, exemption from liability, insurance and indemnification, referred to as the Terms of Office and Employment. The term "office holder," is defined in the Companies Law as a general manager, Chief Executive Officer, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, a director and a manager directly subordinate to the Chief Executive Officer.

The Compensation Policy must be approved by the board of directors, after considering the recommendations of the compensation committee. The Compensation Policy must also be approved by a majority of the company's shareholders, provided that (i) such majority includes at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, present and voting (abstentions are disregarded), or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the policy hold two percent or less of the voting power of the company, or the Compensation Majority. The Compensation Policy must be approved by the board of directors and the shareholders every three years. In the event that the Compensation Policy is not approved by the shareholders, the compensation committee and the board of directors may nonetheless approve the policy, if the compensation committee and the board of directors determine, based on specified reasons and following further discussion of the matter, that the Compensation Policy is in the best interests of the company. Our Compensation Policy for Executive Officers and Directors, or the Compensation Policy, was approved by our shareholders on July 8, 2013, following the recommendation of the compensation committee and approval by our board of directors.

Under Amendment 20, the Terms of Office and Employment of office holders require the approval of the compensation committee and the board of directors. The Terms of Office and Employment of directors and the Chief Executive Officer must also be approved by shareholders.

Changes to existing Terms of Office and Employment of office holders (other than directors) can be made with the approval of the compensation committee only, if the committee determines that the change is not substantially different from the existing terms.

Pursuant to Amendment 20, any arrangement between a company and an office holder (other than a director or the Chief Executive Officer) as to his or her terms of office and employment must be in line with the Compensation Policy and requires the approval of the compensation committee and the board of directors. However, under certain circumstances, the compensation committee and the board of directors may approve an arrangement that deviates from the Compensation Policy, provided that such arrangement is approved by the company's shareholders by the Compensation Majority. The board of directors and the compensation committee may, under special circumstances and for specified reasons, approve such an arrangement even if the shareholders did not approve it, following a re-discussion of the matter in which, among other things, the shareholders' objection was examined.

Directors

Pursuant to Amendment 20, any arrangement between a company and a director as to his or her terms of office and employment must be in line with the Compensation Policy and requires the approval of the compensation committee, the board of directors and the shareholders by a simple majority.

Under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the Compensation Policy, provided that such arrangement is approved by the company's shareholders by the Compensation Majority.

Under the Companies Law and regulations promulgated pursuant thereto, the compensation payable to External Directors and independent directors is subject to certain further limitations.

Chairman of the Board

Our articles of association provide that the chairman of the board is appointed by the members of the board of directors. Under the Israeli Companies Law, the Chief Executive Officer (referred to as a "general manager" under the Companies Law) or a relative of the Chief Executive Officer may not serve as the chairman of the board of directors of a public company, and the chairman or a relative of the chairman may not be vested with authorities of the Chief Executive Officer without shareholder approval consisting of a majority vote of the shares present and voting at a shareholders meeting, provided that either (i) such majority includes at least two-thirds of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such appointment, present and voting at such meeting; or (ii) the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such appointment voting against such appointment does not exceed two percent of the aggregate voting rights in the company.

In addition, a person subordinated, directly or indirectly, to the Chief Executive Officer may not serve as the chairman of the board of directors; the chairman of the board may not be vested with authorities that are granted to those subordinated to the Chief Executive Officer; and the chairman of the board may not serve in any other position in the company or a controlled company, but he may serve as a director or chairman of a subsidiary.

Chief Executive Officer

Pursuant to Amendment 20, any arrangement between a company and its Chief Executive Officer as to his or her terms of office and employment must be in line with the Compensation Policy and requires the approval of the compensation committee, the board of directors and the company's shareholders by the Compensation Majority.

Under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the Compensation Policy provided it is approved by the shareholders by the Compensation Majority. In addition, under certain circumstances, a company may be exempt from receiving the shareholders' approval with respect to the terms of office and employment of a candidate for Chief Executive Officer if such candidate meets certain independence criteria and the compensation committee has determined for specified reasons that shareholder approval would prevent the engagement, provided that the terms are in line with the Compensation Policy.

Under the Companies Law and related regulations, the compensation payable to statutory independent directors and independent directors is subject to certain further limitations. See Item 6.C. "Board Practices. External and Independent Directors" below.

6.C. Board practices

We are subject to the provisions of the Companies Law, which requires, in part, that Israeli companies whose shares have been offered to the public in or outside of Israel appoint at least two External Directors (as such term is defined in the Companies Law) to serve on their board of directors. In the event that the board does not nominate a candidate to be appointed to a specific class of directors at any annual meeting of shareholders, then instead of electing directors to succeed the directors whose term in office expires at the date of such annual meeting, the shareholders may elect one or more additional External Directors in addition to the minimum number of External Directors required by the Companies Law.

There are no service contracts between us or any of our subsidiaries, on the one hand, and our directors in their capacity as directors, on the other hand, providing for benefits upon termination of service, except for the termination provisions included in the consulting agreement of our Chief Executive Officer who is also a director. The benefits upon termination provided for in such consulting agreements relate solely to the termination of Mr. BenBassat from his position as a consultant, and not from his position as a director or chairman of the board.

In addition to the insurance coverage, we have agreed to indemnify our directors and officers in an amount not to exceed \$20 million, for all persons and all events to be indemnified, for certain events and occurrences while the director or officer is, or was serving, at our request in such capacity. The indemnification agreements entered into with the directors and officers are substantially in the form of the Amended Form of Indemnification Agreement previously filed as an exhibit to this annual report. As permitted under the Companies Law, the indemnification agreements provide protection against personal liability. We have director and officer insurance coverage that may limit our exposure and may enable us to recover a portion of any future amounts paid.

External and Independent Directors

Under the Companies law, publicly held Israeli companies, such as us, are required to appoint at least two External Directors, each of whom must also serve on the audit committee. All other board committees exercising powers delegated by the board of directors must include at least one External Director.

The initial three-year term of service of External Directors can be extended, at the election of the Company subject to certain conditions, by two additional three-year terms. External Directors will be elected by a majority vote at a shareholders' meeting, provided that either the majority of shares voted at the meeting, including at least one-half of the shares held by non-controlling shareholders voted at the meeting, vote in favor; or the total number of shares held by non-controlling shareholders voted against does not exceed two percent of the aggregate voting rights in the company.

Furthermore, External Directors may be re-elected for additional terms by means of one of the following mechanisms: (i) the board of directors proposed the nominee and his appointment was approved by the shareholders in the manner required to appoint External Directors for their initial term, (ii) a shareholder holding 1% or more of the voting rights proposed the nominee, and the nominee is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that, the aggregate votes cast by shareholders who are not controlling shareholders and do not have a personal interest in the matter as a result of their relations with the controlling shareholders in favor of the nominee constitute more than 2% of the voting rights in the Company, and provided further that at the time of such nomination or in the two years preceding such nomination, such external director or his relative are neither the shareholder who proposed such nomination, or a shareholder holding 5% or more of the company's issued share capital or voting power, in each case who, or whose controlling shareholder or any entity controlled by them (a) has business relations with the company, or (b) is a competitor of the company, or (iii) such external director nominates himself or herself for each such additional term and his or her election is approved at a shareholders meeting by the same disinterested majority as required for the election of an external director nominated by a 1% or more shareholder (as described above).

The External Director who has been nominated in such fashion by the shareholders must not be a linked or competing shareholder, and not have or not had, on or within the two years preceding the date of such person's appointment to serve another term as External Director, any affiliation with a linked or competing shareholder. The term "linked or competing shareholder" means the shareholder(s) who nominated the External Director for reappointment or a shareholder of the company holding more than 5% of the company's issued share capital or its voting rights, provided that at the time of the reappointment, such shareholder(s) of the company, the controlling shareholder of such shareholder(s) of the company, or a company under such shareholder(s) of the company's control, has a business relationship with the company or is a competitor of the company.

The term of office of External Directors of Israeli companies traded on certain foreign stock exchanges, including the Nasdaq Global Select Market, may be further extended, indefinitely, in increments of additional three-year terms, in each case provided that, in addition to reelection in such manner described above, (i) the audit committee and subsequently the board of directors of the Company confirm that, in light of the External Director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to the Company, and (ii) prior to the approval of the reelection of the External Director, the Company's shareholders have been informed of the term previously served by such nominee and of the reasons why the board of directors and audit committee recommended the extension of such nominee's term.

External Directors can be removed from office only by the court or by the same special majority of shareholders that can elect them, and then only if the External Directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company. The court may additionally remove External Directors from office if they were convicted of certain offenses by a non-Israeli court or are permanently unable to fulfill their position.

Each of Mr. Beilis, Ms. Dror and Mr. Shalgi serves as an External Director.

Under the Companies Law, public companies are required to elect at least two External Directors who must meet specified standards of independence. External Directors may not have had during the two years preceding their appointment, directly or indirectly through a relative, partner, employer or controlled entity, any affiliation with (i) the company, (ii) those of its shareholders who are controlling shareholders at the time of appointment and/or their relatives, or (iii) any entity controlled by the company or by its controlling shareholders.

The term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and services as an office holder. The term "controlling shareholder" is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder's position on the board of directors or any other position with the company. The definition also includes shareholders that hold 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights in the company.

In addition, an individual may not be appointed as an External Director in a company that does not have a controlling shareholder, in the event that he has affiliation, at the time of his appointment, to the chairman, Chief

Executive Officer, a 5% shareholder or the Chief Financial Officer. An individual may not be appointed as an External Director if his relative, partner, employer, supervisor, or an entity he controls, has other than negligible business or professional relations with any of the persons with which the External Director himself may not be affiliated.

No person can serve as an External Director if the person's other positions or business creates or may create conflicts of interest with the person's responsibilities as an External Director. Until the lapse of two years from termination of office, a company may not engage an External Director as an employee or otherwise. If, at the time an External Director is to be appointed, all current members of the board of directors, who are not controlling shareholders of the company or their relatives, are of the same gender, then at least one External Director appointed must be of the other gender.

If delegated any authority of the board of directors, any committee of the board of directors must include at least one External Director. An External Director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

The Companies Law requires External Directors to submit to the company, prior to the date of the notice of the general meeting convened to elect the External Directors, a declaration stating their compliance with the requirements imposed by the Companies Law for the office of External Director.

Israeli law further requires that at least one External Director has either financial and accounting expertise, or professional competence, as determined by the Company's board of directors. At least one of the External Directors is required to qualify as a financial and accounting expert, as determined by the board of directors. Under relevant regulations, a director having financial and accounting expertise is a person who, due to his or her education, experience and talents, is highly skilled in respect of, and understands, business and accounting matters and financial reports, in a manner that enables him or her to have an in-depth understanding of the Company's financial information and to stimulate discussion in respect of the manner in which the financial data is presented. Under relevant regulations, a director having professional competence is a person who meets any of the following criteria: (i) has an academic degree in either economics, business administration, accounting, law or public administration; (ii) has a different academic degree or has completed higher education in an area relevant to the company's business or in an area relevant to his or her position; or (iii) has at least five years' experience in at least two of the following: (a) a senior position in the business management of a corporation with a substantial scope of business (b) a senior public position or a senior position in public service, or (c) a senior position in the main field of the Company's business.

Ms. Dror was determined by our board of directors to be a financial and accounting expert and Mr. Beilis was determined to have professional competence, each as determined by Israeli law.

Audit Committee

Our audit committee consists of Dr. Nass, Ms. Dror, Mr. Beilis, Mr. Weiser and Mr. Shalgi, each of whom is "independent," as such term is currently defined in Rule 5605(a)(2) to the Nasdaq Rules. Our board of directors has determined that Dr. Nass also qualifies as an "audit committee financial expert" within the meaning of SEC rules and has the requisite experience under Nasdaq Rules. The audit committee provides assistance to the board of directors in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting and internal control functions of our Company and our subsidiaries as well as complying with the legal requirements under Israeli law and the regulation promulgated under the Sarbanes-Oxley Act of 2002. The purposes of the audit committee include:

- overseeing the accounting and financial reporting processes of our Company and audits of its financial statements;
- assessing the scope of work of the independent registered public accounting firm and recommending to our shareholders to appoint and approve the compensation of the independent registered public accounting firm engaged to audit our financial statements;
- overseeing and monitoring (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters, (iii) the independent registered public accounting firm's qualifications, independence and performance, and (iv) our internal accounting and financial controls;

- provide our board of directors with the results of its monitoring and recommendations derived therefrom;
- provide to our board of directors such additional information and materials as it may deem necessary to make it aware of significant financial matters that require its attention;
- monitor deficiencies in the management of the Company, inter alia, in consultation with the independent registered public accounting firm and internal auditor, and advise our board of directors on how to correct the deficiencies;
- decide whether to approve engagements or transactions that require Audit Committee approval under the Companies Law, relating generally to certain related party transactions, approval of the terms of employment of officers and determining whether certain related party actions and transactions are "material" or "extraordinary" in connection with their approval procedures;
- meet and receive reports from both the internal auditors and independent registered public accounting firm dealing with matters that arise in connection with their audits;
- assessing the our internal audit system and the performance of our internal auditor;
- determining whistle blower procedures (including in respect of the protections afforded to whistle blowers); and
- conduct any investigation appropriate to fulfilling its responsibilities, and have direct access to the independent registered public accounting firm as well as anyone in our Company.

The Israeli Companies Law requires that extraordinary transactions of a company with its controlling shareholders shall be subject to shareholder approval at a special majority. Under a recent amendment to the Companies Law, the Audit Committee is required to classify a related party transaction as extraordinary, ordinary or negligible. The classification can be based on pre-set parameters that shall apply for a one year term. Our audit committee has not formulated pre-set parameters.

Under the Companies Law, publicly traded companies must establish an audit committee. The audit committee must consist of at least three members, and must include all of the company's External Directors. The majority of the members of the audit committee, as well as the majority of members present at audit committee meetings, will be required to be "independent directors" (as defined in the Companies Law) and the chairman of the audit committee will be required to be an External Director. In addition, under the amendment, the following will be disqualified from serving as members of the audit committee: the chairman of the board, the controlling shareholder and his relatives, any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, a director who regularly provides services to the company or to its controlling shareholder or to an entity controlled by the controlling shareholder, and any director who derives most of his or her income from the controlling shareholder. Any persons disqualified from serving as a member of the audit committee may not be present at the audit committee meetings, unless the chairman of the audit committee has determined that such person is required to be present at the meeting or if such person qualifies under one of the exemptions specified in the Companies Law.

An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval two External Directors are serving as members of the audit committee and at least one of the External Directors was present at the meeting in which an approval was granted.

Our audit committee convenes at least once per quarter to review our quarterly financial results and to address other matters within the committee's responsibilities. Our audit committee duties are governed by a written charter.

Compensation Committee

Under the Companies Law, publicly traded companies must establish a compensation committee, which must consist of at least three directors. Under the Companies Law, the compensation committee must include all of the statutory independent directors, one of which must serve as the chairman of the committee, and the committee must include only additional members that satisfy the criteria for remuneration applicable to the statutory independent directors. Our compensation committee consists of Mr. Beilis, Ms. Dror and Mr. Shalgi,

each of whom is "independent," as such term is defined in Rule 5605(a)(2) to the Nasdaq Rules and our compensation committee meets the requirements of the Companies Law.

Under the Companies Law, the compensation committee is responsible for: (i) making recommendations to the board of directors with respect to the approval of the Compensation Policy and any extensions thereto; (ii) periodically reviewing the implementation of the Compensation Policy and providing the board of directors with recommendations with respect to any amendments or updates thereto; (iii) reviewing and resolving whether or not to approve arrangements with respect to the Terms of Office and Employment of office holders; and (iv) determining whether or not to exempt a transaction with a candidate for Chief Executive officer from shareholder approval.

Our compensation committee meets at least twice a year and its duties are governed by a written charter.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Dr. Nass, Ms. Dror and Mr. Beilis, each of whom is "independent," as such term is defined in Rule 5605(a)(2) to the Nasdaq Rules. Our corporate governance and nominating committee meets at least once a year. Functions of the corporate governance and nominating committee include:

- to monitor the composition of our board of directors and, when appropriate, seek, screen and recommend for nomination qualified candidates for election to our board of directors at the Company's annual meeting of shareholders;
- to seek qualified candidates to fill vacancies on our board of directors;
- to evaluate candidates identified on its own initiative as well as candidates referred to it by other members of the board of directors, by our management, by shareholders who submit names to our secretary for referral to the corporate governance and nominating committee, or by other external sources; and
- to evaluate the structure and practices of our board of directors and, when appropriate, recommend new policies.

Our corporate governance and nominating committee duties are governed by a written charter. In addition, a code of recommended corporate governance practices has been attached to a recent amendment to the Companies Law which we intend to refer to if applicable and not inconsistent with our written charter.

6.D. Employees

At December 31, 2014, we had 741 full time employees. Of these employees, 248 were based in Israel, 204 in Americas, 200 in Asia Pacific and 89 in EMEA.

The following is a detailed breakdown of persons employed by main category of activity, as of December 31, 2014:

<u>Department</u>	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Services	353	288	245
Research and Development	136	94	88
Sales and Marketing	157	146	112
General and Administrative	95	74	64
Total	741	602	509

In addition to the number of full-time employees listed above, as of December 31, 2014, we had 45 full-time contractors in Israel (compared to 79 full-time contractors as of December 31, 2013), who work at an offsite location, focusing mainly on quality assurance for our professional services and research and development organizations.

We believe that our relations with our employees are good. Neither our employees nor we are party to any collective bargaining agreements, except for provisions of such agreements that are applicable to the industry by virtue of extension orders issued under applicable Israeli or Brazilian laws.

Israeli law and certain provisions of the nationwide collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Manufacturer's Association of Israel apply to our Israeli employees. These provisions principally concern the maximum length of the work day and the work week, minimum wages, paid annual vacation, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We provide our employees with benefits and working conditions above the required minimums. Furthermore, pursuant to such provisions, the wages of most of our employees are subject to cost of living adjustments, based on changes in the Israeli CPI. The amounts and frequency of such adjustments are modified from time to time. Israeli law generally requires the payment of severance upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. We currently fund our ongoing severance obligations for our Israeli employees by making monthly payments for insurance policies and severance funds. Outside of Israel we accrue severance pay obligations when required under the applicable laws in such jurisdictions. Severance pay obligations made to Israeli employees are significant compared to employees of our subsidiaries outside of Israel. Severance payment expenses, net of changes in the value the insurance policies and severance funds, amounted to \$1,518,000 in 2014, \$1,932,000 in 2013, and \$1,632,000 in 2012. The decrease in 2014 was mainly due to significant exchange rate differences between the U.S. dollar and the NIS at the end of both years. The increase in 2013 and 2012 was largely attributable to appreciation in the value of the insurance policies and severance funds as well as to an increase in the number of employees. We obtain and maintain for all of our Israeli employees' pension funds or manager's insurance as required by applicable Israeli law.

We typically maintain non-competition agreements with our employees which prohibit them, if they cease working for us, from directly competing with us or working for our competitors. Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer which have been recognized by the courts, such as the secrecy of a Company's confidential commercial information or its intellectual property. If we cannot demonstrate that material harm would be caused to us, we will be unable to enforce these non-competition agreements and our competitors may be able to benefit from the expertise of our former employees.

6.E. Share ownership

As of March 25, 2015, each of our executive officers and directors beneficially owned less than 1% of our Ordinary Shares, with the exception of Dr. Moshe BenBassat, who beneficially owned 2,334,496 Ordinary Shares (or 6.9% of our outstanding Ordinary Shares), which includes 615,917 options for the purchase of our Ordinary Shares.

The following table summarizes information about the options to purchase our Ordinary Shares owned by Dr. Moshe BenBassat that were outstanding as of March 25, 2015:

RANGE OF EXERCISE PRICE \$	NUMBER OUTSTANDING AT MARCH 25, 2015	NUMBER EXERCISABLE AT MARCH 25, 2015⁽¹⁾	EXPIRATION DATE
1.93-2.81	178,000	178,000	2015
5.91	100,000	100,000	2017
7.65	90,000	-	2021
8.12	130,000	130,000	2016
8.22	100,000	70,833	2019
8.41	90,000	41,250	2020
9.71	100,000	95,834	2018
	<u>788,000</u>	<u>615,917</u>	

⁽¹⁾ Includes options for Ordinary Shares held that are exercisable within 60 days of the date stated above.

Share Incentive Plans

We have established a number of employee option plans containing terms and conditions for the vesting and exercising of options granted to employees for the purchase of our Ordinary Shares.

Our umbrella stock Plan was adopted in 2000 and defines our stock option pool available for grants worldwide. Employees outside of the United States typically receive options under a local stock option plan from the worldwide pool defined by the Plan. Pursuant to the Plan's evergreen mechanism, or Evergreen Mechanism, the number of Ordinary Shares made available thereunder automatically increases on the first day of the Company's fiscal year to equal the lesser of: (i) 5% of the outstanding Ordinary Shares on such date, (ii) 1,250,000 Ordinary Shares or (iii) an amount determined by the Company's board of directors. In accordance with the Evergreen Mechanism, the board of directors increased the number of Ordinary Shares reserved under the Plan by 7,097,269 Ordinary Shares in the aggregate. The board of directors elected not to activate the Evergreen Mechanism for 2014 and 2015 as it deemed the current size of the reserve suitable for our short term needs. As of March 25, 2015, 1,554,403 options were available under the Plan.

The purposes of the Plan are to enable us to attract and retain qualified persons as employees, officers, directors, consultants, advisors and service providers and to motivate such persons by providing them with an equity participation in our Company. The Plan will expire in 2017, unless terminated earlier by the board of directors.

The Plan was amended at our 2010 ASM to include the right to grant RSUs in accordance with the procedures and oversight applicable to option grants. Currently, RSUs have been granted only to independent directors. For more information about grants of RSUs to our directors, please see Item 6.B. "Compensation".

The Plan is administered by our board of directors or a committee of our board of directors, which has broad discretion, subject to certain limitations, to determine the persons entitled to receive options. Options generally have a term of between seven and ten years. Earlier termination may occur if an individual's employment with us is terminated or if certain corporate changes or transactions occur. Our board of directors determines the grant and the exercise price at the time the options are granted.

Under the Plan, the terms and conditions under which options are granted and the number of shares subject thereto are determined by our board of directors or a committee of our board of directors. The board of directors or such committee also has discretion to determine the nature of the consideration to be paid upon the exercise of an option under the Plan. Such consideration generally consists of cash, but may include a recourse promissory note.

The Ordinary Shares acquired upon exercise of an option are subject to certain restrictions on transfer, sale or hypothecation. Options are exercisable and restrictions on disposition of shares lapse pursuant to the terms of the individual agreements under which the options were granted or the shares were issued.

The exercise price per share is usually granted at the approximate fair market value of the shares on the date of grant, as determined by the closing price of our Ordinary Shares as reported by Nasdaq on the date immediately prior to the date of grant.

Each share incentive agreement specifies the date and period over which the option becomes exercisable. Options granted by us generally vest over a period of four years.

Vesting is conditional upon the employee remaining continuously employed by us, or in the case of a director, remaining a director.

In 2001, we adopted the 2000 Approved U.K. Share Scheme for our employees located in the United Kingdom (which was renewed in 2013) and in 2003, we adopted the 2003 Israeli Share Option Plan for our employees located in Israel, both of which were adopted under the Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major shareholders

The following table sets forth, as of the date indicated below, the total number of Ordinary Shares beneficially owned by (i) all shareholders known to us to own more than 5% of our outstanding Ordinary Shares, and (ii) all of our directors and executive officers as a group. Unless otherwise set forth below, the information below reflects holdings as of March 25, 2015.

<u>Name and Address</u>	<u>Ordinary Shares Beneficially Owned</u>	
	<u>Number</u>	<u>Percent</u> ⁽¹⁾
Dr. Moshe BenBassat ⁽²⁾	2,334,496	6.9%
Idit BenBassat ⁽³⁾	1,781,735	5.4%
G. Nicholas Farwell ⁽⁴⁾	2,164,200	6.5%
FMR LLC ⁽⁵⁾	2,818,376	8.5%
Soros Fund Management LLC ⁽⁶⁾	3,130,000	9.4%
Boston Partners ⁽⁷⁾	2,245,666	6.7%
Vector Capital, L.L.C. ⁽⁸⁾	1,928,529	5.9%
Officers and directors as a group ⁽⁹⁾ (10 persons)	2,829,455	8.4%

(1) The percentages shown are based on 33,287,210 shares issued and outstanding as of March 25, 2015.

(2) Includes (i) 308,000 options to purchase the Company's ordinary shares, exercisable within 60 days of March 25, 2015 held by Dr. BenBassat; (ii) 1,718,579 shares held by Dr. BenBassat and (iii) 307,917 options to purchase the Company's Ordinary Shares exercisable within 60 days of March 25, 2015 held by Plataine Technologies Ltd., an Israeli corporation controlled by Idit BenBassat and Dr. BenBassat (the "Plataine Options"). The Plataine Options were granted by the Company in connection with services provided to the Company by Dr. BenBassat through Plataine Technologies Ltd. The Plataine Options are reported as beneficially owned in their entirety by both Idit BenBassat, on the amendment to Schedule 13G she filed on February 13, 2015, and by Dr. BenBassat, herein, because of their shared control of Plataine Technologies Ltd.; however, they constitute only a single set of options.

(3) Based on Amendment No. 4 to Schedule 13G filed with the SEC on February 13, 2015 by Idit BenBassat, and which reflects holdings as of December 31, 2014. Includes 1,491,944 shares held by Idit BenBassat and 289,791 options to purchase the Company's Ordinary Shares exercisable within 60 days of December 31, 2014 held by Plataine Technologies Ltd., an Israeli corporation controlled by Idit BenBassat and Dr. Moshe BenBassat. The Plataine Options were granted by the Company in connection with services provided through Plataine by Dr. Moshe BenBassat to the Company. The Plataine Options are reported as beneficially owned in their entirety by both Dr. Moshe BenBassat and Idit BenBassat on the amendments to Schedule 13G that each filed because of their shared control of Plataine Technologies Ltd., but constitute only a single set of options.

(4) Based solely on information provided by G. Nicholas Farwell to us on March 1, 2015.

(5) Based solely on Amendment No. 5 to Schedule 13G filed with the SEC on February 13, 2015 by FMR LLC and certain of its affiliates, which reflect holdings as of December 31, 2014. Edward C. Johnson 3d, together with family members, is reported as being deemed to control FMR LLC.

(6) Based solely on Amendment No. 1 to Schedule 13F filed with the SEC on December 31, 2014 by Soros Fund Management LLC and its affiliates George Soros and Robert Soros, and which reflect holdings as of December 31, 2014.

(7) Based solely Amendment No. 1 to Schedule 13G filed with the SEC on March 9, 2015 by Boston Partners and which reflects holdings as of February 28, 2015.

(8) Based solely on Schedule 13D filed with the SEC on March 6, 2015 by Vector Capital, L.L.C. and its affiliates Vector Capital IV, L.P., Vector Capital Partners IV, L.P., Vector Entrepreneur Fund III, L.P., Vector Capital Partners III, L.P. and Alexander R. Slusky, and which reflect holdings as of February 25, 2015.

(9) Includes 870,411 Ordinary Shares for which options and RSUs exercisable within 60 days of the date stated above, but does not include 500,350 Ordinary Shares for which options and RSUs granted to officers and directors which are not currently, and will not within 60 days be, exercisable.

Changes in the percentage of ownership of major shareholders during the past three years were as follows ⁽⁺⁾:

	Year Ended December 31, <u>2011</u>		Year Ended December 31, <u>2014</u>	
		%		%
Total shares	31,368,888		33,136,302	
Dr. Moshe BenBassat ⁽¹⁾	2,316,287	6.9%	2,316,370	7.0%
Idit BenBassat ⁽²⁾	1,621,527	5.2%	1,781,735	5.4%
FMR LLC ⁽³⁾	2,698,798	8.6%	2,818,376	8.5%
Soros Fund Management LLC ⁽⁴⁾	(*)	-	3,130,000	9.4%
Boston Partners ⁽⁵⁾	(*)	-	2,098,597	6.3%
G. Nicholas Farwell ⁽⁶⁾	2,134,105	6.8%	2,164,200	6.5%

(*) Not known to us.

(+) In addition, on March 6, 2015, Vector Capital, L.L.C. and its affiliates Vector Capital IV, L.P., Vector Capital Partners IV, L.P., Vector Entrepreneur Fund III, L.P., Vector Capital Partners III, L.P. and Alexander R. Slusky filed a Schedule 13D indicating that they owned 1,928,529 Ordinary Shares, or 5.9%, as of February 25, 2015. We do not have information of their holdings as of December 31, 2014.

- (1) Based on Amendment No. 14 to Schedule 13G filed with the SEC on February 13, 2015 by Dr. Moshe BenBassat which reflects holdings as of December 31, 2014. Includes (i) 308,000 options to purchase the Company's ordinary shares, exercisable within 60 days of December 31, 2014 held by Dr. BenBassat; (ii) 1,718,579 shares held by Dr. BenBassat and (iii) 289,791 Plataine Options to purchase the Company's Ordinary Shares exercisable within 60 days of December 31, 2014 held by Plataine Technologies Ltd. The Plataine Options were granted by the Company in connection with services provided to the Company by Dr. BenBassat through Plataine Technologies Ltd. The Plataine Options are reported as beneficially owned in their entirety by both Idit BenBassat, on the amendment to Schedule 13G she filed on February 13, 2015, and by Dr. BenBassat, herein, because of their shared control of Plataine Technologies Ltd.; however, they constitute only a single set of options.
- (2) Based on Amendment No. 4 to Schedule 13G filed with the SEC on February 13, 2015 by Idit BenBassat, and which reflects holdings as of December 31, 2014. Includes 1,491,944 shares held by Idit BenBassat and 289,791 options to purchase the Company's Ordinary Shares exercisable within 60 days of December 31, 2014 held by Plataine Technologies Ltd., an Israeli corporation controlled by Idit BenBassat and Dr. Moshe BenBassat. The Plataine Options were granted by the Company in connection with services provided through Plataine by Dr. Moshe BenBassat to the Company. The Plataine Options are reported as beneficially owned in their entirety by both Dr. Moshe BenBassat and Idit BenBassat on the amendments to Schedule 13G that each filed because of their shared control of Plataine Technologies Ltd., but constitute only a single set of options.
- (3) Based solely on Amendment No. 5 to Schedule 13G filed with the SEC on February 13, 2015 by FMR LLC and certain of its affiliates, which reflect holdings as of December 31, 2014. Edward C. Johnson 3d, together with family members, is reported as being deemed to control FMR LLC.
- (4) Based solely on Amendment No. 1 to Schedule 13F filed with the SEC on December 31, 2014 by Soros Fund Management LLC and its affiliates George Soros and Robert Soros, and which reflect holdings as of December 31, 2014.
- (5) Based solely on a Schedule 13G filed with the SEC on February 11, 2015 by Boston Partners which reflects holdings as of December 31, 2014. On March 9, 2015, Boston Partners filed an Amendment No. 1 to Schedule 13G indicating that as of February 28, 2015, it owned 2,245,666 of our Ordinary Shares.
- (6) Based solely on information provided by G. Nicholas Farwell to us on March 1, 2015.

Our major shareholders do not have different voting rights from each other or other shareholders.

According to our transfer agent, as of December 31, 2014, there were 19 holders of record of our Ordinary Shares in the United States, representing approximately 96% of our outstanding shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders reside since many of our Ordinary Shares are held by brokers or other nominees. None of the Company's preferred Shares are issued or outstanding.

To our knowledge, we are not directly or indirectly owned or controlled by another corporation, any foreign government or any other natural or legal person severally or jointly.

7.B. Related party transactions

Since January 1, 2014, we have engaged in no material transactions with related parties, nor are there any outstanding loans to related parties concerning this period of time, except for service agreements with our Chief Executive Officer Dr. Moshe BenBassat and compensation to our directors and officers (See Item 6.B "Compensation").

7.C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated statements and other financial information

See Item 18 – Financial Statements.

Export Sales

Export sales from Israel in 2014 were \$126.0 million, or 99.9% of revenues, compared with \$103.0 million, or 99.8% of revenues, in 2013, and \$99.6 million, or 99.5% of revenues, in 2012.

Legal Proceedings

From time to time, we are involved in various routine legal proceedings incidental to the ordinary course of our business. We do not believe that the outcome of these legal proceedings have had in the recent past, or will have (with respect to any pending proceedings), significant effects on our financial position or profitability.

Dividends

We do not have a formal dividend policy governing the amounts and payment of dividends. Until 2011, we retained all earnings for use in our business. During 2011, we declared a cash dividend to our shareholders in the amount of \$10 million (\$0.32 per share). During 2011, we distributed a cash dividend of \$7.5 million (\$0.24 per share). During 2012, we declared a cash dividend to our shareholders in the amount of \$7.5 million (\$0.24 per share) and distributed a cash dividend of \$10 million (\$0.32 per share). During 2013, we declared a cash dividend to our shareholders in the amount of \$6.7 million (\$0.21 per share) and distributed a cash dividend of \$6.7 million (\$0.21 per share). Payment of future dividends is at the discretion of our board of directors. We did not declare any dividends in 2014.

8.B. Significant changes

Except as disclosed elsewhere in this annual report, there have been no other significant changes since December 31, 2014.

ITEM 9. THE OFFER AND LISTING

9.A. Offer and listing details

Our Ordinary Shares are listed for trading on the Nasdaq Global Select Market. The following table sets forth for the periods listed the high and low market prices of our Ordinary Shares on the Nasdaq Global Select Market (since July 1, 2009) or Nasdaq Capital Market (prior to July 1, 2009).

	<u>High</u>	<u>Low</u>
Annual Information	(\$)	(\$)
2010	8.07	4.82
2011	10.70	7.24
2012	12.98	6.88
2013	9.06	5.84
2014	10.68	6.77
Quarterly Information		
First quarter 2013	9.06	7.91
Second quarter 2013	8.37	7.01
Third quarter 2013	8.41	5.84
Fourth quarter 2013	7.57	5.88
First quarter 2014	10.68	7.27
Second quarter 2014	10.26	7.34
Third quarter 2014	8.96	7.57
Fourth quarter 2014	8.08	6.77
Monthly Information		
September 2014	8.37	7.88
October 2014	8.08	6.77
November 2014	7.59	7.17
December 2014	7.40	7.01
January 2015	7.30	7.05
February 2015	8.40	7.05
March 2015 (through March 24)	9.30	8.26

9.B. Plan of distribution

Not applicable.

9.C. Markets

Our Ordinary Shares have been quoted on the Nasdaq Global Select Market since July 1, 2009 under the symbol CKSW. From August 29, 2002 to July 1, 2009, our Ordinary Shares were traded on the Nasdaq Capital Market under the same symbol (except between November 6, 2002 and March 6, 2003, when our symbol was CKSWE). Prior to that, beginning on June 22, 2000, our Ordinary Shares were quoted on the Nasdaq National Market under the same symbol, CKSW.

9.D. Selling shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share capital

Not applicable.

10.B. Memorandum and articles of association

Securities Register

We are registered with the Israeli Registrar of Companies. Our registration number is 510829971. Section 2 of our articles of association provides that we may engage in any type of lawful business as may be determined by our board of directors from time to time.

Board of Directors

The Companies Law requires that certain transactions, actions and arrangements be approved as provided for in a company's articles of association and in certain circumstances by the audit committee (or with respect to terms of office and employment, the compensation committee), by the board of directors itself and by the shareholders. The vote required by the audit committee and the board of directors for approval of such matters, in each case, is a majority of the disinterested directors participating in a duly convened meeting.

The Companies Law requires that an office holder in the company or a controlling shareholder in a public company promptly disclose any personal interest that he or she may have (either directly or by way of any corporation in which he or she is, directly or indirectly, 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) and all related material information known to him or her, in connection with any existing or proposed transaction by the company, no later than the first meeting of the board of directors to discuss such existing or proposed transaction. For these purposes, a shareholder that holds 25% or more of the voting rights in a company is considered a controlling shareholder if no other shareholder holds more than 50% of the voting rights. In addition, if the transaction is an extraordinary transaction (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company's profitability, assets or liabilities), the office holder in the company or a controlling shareholder in a public company also must disclose any personal interest held by his or her spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing. Under the Companies Law, extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation of a controlling shareholder, require shareholders' approval that shall either include at least one-half of the shares held by disinterested shareholders participating in the vote, or, alternatively, the total shareholdings of disinterested shareholders voting against the transaction must not represent more than two percent of the voting rights; agreements relating to engagement or provision of services for a period exceeding three years, must generally be approved once every three years.

Once the office holder in the company complies with the above disclosure requirement, a company may approve the transaction in accordance with the provisions of its articles of association. If the transaction is with a third party in which the office holder in the company has a personal interest, the approval must confirm that the transaction is not adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee (or with respect to terms of office and employment, the compensation committee) and then by the board of directors, and, under certain circumstances, by the shareholders.

Our articles of association provide that, all actions done bona fide at any meeting of the board of directors or by a committee thereof or by any person(s) acting as director(s) will, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meeting or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defector disqualification.

- Our articles of association provide that a director who has a personal interest in an extraordinary transaction which is brought for discussion before our board of directors or our audit committee shall neither vote in nor attend discussions concerning the approval of such transaction. If the director did vote or attend as aforesaid, the approval given to the aforesaid activity or arrangement will be invalid.

- Our articles of association provide that, subject to the Companies Law, our board of directors may delegate its authority, in whole or in part, to such committees of the board of directors as it deems appropriate, and it may from time to time revoke such delegation. To the extent permitted by the Companies Law, our board of directors may from time to time confer upon and delegate to a President, Chief Executive Officer, Chief Operating Officer or other executive officer then holding office, such authorities and duties of the board of directors as it deems fit, and they may delegate such authorities and duties for such period and for such purposes and subject to such conditions and restrictions which they consider in our best interests, without waiving the authorities of the board of directors with respect thereto.
- Arrangements regarding compensation of directors require the approval of the compensation committee, audit committee, our board of directors and the shareholders.
- 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, Preferences and Restrictions of Shares

- General. Our share capital is NIS 2,100,000, divided into: (i) 100,000,000 Ordinary Shares, and (ii) 5,000,000 Special Preferred Shares of NIS 0.02 par value each. Our Ordinary Shares do not have preemptive rights.
- The Ordinary Shares do not have cumulative voting rights in the election of directors. As a result, the holders of Ordinary Shares that represent more than 50% of the voting power have the power to elect all the Directors.
- Dividend and liquidation rights. Our board of directors may declare a dividend to be paid to the holders of our Ordinary Shares according to their rights and interests in our profits and may fix the record date for eligibility and the time for payment. The directors may from time to time pay to the shareholders on account of the next forthcoming dividend such interim dividends as, in their judgment, our position justifies. All dividends unclaimed for one year after having been declared may be invested or otherwise used by the directors for our benefit until claimed. No unpaid dividend or interest shall bear interest as against us. Our board of directors may determine that a dividend may be paid, wholly or partially, by the distribution of certain of our assets or by a distribution of paid up shares, debentures or debenture stock or any of our securities or of any other companies or in any one or more of such ways in the manner and to the extent permitted by the Companies Law.
- Transfer of shares; record dates. Fully paid up Ordinary Shares may be freely transferred pursuant to our articles of association unless such transfer is restricted or prohibited by another instrument or securities laws. Each shareholder who would be entitled to attend and vote at a General Meeting of shareholders is entitled to receive notice of any such meeting. For purposes of determining the shareholders entitled to notice and to vote at such meeting, the board of directors will fix a record date.
- Voting; annual general and extraordinary meetings. Subject to any rights or restrictions for the time being attached to any class or classes of shares, each shareholder shall have one vote for each share of which he or she is the holder, whether on a show of hands or on a poll. Our articles of association do not permit cumulative voting and it is not mandated by Israeli law. Votes may be given either personally or by proxy. A proxy need not be a shareholder. If any shareholder is without legal capacity, he may vote by means of a trustee or a legal custodian, who may vote either personally or by proxy. If two or more persons are jointly entitled to a share then, in voting upon any question, the vote of the senior person who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other registered holders of the share and, for this purpose seniority shall be determined by the order in which the names stand in the shareholder register.
- No business shall be transacted at any General Meeting unless a quorum is present when the meeting proceeds to business. The quorum at any Meeting shall be two shareholders present in person or by proxy, holding or representing at least 33% of our total voting rights. A meeting adjourned for lack of quorum is adjourned to the same day in the next week at the same time and place, or any time and hour as the board of directors shall designate and state in a notice to the shareholders entitled to vote at the original meeting, and if, at such adjourned meeting, a quorum is not present within half an hour from the time appointed for holding the meeting any two shareholders present in person or by proxy shall

constitute a quorum. Notwithstanding the aforesaid, if a General Meeting is convened at the demand of shareholders as permitted by the Companies Law, then a quorum at such adjourned meeting shall be one or more shareholders holding in the aggregate at least 5% of our issued share capital and at least 1% of our voting rights, or one or more shareholders who hold in the aggregate at least 5% of our voting rights. Rule 5620(c) to Nasdaq Rules requires that an issuer listed on the Nasdaq Global Select Market should have a quorum requirement that in no case be less than 33 1/3% of the outstanding shares of the company's common voting stock. However, as mentioned above, our articles of association, consistent with the Companies Law, provide for a lower general quorum requirement of 33% of our outstanding shares and an even lower quorum in the event that the required quorum is not present within half an hour from the time appointed for holding an adjourned meeting, or, in the case the meeting that was adjourned was convened by the shareholders, if the required quorum is not present at the time appointed for holding such adjourned meeting.

- Unless a longer period for notice is prescribed by the Companies Law, at least 10 days and not more than 60 days' notice of any general meeting shall be given, specifying the place, the day and the hour of the meeting and, in the case of special business, the nature of such business, shall be given in the manner hereinafter mentioned, to such shareholders as are under the provisions of our articles of association, entitled to receive notices from us. Only shareholders of record as reflected on our share register at the close of business on the date fixed by the board of directors as the record date determining the then shareholders who will be entitled to vote, shall be entitled to notice of, and to vote, in person or by proxy, at a general meeting and any postponement or adjournment thereof.
- General Meetings are held at least once in every calendar year at such time (within a period of 15 months after the holding of the last preceding General Meeting), and at such time and place as may be determined by the board of directors. At a General Meeting, decisions shall be adopted only on matters that were specified on the agenda. The board of directors is obligated to call extraordinary general meeting of the shareholders upon a written request in accordance with the Companies Law. The Companies Law provides that an extraordinary general meeting of shareholder may be called by the board of directors or by a request of two directors or 25% of the directors in office, or by shareholders holding at least 5% of the issued share capital of the company and at least 1% of the voting rights, or of shareholders holding at least 5% of the voting rights of the company.
- Except as otherwise provided in the articles of association, any resolution at a General Meeting shall be deemed adopted if approved by the holders of a majority of our voting rights represented at the meeting in person or by proxy and voting thereon. In the case of an equality of votes, the chairman of the meeting shall not be entitled to a further or casting vote.
- Discrimination against shareholders. According to our articles of association, there are no discriminating provisions against any existing or prospective holders of our shares as a result of a shareholder holding a substantial number of shares.

Modification of Class Rights

If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issuance of the shares of that class) may be varied with the consent in writing of the holders of all the issued shares of that class, or with the sanction of a majority vote at a meeting of the shareholders passed at a separate meeting of the holders of the shares of the class. The provisions of our articles of association relating to general meetings shall apply, mutatis mutandis, to every such separate general meeting. Any holder of shares of the class present in person or by proxy may demand a secret poll.

Unless otherwise provided by the conditions of issuance, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed to modify or abrogate the rights attached to the previously issued shares of such class or of any other class. These conditions provide for the minimum shareholder approvals permitted by the Companies Law.

Restrictions on Shareholders Rights to Own Securities

Our articles of association and the laws of the State of Israel do not restrict in any way the ownership or voting of our shares by non-residents of Israel, except with respect to subjects of countries which are in a state of war with Israel.

Acquisitions under Israeli Law

Full tender offer

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company.

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the same class for the purchase of all of the issued and outstanding shares of the same class.

If the shareholders who do not respond to or accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class of the shares, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will be accepted if the shareholders who do not accept it hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of the shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition the Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may determine in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If the shareholders who did not respond or accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

Special tender offer

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of at least 25% of the voting rights in the company. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company.

Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company.

These requirements do not apply if the acquisition (i) occurs in the context of a private offering, on the condition that the shareholders meeting approved the acquisition as a private offering whose purpose is to give the acquirer at least 25% of the voting rights in the company if there is no person who holds at least 25% of the voting rights in the company, or as a private offering whose purpose is to give the acquirer 45% of the voting rights in the company, if there is no person who holds 45% of the voting rights in the company; (ii) was from a shareholder holding at least 25% of the voting rights in the company and resulted in the acquirer becoming a holder of at least 25% of the voting rights in the company; or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company.

The special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the special tender offer is accepted by a majority of the votes of those offerees who gave notice of their position in respect of the offer; in counting the votes of offerees, the votes of a holder of control in the offeror, a person who has personal interest in acceptance of the special tender offer, a holder of at least 25% of the voting rights in the company, or any person acting on

their or on the offeror's behalf, including their relatives or companies under their control, are not taken into account.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention.

An office holder in a target company who, in his or her capacity as an office holder, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages resulting from his acts, unless such office holder acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, office holders of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not respond to the special offer or had objected to the special tender offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, then the purchaser or any person or entity controlling it and any corporation controlled by them shall refrain from making a subsequent tender offer for the purchase of shares of the target company and may not execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, a majority of each party's shareholders, by a majority of each party's shares that are voted on the proposed merger at a shareholders' meeting.

The board of directors of a merging company is required pursuant to the Companies Law to discuss and determine whether in its opinion there exists a reasonable concern that as a result of a proposed merger, the surviving company will not be able to satisfy its obligations towards its creditors, taking into account the financial condition of the merging companies. If the board of directors has determined that such a concern exists, it may not approve a proposed merger. Following the approval of the board of directors of each of the merging companies, the boards of directors must jointly prepare a merger proposal for submission to the Israeli Registrar of Companies.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares voting at the shareholders meeting (excluding abstentions) that are held by parties other than the other party to the merger, any person who holds 25% or more of the means of control of the other party to the merger or any one on their behalf including their relatives or corporations controlled by any of them, vote against the merger.

If the transaction would have been approved but for the separate approval of each class of shares or the exclusion of the votes of certain shareholders as provided above, a court may still rule that the company has approved the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the appraisal of the merging companies' value and the consideration offered to the shareholders.

Under the Companies Law, each merging company must send a copy of the proposed merger plan to its secured creditors. Unsecured creditors are entitled to receive notice of the merger, as provided by the regulations promulgated under the Companies Law. 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 target company. The court may also give instructions in order to secure the rights of creditors.

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 from the date that shareholder approval of both merging companies was obtained.

Potential Issues that Could Delay a Merger

Our articles of association provides for a staggered board of directors, which could delay, defer or prevent a change of control. In addition, certain provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult any merger or acquisition of us. For example, any merger or acquisition of us will require the prior consent of the OCS. See Item 3.D – Risk factors "We are subject to anti-takeover provisions that could delay or prevent our acquisition by another entity."

Requirement of Disclosure of Shareholder Ownership

There are no provisions of our memorandum of association or articles of association governing the ownership threshold above which shareholder ownership must be disclosed. We are subject, however, to U.S. securities rules that require beneficial owners of more than 5% of our Ordinary Shares to make certain filings with the SEC.

Changes in Capital

Our memorandum of association and articles of association do not impose any conditions governing changes in capital that are more stringent than required by the Companies Law.

10.C. Material contracts

We have entered into service agreements with our Chief Executive Officer, Dr. Moshe BenBassat (See Item 6.B "Compensation").

On February 17, 2014, we entered into the Merger Agreement.

On March 4, 2014, in accordance with the Merger Agreement, Sub was merged with and into Xora, the separate corporate existence of Sub ceased, and Xora continued as the surviving corporation and our wholly-owned subsidiary. Under the terms of the Merger Agreement, the initial consideration for the transaction was approximately \$15 million in cash, including working capital and cash adjustments.

The Merger Agreement includes customary representations, warranties and covenants by the parties, which survived the closing and, in general, expire on March 3, 2016. Under the Merger Agreement, certain stockholders of Xora agreed to indemnify the Company for damages arising out of breaches or inaccuracies of Xora's or Xora stockholders' representations, warranties and covenants subject to certain limitations, including, in general, that Xora stockholders shall not be liable for any losses until the aggregate amount of losses exceeds the Threshold, and once such Threshold has been reached, the Xora stockholders shall be liable for their pro rata portion of such losses, including the Threshold. Notwithstanding the foregoing, the Threshold will not apply to any losses arising from fraud or willful breach of the Merger Agreement, Xora's breach of the representations and warranties regarding organization, company capital structure, authority or tax matters, and certain other losses as specified in the Merger Agreement. The indemnification obligation of the Xora stockholders is subject to the Cap. The amount of the Cap is subject to an escrow, which terminates on March 3, 2016. The Cap is subject to certain exceptions similar to those applicable to the Threshold, but in no event shall a stockholder be liable for more than its pro rata portion of any particular loss or an amount in excess of the consideration it is eligible to receive under the Merger Agreement.

10.D. Exchange controls

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

Non-residents of Israel who purchase our securities with non-Israeli currency will be able to repatriate dividends (if any), liquidation distributions and the proceeds of any sale of such securities, into non-Israeli currencies at

the rate of exchange prevailing at the time of repatriation, provided that any applicable Israeli taxes have been paid (or withheld) on such amounts.

Neither our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel.

10.E. Taxation

The following is a summary of the current tax structure, which is applicable to companies in Israel, with special reference to its effect on us and to government programs from which we and some of our group companies benefit. The following also contains a discussion of material Israeli and U.S. tax consequences to persons purchasing our Ordinary Shares. To the extent that the discussion is based on new tax legislation, which has yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will accord with any such interpretation in the future. The discussion is not intended and should not be construed as legal or professional tax advice and is not exhaustive of all possible tax considerations.

The following summary is included herein as general information only and is not intended as a substitute for careful tax planning. Accordingly, each investor should consult their own tax advisor as to the particular tax consequences to such investor of the purchase, ownership or sale of an ordinary share, including the effect of applicable state, local, foreign or other tax laws and possible changes in tax laws.

Israeli Taxation Considerations

General Corporate Tax Structure

In general, Israeli companies were subject to tax at the rate of 26.5% on their ordinary income in 2014. Corporate income tax rates were 25% in 2013 and 2012, and 24% in 2011. The corporate income tax rate was scheduled to be gradually reduced to 18% in 2016 and beyond, however, this scheduled gradual reduction in corporate tax rates was repealed in 2011. In 2013, the corporate tax rate was increased to 26.5% with respect to 2014 and thereafter. Companies which qualify for "Approved Enterprise", "Privileged Enterprise" or "Preferred Enterprise" status may be subject to lower tax rates on their income derived from such activities – see discussion below.

An Israeli company may be subject to Israeli taxation on the income of its non-Israeli subsidiaries, as a deemed dividend. As such, it may be eligible for a foreign tax credit on income taxes paid by the subsidiary in its country of residence on said income, according to the terms and conditions determined in the Israeli Tax Ordinance.

Taxable results of Israeli companies up to, and including, the year 2007 were measured on a real basis, taking into account the rate of change in the Israeli Consumer Price Index under the Inflationary Adjustments Law which was repealed commencing from tax year 2008.

Law for the Encouragement of Industry (Taxes), 1969

Pursuant to the Law for the Encouragement of Industry (Taxes), 1969, a company qualifies as an "Industrial Company" if it is a resident of Israel and at least 90% of its gross income in any tax year (exclusive of income from certain defense loans, capital gains, interest and dividends) is derived from an "Industrial Enterprise" it owns. An "Industrial Enterprise" is defined as an enterprise whose major activity, in a given tax year, is industrial manufacturing.

We believe that we currently qualify as an Industrial Company. Accordingly, we are entitled to certain tax benefits, including a deduction of 12.5% per annum on the purchase of patents or certain other intangible property rights (other than goodwill) used for the development or promotion of the industrial enterprise over a period of eight years beginning with the year in which such rights were first used.

In addition, Industrial Companies may (i) elect to file consolidated tax returns with additional related Israeli Industrial Companies and (ii) deduct expenses related to public offerings in equal amounts over a period of three years.

Eligibility for benefits under the Encouragement of Industry Law is not contingent upon the approval of any governmental authority. No assurance can be given that we will continue to qualify as an Industrial Company, will avail ourselves of any benefits under this law in the future, or that Industrial Companies will continue to enjoy such tax benefits in the future.

Law for the Encouragement of Capital Investments, 1959

General. With the introduction of the Law for the Encouragement of Capital Investments, 1959, or the Investment Law, the government of Israel has provided grants and certain tax benefits to Industrial Companies which obtained approvals for the status of an “Approved Enterprise” or, following subsequent amendments to the Investment Law, qualified for the “Privileged Enterprise” or the “Preferred Enterprise” status.

Prior to the Amendment of the Law in 2005, an Approved Enterprise status and the relevant grants or tax benefits, were given to companies after their investment plans were approved by the Investment Center of the Ministry of Industry and Trade of the State of Israel in a Letter of Approval.

Following the 2005-Amendment, a company could no longer obtain an Approved Enterprise status for programs on which an application for an approved enterprise status was submitted after December 31, 2004. The 2005-Amendment defined the Privileged Enterprise status which enabled companies to enjoy the tax benefits, without a prior approval, by complying with the prerequisites in the Law as a contributor to the country’s economic growth (mostly by a minimum of 25% of their income for the program derived from exports).

In a subsequent amendment, which came into effect in 2011, companies could no longer obtain the Privileged Enterprise status for programs ending after December 31, 2012.

Until the 2011-Amendment, the Law enabled eligible companies to apply for a government grant or an alternative track of tax benefits. Following the 2011-Amendment only companies in designated peripheral regions can apply for a government grant, in addition to the tax benefits.

Tax Benefits. Taxable income of a company derived from an Approved Enterprise and a Privileged Enterprise was subject to corporate tax at the rate of up to 25%, instead of the tax rates under the "General Corporate Tax Structure", for a certain period of time. The benefit period in the central regions was a period of seven years commencing in the year in which the Approved Enterprise first generated taxable income. The benefit period may have been shorter as it was limited to 12 years from the commencement of production of the Approved Enterprise or 14 years from the date of the Letter of approval, whichever is earlier. Under certain circumstances (as further detailed below), the benefit period may have extended to a maximum of ten years or fifteen years from the commencement of the benefit period. A company which operated under more than one approval or that had capital investments which were only partly approved (such a company being designated as a Mixed Enterprise), may have had an effective company tax rate that was the result of a weighted combination of the various applicable rates.

Companies having Approved Enterprises or Privileged Enterprises in which holding by foreign shareholders exceeded 25% of the total shareholding, qualified for reduced tax rates for an additional three years, after the seven years mentioned above. The company tax rate applicable to income earned from Approved Enterprise and Privileged Enterprise programs in the benefit period by a company meeting these thresholds were as follows:

<u>% of Foreign Ownership</u>	<u>Tax Rate</u>
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%

Entitlement to these tax benefits for enterprises to which received a Letter of Approval from the Investment Center prior to December 31, 2004 was subject to the final ratification of the Investment Center, and was conditioned upon fulfillment of all terms specified in the Letter of Approval. Entitlement to tax benefits for Privileged Enterprises was subject to meeting the prerequisites in the Investment Law for the Privileged Enterprise status for each tax year.

Under the 2011-Amendment, a uniform corporate tax rate will apply to all qualifying income of certain Industrial Companies (requirement of a minimum export of 25% of the company's total turnover), as opposed to the benefits under the 2005-Amendment, which were limited to income from Approved Enterprises or Privileged Enterprises during their benefits period. Under the 2011-Amendment, the uniform tax rate was scheduled to be 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5% respectively in 2013-2014 and 6% and 12% from 2015 and thereafter. However, an amendment in 2013 increased the applicable uniform rates to 9% and 16%, respectively from 2014 and thereafter.

Under the transition provisions of the 2011 Amendment, a company may elect to implement the Preferred Enterprise status by irrevocably waiving its benefits provided under the Approved Enterprise or Privileged Enterprise programs, or to remain subject to the benefits under the Approved Enterprise or Privileged Enterprise programs.

In addition to the tax benefits described above, the Investment Law also provides that an Approved Enterprise, Privileged Enterprise or Preferred Enterprise is entitled to accelerated depreciation on property and equipment included in an approved investment program, generally ranging from 200% for equipment, to 400% for buildings, of ordinary depreciation rates during the first five tax years of the operation of these assets with a ceiling of 20% per year for depreciation on buildings.

From time to time, the Government of Israel has discussed reducing or modifying the requirements for the benefits available to companies under the Investment Law and currently such proposal is in discussion. The termination, or substantial reduction, of any of the benefits available under the Investment Law could have a material adverse effect on the future taxation of our Company in Israel.

A company which distributes a dividend out of exempt income derived from the Approved Enterprise(s) will be subject to tax in respect of the gross amount distributed (including the recipient's withholding tax thereon) at the rate which would have been applicable had such company not elected the Alternative Package. This rate is generally 10% to 25%, depending on the extent to which non-Israeli shareholders hold such company's shares. A similar tax applies to a distribution out of exempt income derived from the Privileged Enterprise, or upon the complete liquidation of such a company.

The dividend recipient is taxed at the reduced rate applicable to dividends from Approved Enterprises (generally 15% as compared to 25% for individuals or an exemption for companies), if the dividend is distributed during the tax benefit period or within 12 years after this period. However, the limitation does not apply if the company qualifies as a foreign investors' company. This tax must be withheld by such company at source, regardless of whether the dividend is converted into foreign currency.

The profits derived by a Preferred Enterprise can be distributed as dividends with no additional taxation to the distributing company, subject to a 15% withholding tax and 20% withholding tax for distributions occurring after 1.1.2014 (or a lower rate, under an applicable tax treaty).

Subject to certain provisions concerning income subject to Mixed Enterprises, all dividends are considered to be attributable to the entire enterprise and the effective tax rate on the dividend is the result of a weighted combination of the various applicable tax rates. However, a distributing company is not obligated to distribute exempt retained profits under the Alternative Track, and such company may generally decide from which year's profits to declare dividends.

Pursuant to an amendment to the Investments Law which became effective on November 12, 2012, a company that elects by November 11, 2013 to pay a corporate tax rate as set forth in that amendment (rather than the regular corporate tax rate applicable to Approved Enterprise or Privileged Enterprise income on their taxable income during the benefits period) with respect to undistributed exempt income accumulated by the company up until December 31, 2011, will be entitled to distribute a dividend from such income without being required to pay the corporate tax with respect to such exempt profits. A company that has so elected must make certain qualified investments in Israel over the five-year period commencing in 2013. The election is irrevocable.

Through 2013 we benefited from tax benefits as an Approved Enterprise and Privileged Enterprise. In 2013 we elected to waive our benefits from the Approved Enterprise and Privileged Enterprise and adopt the Preferred Enterprise status and its respective tax benefits. During 2013 we have elected to take advantage of the lower rate

offered on the payment on our entire exempt income earned through 2011 and were required to pay about \$0.7 million as a one-time payment.

We believe that we qualify as an Industrial Corporation and as a Preferred Enterprise, and that we qualified as an Approved Enterprise and Privileged Enterprise in respective prior tax years, however there can be no assurance that we will continue to qualify for such benefits in the future, or that the provisions of the Investment Law will not change with respect to future benefits. In the event of our failure to comply with these conditions, the tax and other benefits could be canceled, in whole or in part, and we might be required to refund the amount of the canceled benefits, together with the addition of CPI linkage difference and interest.

Additional Taxes on Our Income

Notwithstanding the foregoing, proceeds received from the sale of our products may be deemed to be royalties under the domestic law of the country of residence of the purchaser/licensee or under an applicable tax treaty and, as such, subject to withholding tax in such country.

Where withholding tax is paid by our Company to the country of residence of the purchaser/licensee, such tax would generally be creditable by our Company for Israeli income tax purposes, pursuant to any relevant income tax treaty, and under Israeli law offsetting taxes on income derived from the same source. Under Israeli law, we may carry forward any unused credit to utilize in a limited number of future tax years.

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

Israeli tax laws have allowed, under certain conditions, a tax deduction for expenditures (including capital expenditures) in scientific research and development projects, if the expenditures are approved or funded by the Government of Israel and the research and development is for the promotion of the enterprise and is carried out by or on behalf of the company seeking such deduction. Expenditures not approved as above are deductible in equal portions over a three-year period.

Under the R&D Law, research and development programs that meet specified criteria and are approved by a committee of the OCS are provisioned to different aspects with regards to manufacturing and the location of IP. Generally, the R&D Law requires that the manufacturing of any product developed under the support of the OCS shall be in Israel. In the event that any portion of the manufacturing is not performed in Israel, and as long as it is approved by the OCS, the company is required to pay royalties in the amount of up to three times the received grants (linked to the dollar and carrying interest), as well as in an increased paying rate. Since we develop software, there is no actual manufacturing, and therefore the location of manufacturing according to the R&D Law is irrelevant.

The R&D Law's cap regulations also provide that know-how developed under the support of the OCS may not be transferred to third parties without the approval of a Research Committee of the OCS. Nevertheless, the Israeli government has recognized the fact that in today's global economy, a need may arise for a company to transfer its IP abroad. Therefore, the Israeli government may allow IP transfer outside Israel; however such transfer may be subject to payment of royalties to the OCS.

The maximum aggregated transfer fees are calculated according to the "basic amount", which is the IP value multiplied by the proportion of the OCS's support of the total R&D expenses. The basic amount is subject to depreciation from the fourth year onwards, at the rate of 1/7 per year, up to the aggregate of the grants received, plus Annual Interest, less the royalties paid. Pursuant to amendment number 5, effected on 2012, the transfer of IP and its related fees are addressed by:

- a. Differentiating between cases entailing transfer of ownership to a foreign entity with business activity remaining in Israel and cases entailing transfer of IP resulting in substantial termination of local activities.
- b. Setting maximal transfer fees for each case: up to 3 times the amount of the received grants when the Research Committee is convinced that the core business activity, namely 75% of the R&D team, has remained in Israel for at least 3 years, and up to 6 times the amount of the received grants in the case of liquidation of activities in Israel.

Therefore, in the event that the Company transfers know-how developed with the support of the OCS within 10 years from the year of the OCS' last grant, the Company may be required to pay additional royalties based on the formula detailed above.

Taxation of our Shareholders

Capital Gain

Capital gain tax is imposed on the disposal of capital assets by an Israeli resident, and on the disposal of such assets by a non-Israel resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Tax Ordinance distinguishes between "Real Gain" and the "Inflationary Surplus". Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposal.

The capital gain accrued by individuals on the sale of an asset purchased on or after January 1, 2003 will be taxed at the rate of 25%. However, if the individual shareholder is a "Controlling Shareholder" (*i.e.*, a person who holds, directly or indirectly, alone or together with other, 10% or more of one of the Israeli resident company's means of control at the time of distribution or at any time during the preceding 12 months period) such gain will be taxed at the rate of 30%. In addition, capital gain derived by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 30%. The real capital gain derived by a corporation will be generally subject to tax at the corporate tax rate (24% in 2011, 25% in 2012 and 2013, 26.5% in 2014 and thereafter). However, the real capital gain derived from sale of securities, as defined in Section 6 of the Inflationary Adjustment Law, by a corporation, which was subject upon December 31, 2005 to the provisions of Section 6 of the Inflationary Adjustment Law, will be taxed at the corporate tax rate (24% in 2011, 25% in 2012 and 2013, 26.5% in 2014 and thereafter). The capital gain accrued at the sale of an asset purchased prior to January 1, 2003 will be subject to tax at a blended rate. The marginal tax rate for individuals (up to 45% in 2011, up to 48% in 2012, up to 45% in 2013 and up to 48% in 2014, and up to 39% from 2016 and thereafter) and the regular corporate tax rate for corporations (24% in 2011, 25% in 2012 and 2013, 26.5% in 2014 and thereafter) will be applied to the gain amount which bears the same ratio to the total gain realized as the ratio which the holding period commencing at the acquisition date and terminating on January 1, 2003 bears to the total holding period. The remainder of the gain realized will be subject to capital gains tax at the rates applicable to an asset purchased after January 1, 2003 (see aforementioned). Since January 1, 2013, tax applied at a rate of 2% for individuals whose income in the tax year exceeds the amount of NIS 811,560.

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income (at a tax rate in 2011 of 24% and 25% in 2012-2013 and 26.5% in 2014 and thereafter for a corporation and a marginal tax rate of up to 45% in 2011, up to 48% in 2012, up to 45% in 2013, up to 48% in 2014 and up to 39% in 2016 and thereafter for individuals). Notwithstanding the foregoing, if the shareholder is a non-Israeli resident, then such taxation is subject to the provision of any applicable double tax treaty. Moreover, capital gain derived from the sale of the shares by a non-Israeli shareholder may be exempt under the Israeli income tax ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of the shares at the stock exchange, (ii) the seller doesn't have a permanent establishment in Israel to which the derived capital gain is attributed, and (iii) if the seller is a corporation, less than 25% of its means of control are held by Israeli resident shareholders. In addition, the sale of the shares may be exempt from Israeli capital gain tax under an applicable tax treaty. Thus, the U.S.-Israel Double Tax Treaty exempts U.S. resident from Israeli capital gain tax in connection with such sale, provided (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 – month period preceding such sale; (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days at the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel.

Either the seller, the Israeli stockbroker or financial institution through which the sold securities are held, are obliged, subject to the above mentioned exemptions, to withhold tax upon the sale of securities from the real capital gain at the rate of 25% in respect of a corporation and 20% in respect of an individual.

Generally, within 30 days of a transaction, a detailed return, including a computation of the tax due, should be submitted to the Israeli Tax Authority, and an advanced payment amounting to the tax liability arising from the capital gain is payable. At the sale of traded securities, the aforementioned detailed return may not be submitted and the advanced payment should not be paid if all tax due was withheld at source according to applicable provisions of the Israeli income tax ordinance and regulations promulgated thereunder. Capital gain is also reportable on the annual income tax return.

Dividends

A distribution of dividend from income attributed to an "Approved Enterprise" will be subject to tax in Israel at the rate of 15%, subject to a reduced rate under any applicable double tax treaty. A distribution of dividend from income attributed to a "Preferred Enterprise" starting from January 1, 2014 is subject to a withholding tax of 20%. A distribution of dividend from income, which is not attributed to an "Approved Enterprise" to an Israeli resident individual, will generally be subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a "Controlling Shareholder" (i.e., a person who holds, directly or indirectly, alone or together with others, 10% or more of one of the Israeli resident company's means of control at the time of distribution or at any time during the preceding 12 months period). If the recipient of the dividend is an Israeli resident corporation, such dividend will be exempt from income tax provided the income from which such dividend is distributed was derived or accrued within Israel.

Under the Israeli income tax ordinance, a non-Israeli resident (either individual or corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 25% (30% if the dividends recipient is a Controlling Shareholder at the time of distribution or at any time during the preceding 12-month period); those rates are subject to a reduced tax rate under an applicable double tax treaty. Thus, under the Double Tax Treaty concluded between the State of Israel and the U.S. the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends – the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an "approved enterprise" under the Israeli Law for the Encouragement of Capital Investments of 1959– the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the Israel U.S. Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

An Israeli resident company whose shares are listed on a stock exchange is obligated to withhold tax, upon the distribution of a dividend attributed to an Approved Enterprise's income, from the amount distributed, at the following rates: (i) Israeli resident corporation – 15%, or 20% for a dividend attributed to a Preferred Enterprise distributed after January 1, 2014; (ii) Israeli resident individual – 15%, or 20% for a dividend attributed to a Preferred Enterprise distributed after January 1, 2014; and (iii) non-Israeli resident – 15%, or 20% for a dividend attributed to a Preferred Enterprise distributed after January 1, 2014, subject to a reduced tax rate under an applicable double tax treaty.

Estate and Gift Tax

Israel law presently does not impose estate or gift tax.

United States Federal Income Tax Consequences

THE FOLLOWING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE. EACH U.S. HOLDER SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND SALE OF ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

U.S. Federal Income Taxation

Subject to the limitations described in the next paragraph, the following discussion summarizes the material U.S. federal income tax consequences to a "U.S. Holder" arising from the purchase, ownership and sale of the Ordinary Shares. For this purpose, a "U.S. Holder" is a holder of Ordinary Shares that is: (1) an individual citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) or a partnership (other than a partnership that is not treated as a U.S. person under any applicable U.S. Treasury Regulations) created or organized in or under the laws of the United States or the District of Columbia or any political subdivision thereof; (3) an estate, the income of which is subject to U.S. federal income tax regardless of source; (4) a trust

if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust; (5) a trust that has a valid election in effect to be treated as a U.S. person to the extent provided in U.S. Treasury regulations; or (6) any person otherwise subject to U.S. federal income tax on a net income basis in respect of the Ordinary Shares, if such status as a U.S. Holder is not overridden pursuant to the provisions of an applicable tax treaty.

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

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

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

Distributions on Ordinary Shares

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

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

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

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

Disposition of Shares

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

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

Tax on Net Investment Income

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

Passive Foreign Investment Companies

Special U.S. federal income tax laws apply to a U.S. Holder who owns shares of a corporation that was (at any time during the U.S. Holder's holding period) a PFIC. We would be treated as a PFIC for U.S. federal income tax purposes for any tax year if, in such tax year, either:

- 75% or more of our gross income (including our pro rata share of gross income for any company, U.S. or foreign, in which we are considered to own 25% or more of the shares by value), in a taxable year is passive (the "Income Test"); or
- At least 50% of our assets, averaged over the year and generally determined based upon value (including our pro rata share of the assets of any company in which we are considered to own 25% or more of the shares by value), in a taxable year are held for the production of, or produce, passive income (the "Asset Test").

For this purpose, passive income generally consists of dividends, interest, rents, royalties, annuities and income from certain commodities transactions and from notional principal contracts. Cash is treated as generating passive income.

If we are or become a PFIC, each U.S. Holder who has not elected to treat us as a qualified electing fund by making a "QEF election", or who has not elected to mark the shares to market (as discussed below), would, upon receipt of certain distributions by us and upon disposition of our Ordinary Shares at a gain, be liable to pay U.S. federal income tax at the then prevailing highest tax rates on ordinary income plus interest on such tax, as if the distribution or gain had been recognized ratably over the taxpayer's holding period for the Ordinary Shares. In addition, when shares of a PFIC are acquired by reason of death from a decedent that was a U.S. Holder, the tax basis of such shares would not receive a step-up to fair market value as of the date of the decedent's death, but instead would be equal to the decedent's basis if lower, unless all gain were recognized by the decedent. Indirect investments in a PFIC may also be subject to special U.S. federal income tax rules.

The PFIC rules would not apply to a U.S. Holder who makes a QEF election for all taxable years that such U.S. Holder has held the Ordinary Shares while we are a PFIC, provided that we comply with specified reporting requirements. Instead, each U.S. Holder who has made such a QEF election is required for each taxable year that we are a PFIC to include in income such U.S. Holder's *pro rata* share of our ordinary earnings as ordinary income and such U.S. Holder's *pro rata* share of our net capital gains as long-term capital gain, regardless of whether we make any distributions of such earnings or gain. In general, a QEF election is effective only if we make available certain required information. The QEF election is made on a shareholder-by-shareholder basis and generally may be revoked only with the consent of the IRS. U.S. Holders should consult with their own tax advisors regarding eligibility, manner and advisability of making a QEF election if we are treated as a PFIC.

A U.S. Holder of PFIC shares which are traded on qualifying public markets, including the Nasdaq, can elect to mark the shares to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC shares and the U.S. Holder's adjusted tax basis in the PFIC shares. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years.

In light of the complexity of PFIC rules, we cannot assure you that we have not been or are not a PFIC or will avoid becoming a PFIC in the future. U.S. Holders who hold Ordinary Shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to specified exceptions for U.S. Holders who made a QEF or mark-to-market election. U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules, including tax return filing requirements and the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our Ordinary Shares in the event we that qualify as a PFIC.

Information Reporting and Withholding

A U.S. Holder may be subject to backup withholding (at a rate of 28%) with respect to cash dividends and proceeds from a disposition of Ordinary Shares. In general, back-up withholding will apply only if a U.S. Holder fails to comply with specified identification procedures. Backup withholding will not apply with respect to payments made to designated exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

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

Non-U.S. Holders of Ordinary Shares

Except as provided below, an individual, corporation, estate or trust that is not a U.S. Holder generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our Ordinary Shares.

A non-U.S. Holder may be subject to U.S. federal income or withholding tax on a dividend paid on our Ordinary Shares or the proceeds from the disposition of our Ordinary Shares if: (1) such item is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States or, in the case of a non-U.S. Holder that is a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment or, in the case of gain realized by an individual non-U.S. Holder, a fixed place of business in the United States; (2) in the case of a disposition of our Ordinary Shares, the individual non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and other specified conditions are met; (3) the non-U.S. Holder is subject to U.S. federal income tax pursuant to the provisions of the U.S. tax law applicable to U.S. expatriates.

In general, non-U.S. Holders will not be subject to backup withholding with respect to the payment of dividends on our Ordinary Shares if payment is made through a paying agent, or office of a foreign broker outside the United States. However, if payment is made in the United States or by a U.S. related person, non-U.S. Holders may be subject to backup withholding, unless the non-U.S. Holder provides on an applicable Form W-8 (or a substantially similar form) a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. A U.S. related person for these purposes is a person with one or more current relationships with the United States.

The amount of any backup withholding from a payment to a non-U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

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

10.F. Dividends and paying agents

Not applicable.

10.G. Statement by experts

Not applicable.

10.H. Documents on display

We are subject to certain of the information reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act. As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchase and sale of our shares. In addition, we are not required to file reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we are required to file with the SEC, within four months after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We publish unaudited interim financial information after the end of each quarter. We furnish this quarterly financial information to the SEC under cover of a Form 6-K.

You may read and copy any document we file with the SEC at its public reference facilities at 100 F Street, NE, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, NE, Washington, D.C. 20549. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of this website is <http://www.sec.gov>. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

10.I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of our operations, we are exposed to certain market risks, primarily changes in foreign currency exchange rates and interest rates.

Foreign Currency Exchange Rate Risk. We develop products in Israel and sell them primarily in the Americas, EMEA, and the Asia Pacific region. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. In 2014, 58% of our revenues and 36% of our expenses were denominated in U.S. dollars. Since our financial results are reported in U.S. dollars, fluctuations in the rates of exchange between the U.S. dollar and non-U.S. dollar currencies may have a material adverse effect on our business, financial condition and results of operations. We believe that our exposure to currency exchange rate risk is somewhat reduced due to the number of different countries and currencies in which we conduct business, including the main currencies of NIS, British pounds and Euros. For example, a ten percent increase or decrease from 2014 exchange rates could have a net effect of about \$2.8 million on our operating income. In 2014, the net effect of the change in value of the U.S. dollar against other currencies was a decrease in revenues by \$2.6 million, a decrease in costs of revenues by \$1.2 million and a decrease in operating expenses by \$2.4 million.

In addition, we have balance sheet exposure arising from assets and liabilities denominated in currencies other than U.S. dollars, mainly in Euros, British pounds, NIS and Australian dollars. Any change of the conversion rates between the U.S. dollar and these currencies may create financial gain or loss. We enter from time to time into forward contracts related to foreign currencies in order to protect against monetary balances denominated in foreign currencies, and certain forecasted transactions. We do not participate in any speculative investments. As of December 31, 2014, we had short forward exchange contracts to sell up to Euro 5.2 million for a total amount of \$6.3 million, British Pounds 1.3 million for a total amount of \$2.0 million and Australian Dollar 2.9 million for a total amount of \$2.4 million.

Interest Rate Risk. As of December 31, 2014, we had cash, cash equivalents and short-term investments of \$43.7 million, which consist mainly of cash, short-term bank deposits with major banks, government and corporate bonds. Of this, a total of \$8.0 million is denominated in non-U.S. dollar currencies. Nearly all of these cash and investments are not insured by the FDIC or similar governmental deposit insurance outside the United States. We believe a substantial decrease in market interest rates or market value would have an immaterial impact on our business, financial condition and results of operations. Our policy is that up to \$10 million of our total cash and investments may be invested in equity of companies that have a policy to regularly distribute dividends or in ETFs of a similar nature. As of December 31, 2014, none of our cash, cash equivalents and investments were invested in equity securities of such companies.

The following table provides information about our investment portfolio, cash, and investments as of December 31, 2014 and presents principal cash flows and related weighted averages interest rates by expected maturity dates.

YEAR OF MATURITY	2015
	<i>(in thousands of dollars)</i>
<u>A) Cash, cash equivalents and investments portfolio:</u>	
Cash and cash equivalents	\$ 30,605
<i>Average interest rate</i>	<i>0.1%</i>
Government and corporate bonds	\$ 9,855
<i>Average interest (yield) rate</i>	<i>0.8%</i>
Bank deposits	\$ 3,205
<i>Average interest rate</i>	<i>1.5%</i>
Equity securities	\$ -
Total cash, cash equivalents and investments portfolio	<u>\$ 43,665</u>
<u>B) Long-term debts:</u>	
None	

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

The Company does not have any outstanding American Depositary Shares or American Depositary Receipts.

PART TWO

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2014, or the Evaluation Date. Based on such evaluation, those officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be included in periodic filings under the Exchange Act and that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based principally on the framework and criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, as of the end of the period covered by this report and we are in process of implementing a new COSO (2013) framework. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2014 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

As permitted for acquired businesses, the scope of our assessment of the effectiveness of internal control over financial reporting does not include Xora, which was acquired on March 5, 2014. Xora represented 18% and 11% of our consolidated assets and revenues, respectively, as of and for the year ended December 31, 2014. Our assessment of internal control over financial reporting for fiscal year 2015 will include Xora.

(c) Attestation Report of the Registered Public Accounting Firm

Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmatsu Limited the independent registered public accounting firm that audited our 2014 consolidated financial statements included in this annual report, has issued an attestation report on our internal control over financial reporting. The report appears elsewhere herein.

(d) Changes in Internal Control over Financial Reporting

During the year ended December 31, 2014, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. Audit Committee Financial Expert

Our board of directors has determined that Dr. Shlomo Nass, a member of our audit committee, is an audit committee financial expert, as defined under the rules of the Exchange Act, and is independent in accordance with applicable rules of the Exchange Act and Nasdaq Rules.

ITEM 16B. Code of Ethics

We have adopted a written code of ethics that applies to our officers and employees, including our principal executive officer, principal financial officer, principal controller and persons performing similar functions as well as our directors. Our Code of Business Conduct and Ethics is posted on our website at www.clicksoftware.com.

ITEM 16C. Principal Accountant Fees and Services

Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu Limited has served as our principal independent registered public accounting firm for each of the three years ended December 31, 2014, 2013 and 2012.

The following table provides information regarding fees paid by us to Brightman Almagor Zohar & Co and/or other member firms of Deloitte Touche Tohmatsu Limited for all services, including audit services, for the years ended December 31, 2014 and 2013:

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Audit fees ⁽¹⁾	\$ 180,000	\$ 177,000
Audit-related fees	-	-
Tax fees ⁽²⁾	18,000	48,000
All other fees ⁽³⁾	37,500	-
Total	<u>\$ 235,500</u>	<u>\$ 225,000</u>

(1) Includes professional services rendered in connection with the audit of our annual financial statements and internal control over financial reporting and the review of our interim financial statements.

(2) Includes professional fees related to tax returns, transfer pricing and consulting in India and Israel.

(3) Includes fees for services related to due diligence on the purchase of intangible assets in connection with the Xora acquisition.

Pre-Approval of Auditors' Compensation

Our audit committee is responsible for pre-approving audit and non-audit services provided to us by our independent registered public accounting firm. 100% of the non-audit services provided to us by the independent auditors in 2014 and 2013 were either pre-approved by the full audit committee, or by the Chairman of the Audit Committee, who was delegated by the audit committee to approve the non-audit services provided by our independent auditors for amounts up to \$20,000 per instance (subject to later ratification by the audit committee). All approvals by the Chairman of the Audit Committee were duly ratified.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

ITEM 16F. Change in Registrant's Certifying Accountant

Not applicable.

ITEM 16G. Corporate Governance

Under Rule 5615(a)(3) to the Nasdaq Rules, foreign private issuers, such as us, are permitted to follow certain home country corporate governance practices instead of certain provisions of the Nasdaq Rules. A foreign private issuer that elects to follow a home country practice instead of any of such provisions 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 a notice of non-compliance with respect to certain Nasdaq Rules. Below is a summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of Nasdaq Rules applicable to domestic U.S. listed companies.

As described in Item 10.B. "Memorandum and articles of association," Rule 5620(c) to Nasdaq Rules requires that an issuer listed on the Nasdaq Global Select Market has a quorum requirement that in no case be less than 33 1/3% of the outstanding shares of such issuer's common voting stock. However, our articles of association, consistent with the Companies Law, provide for a minimum quorum requirement of 25% of our outstanding shares and even lower in the event that the required quorum is not present within half an hour from the time appointed for holding an adjourned meeting, or, in the case the meeting that was adjourned was convened by the shareholders, if the required quorum is not present at the time appointed for holding such adjourned meeting. Our quorum requirements for an adjourned meeting do not comply with the Nasdaq requirements and we instead follow our home country practice.

We have chosen to follow our home country practice in lieu of the requirements of Rule 5250(d)(1), relating to an issuer's furnishing of its annual report to shareholders and we post our annual report on Form 20-F on our website (www.clicksoftware.com) as soon as practicable following the filing of the annual report on Form 20-F with the SEC.

Under Israeli law and practice, the approval of the board of directors is required for the establishment or material amendment of such equity based compensation plans and arrangements. However, any equity based compensation arrangement with a director or the material amendment of such an arrangement must be approved by our compensation committee, board of directors and shareholders, in that order.

The requirements regarding the director nominations process. We do not have a nomination committee. Under Israeli law and practice, our board of directors is authorized to recommend to our shareholders director nominees for election, and certain of our shareholders may nominate candidates for election as directors by the general meeting of shareholders. See Item 6C. – "Directors, Senior Management and Employees - Board Practices - Election of Directors."

The Nasdaq Rules require that an issuer listed on the Nasdaq Global Select Market maintain a majority of independent directors. Instead, we follow Israeli law and practice, which requires that we appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors. We do have the mandated three independent directors, within the meaning of the rules of the SEC and Nasdaq, on our audit committee. See Item 6C. "Directors, Senior Management and Employees - Board Practices - External and Independent Directors."

Under Israeli law and practice, shareholder approval is not required for a private placement in a public company, whose shares are traded only outside of Israel.

ITEM 16H. Mine Safety Disclosure

Not applicable.

PART THREE

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following consolidated financial statements, and the related notes thereto, and the Reports of Independent Public Accountants are filed as a part of this annual report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

ClickSoftware Technologies Ltd.

Petach Tikva, Israel

We have audited the accompanying consolidated balance sheets of ClickSoftware Technologies Ltd. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel

March 25, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

ClickSoftware Technologies Ltd.

Petach Tikva, Israel

We have audited the internal control over financial reporting of ClickSoftware Technologies Ltd. and subsidiaries (the “Company”) as of December 31 2014, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Xora, Inc, which was acquired on March 5, 2014 and whose financial statements constitute 18% and 11% of the Company's consolidated assets and consolidated revenues, respectively, as of and for the year ended December 31, 2014. Accordingly, our audit did not include the internal control over financial reporting at Xora, Inc. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the

effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated March 25, 2015 expressed an unqualified opinion on those financial statements.

/s/ Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel

March 25, 2015

CLICKSOFTWARE TECHNOLOGIES LTD.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 30,605	\$ 25,346
Deposits (Note 3)	3,205	9,001
Marketable securities (Note 3)	9,855	22,586
Trade receivables, net of allowance for doubtful accounts of \$605 and \$500 as of December 31, 2014 and 2013, respectively (Note 4)	25,849	22,490
Deferred taxes (Note 14)	1,680	1,740
Other receivables and prepaid expenses (Note 5)	3,957	4,408
Total Current Assets	<u>\$ 75,151</u>	<u>\$ 85,571</u>
Long-Term Assets:		
Deposits (Note 6 & Note 11A)	\$ 1,335	\$ 1,072
Other receivables and prepaid expenses (Note 5)	368	218
Severance pay funds (Note 7)	1,719	2,052
Deferred taxes (Note 14)	3,280	2,060
Identifiable intangible assets, net (Note 8)	4,679	-
Goodwill (Note 8)	7,199	1,572
Property and equipment, net (Note 9)	4,979	5,023
Total Long-Term Assets	<u>\$ 23,559</u>	<u>\$ 11,997</u>
TOTAL ASSETS	<u><u>\$ 98,710</u></u>	<u><u>\$ 97,568</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of debt	\$ 103	\$ -
Accounts payable and accrued expenses (Note 10)	18,664	17,707
Deferred revenues	13,930	13,420
Total Current Liabilities	<u>\$ 32,697</u>	<u>\$ 31,127</u>
Long-Term Liabilities:		
Long term debt	\$ 70	\$ -
Accrued severance pay (Note 7)	4,276	4,840
Deferred tax liability (Note 14)	20	40
Deferred revenues	3,622	4,642
Total Long-Term Liabilities	<u>\$ 7,988</u>	<u>\$ 9,522</u>
Total Liabilities	<u>\$ 40,685</u>	<u>\$ 40,649</u>
Commitments and Contingencies (Note 11)		
Shareholders' Equity (Note 12):		
<i>Special preferred shares NIS 0.02 par value:</i>		
Authorized – 5,000,000 as of December 31, 2014 and 2013;		
No issued and outstanding shares as of December 31, 2014 and 2013;		
<i>Ordinary shares of NIS 0.02 par value:</i>		
Authorized - 100,000,000 as of December 31, 2014 and 2013;		
Issued – 33,175,302 shares as of December 31, 2014 and 32,533,575 as of December 31, 2013		
Outstanding – 33,136,302 shares as of December 31, 2014 and 32,494,575 shares as of December 31, 2013;	\$ 140	\$ 137
Additional paid-in capital	97,511	92,301
Accumulated other comprehensive (loss) income	(372)	703
Accumulated deficit	(39,211)	(36,179)
	<u>\$ 58,068</u>	<u>\$ 56,962</u>
Treasury shares, at cost: 39,000 shares	(43)	(43)
Total Shareholders' Equity	<u>\$ 58,025</u>	<u>\$ 56,919</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 98,710</u></u>	<u><u>\$ 97,568</u></u>

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

CLICKSOFTWARE TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues (Note 13):			
Software license	\$ 27,277	\$ 27,083	\$ 33,882
Cloud subscriptions	18,723	1,596	659
Support	34,437	31,040	26,564
Cloud subscriptions and support	\$ 53,160	\$ 32,636	\$ 27,223
Consulting	45,776	43,462	38,941
Total revenues	\$ 126,213	\$ 103,181	\$ 100,046
Cost of revenues:			
Software license	2,562	2,471	2,649
Cloud subscriptions and support	14,632	6,189	4,959
Consulting	36,808	35,647	31,263
Total cost of revenues	\$ 54,002	\$ 44,307	\$ 38,871
Gross profit	\$ 72,211	\$ 58,874	\$ 61,175
Operating expenses:			
Research and development	19,163	15,970	13,146
Selling and marketing	45,753	39,706	31,977
General and administrative	10,901	9,121	8,779
Restructuring and related expenses	749	-	-
Total operating expenses	\$ 76,566	\$ 64,797	\$ 53,902
Operating (loss) income	\$ (4,355)	\$ (5,923)	\$ 7,273
Other income	-	-	110
Financial income, net	1,275	839	274
Net (loss) income before taxes	\$ (3,080)	\$ (5,084)	\$ 7,657
Taxes on income (Tax benefit) (Note 14)	(48)	(924)	169
Net (loss) income	\$ (3,032)	\$ (4,160)	\$ 7,488
Other comprehensive income, net of tax:			
Gain (loss) from marketable securities	(578)	411	37
Gain (loss) from derivatives designated for cash flow hedge	(497)	(267)	689
Comprehensive (loss) income	\$ (4,107)	\$ (4,016)	\$ 8,214
Basic net (loss) earnings per share	\$ (0.09)	\$ (0.13)	\$ 0.24
Diluted net (loss) earnings per share	\$ (0.09)	\$ (0.13)	\$ 0.23
Shares used in computing basic net (loss) earnings per share	32,912,107	32,048,030	31,545,435
Shares used in computing diluted net (loss) earnings per share	32,912,107	32,048,030	32,837,789

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

CLICKSOFTWARE TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except share data)

	Number of Ordinary Shares	Share Capital	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Shares	Total
Balance as of January 1, 2012	31,368,888	\$ 131	\$ 84,383	\$ (25,200)	\$ (167)	\$ (43)	\$ 59,104
Employee options exercised	286,054	1	649	-	-	-	650
Stock-based compensation expense related to employees and non-employees	-	-	2,534	-	-	-	2,534
Accumulated other comprehensive income	-	-	-	-	726	-	726
Dividend	-	-	-	(7,584)	-	-	(7,584)
Net income	-	-	-	7,488	-	-	7,488
Balance as of December 31, 2012	31,654,942	\$ 132	\$ 87,566	\$ (25,296)	\$ 559	\$ (43)	\$ 62,918
Employee options exercised	839,633	5	1,991	-	-	-	1,996
Stock-based compensation expense related to employees and non-employees	-	-	2,744	-	-	-	2,744
Accumulated other comprehensive income	-	-	-	-	144	-	144
Dividend	-	-	-	(6,723)	-	-	(6,723)
Net loss	-	-	-	(4,160)	-	-	(4,160)
Balance as of December 31, 2013	32,494,575	\$ 137	\$ 92,301	\$ (36,179)	\$ 703	\$ (43)	\$ 56,919
Employee options exercised	641,727	3	1,742	-	-	-	1,745
Stock-based compensation expense related to employees and non-employees	-	-	3,468	-	-	-	3,468
Accumulated other comprehensive loss	-	-	-	-	(1,075)	-	(1,075)
Net loss	-	-	-	(3,032)	-	-	(3,032)
Balance as of December 31, 2014	33,136,302	\$ 140	\$ 97,511	\$ (39,211)	\$ (372)	\$ (43)	\$ 58,025

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

CLICKSOFTWARE TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (3,032)	\$ (4,160)	\$ 7,488
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Income and expense items not involving cash flows:			
Depreciation	2,854	2,593	2,144
Stock-based compensation	3,468	2,744	2,534
Amortization of acquired intangible assets	1,092	278	714
Impairment of acquired intangible assets	-	174	-
Severance pay, net	(231)	288	399
Gain on marketable securities	(1,536)	(429)	(146)
Loss on sale and disposal of property and equipment	118	-	-
Other	17	92	13
Changes in operating assets and liabilities:			
Trade receivables	(856)	(698)	1,586
Deferred taxes	(1,180)	(2,310)	(540)
Other receivables	881	(809)	(104)
Accounts payable and accrued expenses	(1,591)	1,171	2,928
Deferred revenues	(963)	7,512	(807)
Net cash (used in) provided by operating activities	<u>\$ (959)</u>	<u>\$ 6,446</u>	<u>\$ 16,209</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment	\$ (2,544)	\$ (3,502)	\$ (2,490)
Acquisition of subsidiary (a)	(12,116)	-	-
Decrease (increase) in deposits, net	5,533	20,858	(1,595)
Investments in marketable securities	(7,469)	(15,686)	(7,459)
Proceeds from sales of marketable securities	21,736	9,164	2,915
Net cash provided by (used in) investing activities	<u>\$ 5,140</u>	<u>\$ 10,834</u>	<u>\$ (8,629)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term debts	\$ (667)	\$ -	\$ -
Dividend paid	-	(6,723)	(10,120)
Employee options exercised	1,745	1,996	650
Net cash provided by (used in) financing activities	<u>\$ 1,078</u>	<u>\$ (4,727)</u>	<u>\$ (9,470)</u>
Increase (decrease) in cash and cash equivalents	\$ 5,259	\$ 12,553	\$ (1,890)
Cash and cash equivalents at beginning of year	25,346	12,793	14,683
Cash and cash equivalents at end of year	<u>\$ 30,605</u>	<u>\$ 25,346</u>	<u>\$ 12,793</u>
(a) <u>Acquisition of subsidiary</u>			
Working capital (excluding cash and cash equivalents)	\$ 1,113	\$ -	\$ -
Property and equipment	445	-	-
Intangible assets	11,398	-	-
Long-term debt	(840)	-	-
	<u>\$ 12,116</u>	<u>\$ -</u>	<u>\$ -</u>
Supplemental cash flow information:			
Cash paid for Taxes	\$ 710	\$ 2,052	\$ 692
Cash paid for Interest	\$ -	\$ -	\$ 1

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

CLICKSOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share amounts)

NOTE 1 – GENERAL

1. ClickSoftware Technologies Ltd. (the "Company" or "ClickSoftware") was incorporated in Israel and is a leading provider of software products and solutions for workforce management and optimization. The Company's products and solutions incorporate best business practices, key business functions of service operations, and sophisticated decision-making algorithms that enable its customers to more efficiently manage their service operations in a scalable, integrated manner.

The Company's Service Optimization Suite is designed to increase service revenue and customer responsiveness while reducing costs. The Company's Service Optimization Suite includes strategic and tactical workforce planning, optimized service scheduling, intelligent problem resolution, mobile workforce management, shift planning and business analytics, connecting various organizational levels and all functions, from executive strategy to operational execution. The following comprise the individual products of the above suites: ClickSchedule, ClickAnalyze, ClickDashboard, ClickMobile, ClickLocate, ClickContact, ClickRoster, ClickPlan and ClickForecast. The Company provides a cloud-based offering of its Service Optimization Suite, which aims at the large market enterprise customers with ClickWorkforce, ShiftExpert and StreetSmart, which aim at the small and mid-size company markets.

2. In March 2014, the Company acquired Xora Inc. ("Xora") with its subsidiaries, a cloud-based market leader in mobile workforce management for total consideration of \$ 14.4 million. Due to the acquisition the Company obtained \$2.3 million in cash. In accordance to ASC 805 ("Business Combinations"), total purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as set forth below as of the acquisition date. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

Current assets, net	\$ 2,990
Core technology	2,991
Customer relationship	2,377
Trade name	403
Goodwill	5,627
	<u>\$ 14,388</u>

Purchase price allocation considered, among other factors, the intention of future use of acquired assets, analysis of historical financial performance and estimates of future performance of Xora's products. The fair value of intangible assets was based on a third party valuator using the income approach and assumptions provided by management. The following table sets forth the components of intangible assets associates with Xora acquisition:

	<u>Fair Value</u>	<u>Useful life amortization</u>
Core technology	\$ 2,991	6.5 years
Customer relationship	2,377	2.5 years
Trade name	403	5 years
	<u>\$ 5,771</u>	

3. The following unaudited pro forma financial statements presents the Company's combined revenues and net loss as if Xora had been acquired as of the beginning of 2013. The pro forma financial information includes the accounting effects of the business combination, including adjustments to the amortization of intangible assets and depreciation of property, plant and equipment. The unaudited pro

forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had Xora been acquired as of the beginning of 2013.

	<u>2014</u>	<u>2013</u>
Revenues	\$ 129,039	\$ 123,877
Net loss	\$ 2,717	\$ 4,741

NOTE 2 -- SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries in the United States (ClickSoftware, Inc. a wholly owned subsidiary of ClickSoftware Europe Limited and Xora, Inc. a wholly owned subsidiary of ClickSoftware Inc.), in the United Kingdom (ClickSoftware Europe Limited), in Germany (ClickSoftware Central Europe, GmbH), in Belgium (ClickSoftware Belgium, N.V.), in Australia (ClickSoftware Australia Pty. Ltd., a wholly owned subsidiary of ClickSoftware, Inc. and Xora Australia Pty Ltd a wholly owned subsidiary of Xora Inc.), in India (ClickSoftware India Private Limited and Xora Software Systems Private Limited, a wholly owned subsidiary of Xora, Inc.), in South Africa (ClickSoftware Technologies (Pty) Ltd), in Brazil (ClickSoftware Brazil Soluções em Gestão de Forças de Trabalho Ltda.) and in Russia (ClickSoftware Limited Liability Company).

The subsidiaries are primarily engaged in the sale and marketing of the Company's products in the Americas, EMEA (Europe, Middle East and Africa but not including Israel) and the rest of the world. All intercompany balances and transactions have been eliminated.

Financial statements in U.S. dollars

The reporting currency of the Company is the U.S. dollar ("dollar"). The dollar is the functional currency of the Company and its subsidiaries. Transactions and balances originally denominated in dollars are presented at their original amounts. Non-dollar transactions and balances are remeasured into dollars in accordance with the principles set forth in ASC 830 ("Foreign Currency Matters"). All exchange gains and losses from translation of monetary balance sheet items resulting from transactions in non-dollar currencies are recorded in the statement of operations as they arise.

Use of estimates

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

Cash and cash equivalents

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

Concentration of credit risk

Financial instruments, which potentially subject the Company to credit risk, consist principally of cash instruments and accounts receivable. The Company maintains cash and cash equivalents and investments with major financial institutions in the United States, Europe and Israel. Nearly all of the cash and investments are not insured by the FDIC or other similar governmental insurance limits. The accounts receivable are derived from sales to a large number of customers, mainly large industrial corporations and their suppliers located mainly in Europe, the United States and Brazil. The Company generally does not require collateral. The Company

performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts which management believes adequately covers all anticipated losses in respect of trade receivables.

Short term bank deposits

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

Marketable securities

Securities classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, recorded as a separate component of other comprehensive income in equity until realized. Unrealized losses that are considered to be other-than-temporary are charged to statement of operations as an impairment charge and are included in the consolidated statement of operations under financial expenses. Realized gains and losses on sales of the securities, as well as premium or discount amortization, are included in the consolidated statement of operations as financial income or expenses. Fair values for marketable securities were determined using the quoted prices in active market for identical asset (level 1).

Property and equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 16 years. Leasehold improvements are amortized using the straight-line method, over the shorter of the lease term or the useful lives of the improvements.

The Company complies with provisions of ASC 360 ("Property, Plant and Equipment"). ASC 360 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment 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 undiscounted future net cash flows expected to be generated by the asset. 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Identifiable Intangible Assets

Intangible assets representing primarily core technology, customer relationships and trade names are recorded at cost less accumulated amortization as outlined in Note 8. Intangible assets are amortized over their estimated economic useful lives ranging from 2.5 to 6.5 years.

Goodwill

Goodwill represents the excess purchase price paid by the Company over the fair value of identifiable intangible assets as a result of purchasing a business. Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired. Goodwill impairment testing is a two-step process and may be preceded by a qualitative impairment assessment. Qualitative impairment assessment should be made to changes in circumstances and events indicating whether some of the intangible assets were impaired. When determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The first step involves comparing the fair value of a company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

Software research and development costs

Software research and development costs incurred prior to the establishment of technological feasibility are included in research and development expenses. The Company defines establishment of technological feasibility as the completion of a working model. Software development costs incurred subsequent to the establishment of

technological feasibility through the period of general market availability of the products are capitalized, if material, after consideration of various factors, including net realizable value. To date, software development costs that are eligible for capitalization have not been material and have been expensed.

Revenue recognition

We derive revenues from the licensing of our software products and the provision services such as consulting, support and cloud transactions. According to ASC No. 985-605 ("Software Revenue Recognition") ("ASC 985-605"), revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fees are fixed and determinable and collection of the fees is considered probable.

The Company accounts for software sales in accordance with ASC 985-605. For multiple-element arrangements that are comprised of software elements and related services, the Company determines the value of the software component using the residual method when vendor specific objective evidence ("VSOE") of fair value exists for all the undelivered elements (such as consulting, training and post-contract customer support). According to the residual method, consideration is allocated to undelivered elements based on VSOE of those elements, with the residual of the arrangement fee allocated to, and recognized as, software license revenue.

Revenue from software licenses that require significant customization, integration or implementation are recognized based on ASC 605-35 ("Construction-Type and Production-Type Contracts") using the percentage-of-completion method, based on the ratio of actual working hours incurred to total working hours estimated to be incurred over the duration of the contract. Revisions to estimates are reflected in the period in which changes become known. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are first determined, for the estimated loss amount of the entire contract.

The Company's cloud products generally provide customers access to the Company's software within a cloud-based information technology environment that the Company manage and offer to customers on a subscription basis. The Company recognizes revenue for subscription and related support services over the contract period originating when the subscription service is made available to the customer and the contractual hosting period has commenced. The Company does not provide the customer with the contractual right to take possession of the software at any time during the hosting period nor is the customer allowed to run the software using third party hosting vendor.

The Company's cloud multiple-element arrangements are typically comprised of subscription, support and fees for consultation services. For multiple-element arrangements comprised only of non-software components and related services, the Company allocates revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. The total transaction revenue is allocated to the multiple elements based on each element's relative selling price compared to the total selling price.

Consulting services revenues are recognized on a time and material basis, or in a fixed price contract, on a percentage of completion basis. Revenues from training are recognized as the services are provided. Post-contract customer support arrangements provide for technical support and the right to unspecified updates on an if-and-when-available basis. Revenues from these arrangements are recognized ratably over the term of the arrangement, usually one year. The Company measures the VSOE according to the price charged when element is sold separately. For consulting and training, the Company determines VSOE based on the fixed hourly/daily rate charged in stand-alone service transactions. For post-contract customer support, the Company determines the VSOE based on the renewal rate method.

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. When services are not considered essential, revenue allocable to the services is recognized as the services are performed. When services are considered essential, revenue under the arrangement is recognized using contract accounting.

Basic and diluted net income per share

Basic and diluted net income per share are presented in conformity with ASC 260 ("Earnings per Share") for all years presented. Basic net income per share have been computed using the weighted-average number of ordinary shares outstanding during the year, net of treasury shares (see Note 12). In computing diluted earnings (loss) per

share, the potential dilutive effect of outstanding equity awards is taken into account using the treasury stock method.

Outstanding share options and shares issued and reserved for outstanding share options have been excluded from the calculation of basic and diluted net income per share to the extent such securities are anti-dilutive. The total number of options to purchase shares, excluded from the calculations of diluted net income per share, were 0, 0 and 1,242,416 for the years ended December 31, 2014, 2013 and 2012, respectively.

Fair value of financial instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term and long-term investments, current accounts receivable, marketable securities and accounts payable. In view of their nature, the fair value of the financial instruments included in working capital of the Company (other than marketable securities) is usually identical or close to their carrying amounts.

Stock-based compensation

ASC 718 ("Compensation – Stock Compensation") requires that compensation cost relating to share-based payment awards made to employees and directors be recognized in the financial statements. The main awards issued under Company stock-based compensation plans, which are described in Note 12D, "Employee, Directors, and Consultant Option Plans", include stock options and RSUs. The cost for such awards is measured at the grant date based on the calculated fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) reduced by estimated forfeitures in the Company Consolidated Statement of Operations.

Income taxes

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

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

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

Recent accounting pronouncements

In May, 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") issued their final standard on revenue from contracts with customers. The standard, issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity will:

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

The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Compared with current U.S. GAAP, the ASU also requires significantly expanded disclosures about revenue recognition. ASU No. 2014-09 is effective for fiscal years and interim periods beginning after December 15, 2016. The Company has not yet selected a transition method nor determined the impact of the new standard on its consolidated financial statements.

NOTE 3 -- SHORT-TERM DEPOSITS AND MARKETABLE SECURITIES

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Bank deposits ⁽¹⁾	\$ 3,205	\$ 9,001
Marketable securities - government and corporate bonds ⁽²⁾	9,855	15,203
Marketable securities – equities ⁽³⁾	-	7,383
	<u>\$ 13,060</u>	<u>\$ 31,587</u>

(1) The bank deposits bear interest at an average annual rate of 1.5% and 2.1% for 2014 and 2013, respectively.

(2) The Bonds provide a yield at an average annual rate of 0.8% and 1.5% for 2014 and 2013, respectively.

(3) Unrealized net gains are immaterial.

NOTE 4 -- TRADE RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

A. Trade receivables

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Accounts receivables billed	\$ 25,341	\$ 20,190
Accounts receivables unbilled	1,113	2,800
Allowance for doubtful accounts	(605)	(500)
Trade receivables, net	<u>\$ 25,849</u>	<u>\$ 22,490</u>

B. Allowance for doubtful accounts

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 500	\$ 738
Change of allowance	177	(97)
Write-off	(72)	(141)
Balance at year end	<u>\$ 605</u>	<u>\$ 500</u>

NOTE 5 -- OTHER RECEIVABLES AND PREPAID EXPENSES

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 3,010	\$ 1,675
Government receivables	793	1,533
Employees	345	467
Other	177	951
	<u>\$ 4,325</u>	<u>\$ 4,626</u>
Other receivables and prepaid expenses – Short term	\$ 3,957	\$ 4,408
Other receivables and prepaid expenses – Long term	368	218
	<u>\$ 4,325</u>	<u>\$ 4,626</u>

NOTE 6 -- LONG-TERM DEPOSITS

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Bank deposits (see also Note 11A)	\$ 1,335	\$ 1,072
	<u>\$ 1,335</u>	<u>\$ 1,072</u>

The bank deposits bear interest at an average annual rate of 1.5% and 2.1% for 2014 and 2013, respectively.

NOTE 7 -- ACCRUED SEVERANCE PAY

Under Israeli law and labor agreements, the Company is required to make severance payments to its dismissed employees and employees leaving its employment in certain other circumstances. The Company's severance pay obligation to its employees, which is calculated on the basis of the salary of each employee for the last month of the reported period multiplied by the years of such employee's employment, is reflected by the accrual presented in the balance sheet and is partially funded by deposits with insurance companies and provident funds.

Outside of Israel the Company accrues severance pay obligations when required under the applicable laws in such jurisdictions. Severance pay obligations made to Israeli employees are considered significant compared to all other subsidiaries.

Severance pay expenses amounted to \$1,518, \$1,932 and \$1,632 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET**A. Goodwill:**

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Balance as of January 1	\$ 1,572	\$ 1,572
Changes during year:		
Additions (*)	5,627	-
Balance as of December 31	<u>\$ 7,199</u>	<u>\$ 1,572</u>

(*) In March 2014, the Company acquired Xora, Inc. For further details see Note 1.

B. Identifiable intangible assets, net:

	<u>Useful life</u>	<u>DECEMBER 31,</u>	
		<u>2014</u>	<u>2013</u>
Original amount			
Core technology	6.5 years	\$ 2,991	\$ 1,507
In process research & development		-	472
Customer relationship	2.5 years	2,377	1,007
Non-compete		-	127
Trade name	5 years	403	-
		<u>\$ 5,771</u>	<u>\$ 3,113</u>
Accumulated amortization		<u>1,092</u>	<u>3,113</u>
Identifiable intangible assets, net		<u>\$ 4,679</u>	<u>\$ -</u>

C. Goodwill and other intangible assets impairment testing

The Company performs annual impairment tests in the fourth quarter. For impairment testing the Company identified one separate reporting unit: ClickSoftware. No events or changes in circumstances indicating intangible assets impairment were detected during 2014.

NOTE 9 -- PROPERTY AND EQUIPMENT, NET

	<u>DECEMBER 31,</u>	
	<u>2014</u>	<u>2013</u>
Cost		
Computers and office equipment	\$ 13,800	\$ 10,928
Leasehold improvements	3,098	2,992
	<u>\$ 16,898</u>	<u>\$ 13,920</u>
Accumulated depreciation	<u>11,919</u>	<u>8,897</u>
Property and equipment, net	<u>\$ 4,979</u>	<u>\$ 5,023</u>

NOTE 10 -- ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	<u>DECEMBER 31,</u>	
	<u>2014</u>	<u>2013</u>
Suppliers	\$ 6,481	\$ 4,720
Employee and related costs	9,518	9,235
Government commitment and other	2,665	3,752
	<u>\$18,664</u>	<u>\$17,707</u>

NOTE 11 -- COMMITMENTS AND CONTINGENCIES

- A. The Company has entered into standby letters of credit agreements with banks and financial institutions relating to the guarantee of future performance on certain contracts. As of December 31, 2014, contingent liabilities on outstanding letter of credit agreements which expire after December 31, 2015 were approximately \$0.9 million in the aggregate. The letters of credit are secured by \$0.9 million in deposits to cover any potential payments under the guarantees.

- B. The Company operates from leased facilities in Israel, the United States, United Kingdom, Germany, India, Australia and Brazil. The leases for these facilities expire in the years 2015 through 2021. Minimum future rental payments, as of December 31, 2014 are as follows:

2015	\$ 3,947
2016	2,218
2017	1,543
2018-2021	1,312
	<u>\$ 9,020</u>

Rent expense amounted to \$4,104, \$3,527 and \$2,442 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company has a lease for approximately 61,500 square feet of office space in Petach Tikva, Israel. The Company has a lease for office space in Burlington, Massachusetts for approximately 25,000 square feet. The Company has a lease for office space in Burnham, United Kingdom for approximately 11,500 square feet. The Company has a lease for office space in Melbourne, Australia for approximately 10,000 square feet. The Company has a lease for office space in Gurgaon, India for approximately 22,000 square feet. The Company has a lease for office space in Irvine, California for approximately 9,000 square feet. The Company also has additional leased smaller offices in the United States, India and Brazil for approximately 24,000 square feet.

- C. From time to time, the Company is involved in various routine legal proceedings incidental to the ordinary course of the Company's business. The Company does not believe that the outcome of these pending legal proceeding will have a material adverse effect on the Company's business or consolidated financial condition.

NOTE 12 -- SHAREHOLDERS' EQUITY

A. Public Company

The Company's shares are publicly traded on the Nasdaq Global Select Market.

B. Share Capital

Share capital is comprised of issued and outstanding Ordinary Shares of NIS 0.02 par value.

C. Employee Stock Purchase Plan

None.

D. Employee, Directors, and Consultant Option Plans

The Company adopted its umbrella option plan in 2000 (the "Plan"). Pursuant to the Plan the number of Ordinary Shares made available under it automatically increases on the first day of the Company's fiscal year to equal the lesser of: (i) 5% of the outstanding Ordinary Shares on such date, (ii) 1,250,000 Ordinary Shares, and (iii) an amount determined by the Company's board of directors.

Under the Plan and its sub-plans, the Company granted options to purchase 1,491,600, 1,241,000 and 794,000 Ordinary Shares at an average exercise price of \$7.99, \$7.25 and \$10.38 for the years ended December 31, 2014, 2013 and 2012, respectively.

During the year ended December 31, 2010, the Company amended the Plan to include the right to grant Restricted Share Units with respect to Ordinary Shares of the Company ("RSUs") with an exercise price per share equal to the par value of each share underlying the RSU. In the year ended December 31, 2010, the board of directors and shareholders at the 2010 Annual Shareholders Meeting ("2010 ASM") approved the grants of an aggregate of 48,000 RSUs to independent directors and a grant of an option to the Company CEO to purchase 100,000 ordinary shares. This RSU grant was in accordance with the resolutions adopted by the shareholders at the 2010 ASM which provided that: (i) each independent director (defined for the purpose hereof as External Directors according to the Companies Law and all other directors other than our employees or our consultants or of any subsidiary), who is appointed as our director, at or after the 2010 ASM, is automatically granted 8,000 RSUs, upon the date such individual first becomes a director; and (ii) each independent director is automatically granted 8,000 RSUs, following each annual meeting of our shareholders, beginning with the Company's 2011 annual shareholders meeting, if on such date he or she shall have served on our Board for at least the preceding six months.

In accordance with the 2010 ASM resolutions, the Company granted an aggregate of 48,000 RSUs to independent directors in each of the years 2011-2013.

In accordance with the June 19, 2014 Annual Shareholders Meeting ("2014 ASM") resolutions, the Chairman of the Board is to receive up to 120% of the yearly RSU grant.

In accordance with the 2014 ASM resolutions, in 2014, the Company granted an aggregate of 49,600 RSUs to independent directors.

In the years ended December 31, 2014, 2013 and 2012, the board of directors and shareholders at the annual meetings approved a total grant of an option to the Company chairman to purchase 280,000 ordinary shares.

During the years 2003-2012, the board of directors decided to increase the reserve for grants under the Plan, by 7,097,269 options (and RSUs).

A summary of the status of the Company's stock option plans as of December 31, 2014, 2013 and 2012 and changes during the years then ended is as follows:

	OPTIONS AND RSUs AVAILABLE FOR GRANT	OUTSTANDING OPTIONS AND RSUs	WEIGHTED -AVERAGE EXERCISE PRICE PER SHARE (\$)	WEIGHTED -AVERAGE FAIR VALUE OF OPTION
Outstanding at December 31, 2011	2,820,387	3,021,809	4.56	
Increase in option pool, net	516,691	-	-	
Granted	(794,000)	794,000	10.38	\$5.20
Forfeited	89,331	(89,331)	10.04	
Exercised	-	(286,054)	2.21	
Outstanding at December 31, 2012	2,632,409	3,440,424	5.96	
Increase in option pool, net	800,000	-	-	
Granted	(1,241,000)	1,241,000	7.25	\$3.64
Forfeited	241,605	(241,605)	8.52	
Exercised	-	(839,633)	2.38	
Outstanding at December 31, 2013	2,433,014	3,600,186	6.95	
Granted	(1,491,600)	1,491,600	7.99	\$3.32
Forfeited	566,096	(566,096)	9.10	
Exercised	-	(641,727)	2.72	
Outstanding at December 31, 2014	1,507,510	3,883,963	7.73	

The following table summarizes information about options outstanding and exercisable as of December 31, 2014:

OPTIONS AND RSUs OUTSTANDING				OPTIONS AND RSUs EXERCISABLE		
RANGE OF EXERCISE PRICE \$	NUMBER OUTSTANDING AT DECEMBER 31, 2014	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 2014	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE
0.01	24,800*	6.4	\$0.01	-	-	-
1.67 – 2.00	123,124	0.5	\$1.91	123,124	0.5	\$1.91
2.55 – 4.43	160,060	1.2	\$2.77	160,060	1.2	\$2.77
5.16 – 6.77	192,235	2.1	\$5.64	192,235	2.1	\$5.64
7.06 – 7.65	1,877,892	5.5	\$7.21	539,809	4.0	\$7.20
8.00 – 8.41	472,187	3.4	\$8.23	306,395	3.0	\$8.21
9.47 – 9.71	626,041	3.6	\$9.52	373,999	3.2	\$9.54
10.13 – 12.98	407,624	4.6	\$11.96	183,812	3.9	\$12.98
	<u>3,883,963</u>			<u>1,879,434</u>		

*RSUs

As of December 31, 2014, the aggregate intrinsic value for the options exercisable was \$2.9 million with a weighted-average remaining contractual life of 2.6 years. Additionally, there were 2.0 million options expected to vest with a weighted-average exercise price of \$7.94 and an aggregate intrinsic value of \$1.7 million with a weighted-average remaining contractual life of 6.4 years.

The weighted average fair value of options exercisable as of the years ended December 31, 2014, 2013 and 2012 was \$3.81, \$3.3 and \$2.6, respectively.

The aggregate intrinsic value for the options exercised during 2014, 2013 and 2012 was \$3.4 million, \$3.9 million and \$1.9 million, respectively.

E. Stock-based compensation expenses

The following table summarizes the effects of stock-based compensation resulting from the application of ASC 718 included in the Statements of Operations for the years ended December 31, 2014, 2013 and 2012:

	YEAR ENDED DECEMBER 31,		
	2014	2013	2012
Cost of revenues	\$ 434	\$ 357	\$ 312
Research and development expenses	489	292	254
Selling and marketing expenses	997	750	611
General and administrative expenses	1,548	1,345	1,357
Total	<u>\$ 3,468</u>	<u>\$ 2,744</u>	<u>\$ 2,534</u>

The unrecognized stock-based compensation cost calculated under the fair value method for shares incentives expected to vest (unvested shares net of expected forfeitures) as of December 31, 2014 was approximately \$6.9 million and is expected to be recognized over a weighted-average period of 2 years.

Under ASC 718, the fair market value of each option grant is estimated on the date of grant using the "Black-Scholes option pricing" method with the following weighted-average assumptions: (1) expected life of 4.8 years (2013 – 4.8, 2012 – 4.8); (2) dividend yield of 0% (2013 – 1.9%, 2012 – 3.2%); (3) expected volatility of 43% (2013 – 55%, 2012 – 57%); and (4) risk-free interest rate of 1.6% (2013 – 1.9%, 2012 – 1.4%).

F. Dividend

During 2012, the Company declared a cash dividend to its shareholders in the amount of \$7.5 million (\$0.24 per share) and distributed a cash dividend of \$10 million (\$0.32 per share).

During 2013, the Company declared a cash dividend to its shareholders in the amount of \$6.7 million (\$0.21 per share) and distributed a cash dividend of \$6.7 million (\$0.21 per share).

NOTE 13 -- SEGMENT REPORTING

The Company accounts for its segment information in accordance with the provisions of ASC 280 ("Segment Reporting") ("ASC 280-10"). ASC 280-10 requires disclosures of selected segment-related financial information about geographic areas and major customers based on the Company's internal accounting methods. The Company operates in one segment - the design, development, and marketing of software solutions. The Company's revenues by geographic area are as follows:

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue			
Americas	\$ 76,264	\$ 50,573	\$ 60,123
EMEA	40,210	42,548	32,888
Asia Pacific	9,562	9,815	6,579
Israel	177	245	456
	<u>\$ 126,213</u>	<u>\$ 103,181</u>	<u>\$ 100,046</u>

Long-lived assets by geographical areas are as follows:

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Property and Equipment, Net			
Americas	\$ 1,903	\$ 795	\$ 662
EMEA	451	634	421
Asia Pacific	845	1,145	411
Israel	1,780	2,449	2,712
	<u>\$ 4,979</u>	<u>\$ 5,023</u>	<u>\$ 4,206</u>

The Company's major customer - as percentage of total sales is as follows:

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Customer A	10	12	11

NOTE 14 – TAXES ON INCOME (TAX BENEFIT)

A. Company

During its years of operation, the Company has operated under the various benefits of the Law for the Encouragement of Capital Investment (1959) (the "Investment Law") and its amendments. Part of the Company's investment programs in equipment received approvals ("Approved Enterprise" status) in accordance with the Investment Law. The Company elected to receive its benefits through the "Alternative Benefits" track, and, as such, was eligible for various benefits such as a full tax exemption on undistributed income in relation to income derived from the first program for a period of 2 years, and for the second and third programs for a period of 4 years, and a 25% tax rate on its income for an additional period of up to 5 years for the first program, and 3 years for the second and third programs, commencing with the date on which taxable income is first earned but not later than certain dates. In the case of foreign investment of more than 25%, the tax benefits were extended to 10 years, and in the case of foreign investment ranging from 49% to 100%, the tax rate was reduced

on a sliding scale to 10%. An additional benefit included accelerated depreciation of fixed assets used in the investment program. The benefits were subject to the fulfillment of the conditions of the letter of approval received from the Investment Center. The first, second and third programs' benefit periods have expired.

In 2005, an amendment to the Investment Law came into effect (the "2005-Amendment"), which significantly changed the provisions of the Investment Law. The "2005-Amendment" enabled companies to obtain the benefits on a self-assessment basis without applying for a Letter of Approval from the Investment Center. The 2005-Amendment also limited the scope of enterprises which may be eligible for a "Privileged Enterprise" status by setting criteria for the qualification of a facility as a Privileged Enterprise, such as provisions generally requiring that at least 25% of the Privileged Enterprise's income are derived from export. However, the Investment Law provided that terms and benefits included in any letter of approval previously granted remain subject to the provisions of the Investment Law as it were on the date of such letter of approval. Therefore, companies with Approved Enterprise programs were generally not subject to the provisions of the Amendment on those programs. As a result of the "2005-Amendment", tax-exempt income generated under the provisions of the Privileged Enterprise, will subject the Company to taxes upon distribution or liquidation.

In 2006, 2007 and 2008 the Company received approval as a Privileged Enterprise under the 2005-Amendment to its Fourth, Fifth and Sixth plans, respectively. The Company generated exempt income for all plans as a Privileged Enterprise starting in 2011 and throughout 2012. Following the Company's election in 2013 to become a Preferred Enterprise under the 2011-Amendment, as described below, these plans no longer apply.

In 2011, new legislation amending to the Investment Law was adopted (the "2011-Amendment"). Under the 2011 Amendment, a uniform corporate tax rate will apply to all qualifying income of qualifying "Industrial Companies" (requirement of a minimum export of 25% of the company's total turnover) which are deemed Preferred Enterprises, as opposed to the benefits under the previous language of the Investment Law, which were limited to income from Approved Enterprises or Privileged Enterprises during their benefits period. Under the 2011-Amendment, the uniform tax rate during 2011-2012 was 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel, in 2013 7% and 12.5%, respectively, and from 2014, 9% and 16%, respectively. The profits of these Industrial Companies can be distributable as dividends without any additional taxation to the distributing company, subject to a 15% withholding tax, and 20% withholding tax for distributions occurring after January 1, 2014 (or a lower rate, under an applicable tax treaty). According to the 2011-Amendment, a company could not apply for a Privileged Enterprise plan after December 31, 2012.

Under the transition provisions of the 2011-Amendment, a company may irrevocably elect to implement the provisions of the 2011-Amendment by waiving its benefits provided under the Investment Law as an Approved Enterprise or Privileged Enterprise, or, alternatively, remain subject to the benefits provided by those plans until their expiration.

In 2013, the Company filed its election to transition to the Preferred Enterprise status under the 2011-Amendment, and waived its remaining benefits under the previous Privileged Enterprise programs.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the Investment Law, regulations published thereunder and the Letters of Approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

Income not eligible for Investment Law benefits mentioned above was subject to the standard corporate income tax rate of 26.5% in 2014 and 25% in 2013.

In the event of distribution by the Company of a cash dividend out of retained earnings that were tax exempt due to its Approved Enterprise and Privileged Enterprise status, the Company would have to pay corporate tax of 10% - 25% on the income from which the dividend was distributed based on the extent to which non-Israeli shareholders held the Company's shares during the years in which income was exempt. A 15% withholding tax may be deductible from dividends distributed to the recipients.

During 2011 and 2012, the Company had exempt earnings attributable to Approved Enterprise and Privileged Enterprise plans.

During the years 2011 and 2012, the Company distributed dividends in the aggregate amount of \$17.5 million. Such distributions were paid from the Company earnings which were not derived from Approved Enterprises or Privileged Enterprise earnings, and as such did not result in additional Israeli tax liabilities for the Company.

In November 2012, a temporary amendment to the Investment Law was enacted to incentivize companies to pay taxes on those Approved Enterprises and Privileged Enterprise earnings as if distributed, and effectively release the earnings from any further tax liabilities at the company level. The amendment, although not mandatory, offered lower tax rates on those earnings, accumulated through the year ended December 31, 2011, elected to be "released" which as applicable to the Company is approximately 6%. During 2013, the Company elected to use the incentive available under the amendment, releasing 2011 tax-exempt earnings of \$12.2 million for future dividend distributions, by paying tax of \$0.7 million. The Company distributed during 2013 a dividend in the amount of \$6.7 million. Part of this dividend was under the release of 2011 tax-exempt earnings, and therefore, although paid from Approved Enterprises and Privileged Enterprise earnings, such distribution did not result in additional Israeli tax liability to the company. A deferred tax provision was included in the Company financial statements for the year ended December 31, 2012.

Except for 2011 Approved Enterprise profits as explained above, the Company has not provided deferred taxes on future distributions of tax-exempt earnings, as management and the board of directors have not yet determined to pay any dividend in the future from those earnings. Accordingly, such earnings have been considered to be permanently reinvested.

B. Tax assessments

Final tax assessments in Israel and in the United States have been received up to and including the 2011 tax year.

C. Deferred taxes

Deferred tax assets, net consist of the following significant items:

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Net operating loss carry forwards of non-Israeli subsidiaries	\$ 5,347	\$ 2,092
Net operating loss carry forwards In Israel*	910	768
R&D cost temporary differences	1,080	991
Other temporary differences	3,443	2,016
Deferred tax assets before valuation allowance	<u>\$ 10,780</u>	<u>\$ 5,867</u>
Valuation allowance	<u>(5,840)</u>	<u>(2,107)</u>
Deferred tax assets, net of allowance	<u>\$ 4,940</u>	<u>\$ 3,760</u>

* Based on 18% tax rate for 2015

Presentation in balance sheets:

	DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Current deferred tax asset, net	\$ 1,680	\$ 1,740
Non-current deferred tax asset, net	3,280	2,060
Non-current deferred tax liability, net	(20)	(40)
	<u>\$ 4,940</u>	<u>\$ 3,760</u>

Under ASC 740 ("Income Taxes"), deferred tax assets, net are to be recognized for the anticipated tax benefits associated with net operating loss carry-forwards and deductible temporary differences; unless it is more-likely-than-not that some or all of the deferred tax assets will not be realized. The adjustment is made by a valuation allowance. Since in previous years the realization of the net operating loss carry-forwards and deductible temporary differences was less likely than not, a valuation allowance has been established for the full

amount of the tax benefits. From 2008, based on historical taxable income from continuing operations and projections for future taxable income, the Company determined that it is more likely than not that some of its deferred tax assets are expected to be realized, and reversed part of the valuation allowance. The reversal of the valuation allowance and other adjustments to the deferred tax assets resulted in the recognition of a tax benefit of \$831 (not including deferred tax asset from the Xora purchase of \$349) and \$2,310 in 2014 and 2013, respectively.

As of December 31, 2014, net operating loss carry forwards in Israel amounted to approximately \$4.9 million and in the United States \$95 million attributable to the federal tax, approximately \$1.0 million attributable to state tax in the United States and approximately \$1.5 million attributable to Brazil. The tax loss carry-forwards in the United States expire from 2015 through 2029. Utilization of U.S. net operating losses would be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state law provisions. The annual limitations would result in the expiration of part of net operating losses before utilization. Therefore, the amounts included in the deferred taxes above represent only the portion of carryforward losses which is not expected to expire due to these limitations. There are no material other tax loss carry-forwards in other subsidiaries of the Company.

Deferred tax has not been provided on the following items:

(1) Taxes that would apply in the event of disposal of investments in subsidiaries, as it is generally the Company's intention to hold these investments, not to realize them.

(2) As for the year ended December 31, 2014, the amount of earnings subject to additional taxes for which deferred taxes were not provided was \$16.3 million and the potential tax liability was in the amount of \$2.4 million. The Company may avoid the tax liability if distribution is not made or is made from resources other than exempt earnings from Approved Enterprises or Privileged Enterprises with those earnings permanently reinvested. The Company has not provided deferred taxes, as management and the board of directors have not yet determined to pay any dividend from these earnings in the future. Accordingly, such earnings have been considered to be permanently reinvested.

(3) Dividends distributable from the income of foreign subsidiaries of the Company, as the Company does not expect these subsidiaries to distribute dividends from currently accumulated profits with tax costs in the foreseeable future. If these dividends were to be paid, the Company would have to pay additional taxes of about \$0.8 million on the distribution, and the amount would be recorded as an income tax expense in the period the dividend is declared.

D. Israel and International components of income profit before taxes

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Israel	\$ (991)	\$ (10,274)	\$ 4,482
International	(2,089)	5,190	3,175
	<u>\$ (3,080)</u>	<u>\$ (5,084)</u>	<u>\$ 7,657</u>

E. Income taxes included in the statement of operations

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current taxes	\$ 783	\$ 642	\$ 709
Tax payment for previous years retained earnings (*)	-	744	-
Deferred taxes	(831)	(2,310)	(540)
	<u>\$ (48)</u>	<u>\$ (924)</u>	<u>\$ 169</u>

(*) See Note 14.A above

F. Tax reconciliation

A reconciliation of the theoretical tax expense, assuming that all income is taxed at the ordinary statutory average corporate tax rate in Israel and the actual tax expense in the statement of operations, is as follows:

	YEAR ENDED DECEMBER 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net (loss) income before tax	\$ (3,080)	\$ (5,084)	\$ 7,657
Statutory tax rate	<u>26.5%</u>	<u>25%</u>	<u>25%</u>
Theoretical tax	<u>(816)</u>	<u>(1,271)</u>	<u>1,914</u>
Change in taxes resulting from effect of "Privileged Enterprise" status	(770)	(207)	(1,238)
Change in taxes resulting from taxation in foreign jurisdictions	876	64	(374)
Non-deductible expenses	985	797	168
Change in valuation allowance	(319)	(40)	(319)
Other	<u>(4)</u>	<u>(267)</u>	<u>18</u>
	<u>\$ 768</u>	<u>\$ 347</u>	<u>\$ (1,745)</u>
Actual tax (benefit) expense	<u>\$ (48)</u>	<u>\$ (924)</u>	<u>\$ 169</u>

G. Uncertain tax positions

As of December 31, 2014, the Company maintains 3 uncertain tax positions accruals in the amounts of \$103, \$103 and \$162.

As of December 31, 2013, the Company maintains 3 uncertain tax positions accruals in the amounts of \$383, \$256 and \$117.

As of December 31, 2012, the Company maintained 4 uncertain tax positions accruals in the amounts of \$367, \$555, \$178 and \$19.

The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

ITEM 19. EXHIBITS

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
1.1 ⁽¹⁾	Memorandum of Association reflecting amendments integrated into the text as amended and restated as of July 15, 2010 (English translation from the official, original version in Hebrew)
1.2 ⁽¹⁾	Articles of Association of ClickSoftware Technologies Ltd., amended and restated as of July 15, 2010
4.1 ⁽²⁾	Fourth Amended and Restated Registration Rights Agreement, dated December 15, 1999
4.2 ⁽³⁾	2000 Share Incentive Plan, as amended and restated as of July 15, 2010
4.3 ⁽²⁾	2000 Employee Share Purchase Plan
4.4 ⁽⁴⁾	Amended Form of Indemnification Agreement
4.5 ⁽³⁾	Management and Consulting Agreements for Moshe BenBassat effective as of January 1, 2010
4.6 ⁽³⁾	2003 Israeli Share Incentive Plan, as amended and restated as of July 15, 2010
4.7 ⁽⁵⁾	Form of 2000 Unapproved U.K. Share Scheme, as amended
4.8	Form of 2000 U.K. Share Scheme, as amended
4.9 ⁽⁶⁾	Agreement and Plan of Merger by and among Xora, Inc., Ajax Acquisition Corporation, ClickSoftware, Inc., Ned Carlson, as stockholder representative, and the signing stockholders party thereto, dated February 17, 2014
4.10 ⁽⁵⁾	Summary of Material Terms of the Lease Agreement (originally in Hebrew) effective as of May 30, 2007 by and between ClickSoftware Technologies Ltd. and Azorim M.L.L. Industries Ltd. related to premises in Petach Tikva, Israel
8.1	Subsidiaries of the Registrant
12.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
12.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, furnished herewith
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, furnished herewith
15.1	Consent of Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu Limited
101	The following materials from our Annual Report on Form 20-F for the year ended December 31, 2014 formatted in XBRL (eXtensible Business Reporting Language) are filed herewith: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

(1) Incorporated by reference to the Registrant's Annual Report on Form 20-F filed with the SEC on March 30, 2011.

(2) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (file no. 333-30274), as amended, filed with the SEC on February 14, 2000.

(3) Incorporated by reference to the Registrant's Proxy Statement for its 2010 Annual Shareholders Meeting filed with the SEC on Form 6-K on June 2, 2010.

(4) Incorporated by reference to the Registrant's Annual Report on Form 20-F filed with the SEC on April 16, 2008.

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2004.

(6) Incorporated by reference to the Registrant's Annual Report on Form 20-F filed with the SEC on April 9, 2014.

SIGNATURES

ClickSoftware Technologies Ltd. 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.

CLICKSOFTWARE TECHNOLOGIES LTD.

By: /s/ Joel Jeselsohn

Joel Jeselsohn
Chief Financial Officer

Date: March 25, 2015

Board of Directors

Dr. Israel Borovich

Chairman of the Board and
Former Chairman of the Board
EL-AL Israel Airlines Ltd.

Dr. Moshe BenBassat

Chief Executive Officer
ClickSoftware Technologies Ltd.

Mr. Shai Beilis

Founder & Chairman of the Board
Formula Ventures Ltd.

Ms. Nira Dror

General Manager
Nira Dror Ltd.

Dr. Shlomo Nass

Senior Partner
Dr. Shlomo Nass & Co.

Mr. Menahem Shalgi

Formerly VP of Business
Development and M&A
Amdocs Ltd.

Mr. Gil Weiser

Formerly CEO of
Hewlett-Packard Israel

Executive Officers

Dr. Moshe BenBassat

Chief Executive Officer

Mr. Joel Jeselsohn

Executive VP and
Chief Financial Officer

Mr. Zvi Piritz

President of EMEA & APAC

Mr. Stephen Timms

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Stock Listing

Listed on the Nasdaq Global Select
under the symbol "CKSW"

Company Information on the Web

Corporate, financial and shareholder
information, including news
releases, financial filings and stock
quotes are available on the
ClickSoftware website at:
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