MIND CTI LTD
Form 20-F
June 29, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _______________ to ___________________

OR

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

Date of event requiring this shell company report _____________

Commission file number 000-31215

MIND C.T.I. LTD.

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

ISRAEL
(Jurisdiction of incorporation or organization)

Industrial Park, Building #7, Yoqneam, 20692, Israel
(Address of principal executive offices)

Itay Barzilay
c/o MIND C.T.I. Ltd.
Industrial Park, Building #7
Yoqneam, 20692, Israel
Tel: +972-4-9936666
investor@mindcti.com
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value NIS 0.01 per share	**Nasdaq Global Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

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

As of December 31, 2008, the Registrant had outstanding **19,494,010** Ordinary Shares, nominal value NIS 0.01 per share.

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

o Yes x 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.

o Yes x 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.

x Yes o No

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

o Yes o No

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

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

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

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

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

Item 17 o Item 18 o

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

o Yes x No

Unless the context requires otherwise, MIND , us , we and our refer to MIND C.T.I. Ltd. and its subsidiaries.

FORWARD LOOKING STATEMENTS

Statements in this annual report concerning our business outlook or future economic performance; anticipated revenues, expenses or other financial items; introductions and advancements in development of products, and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are forward-looking statements as that term is defined under the United States Federal Securities Laws. Forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those stated in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under Risk Factors in this annual report as well as those discussed elsewhere in this annual report and in our other filings with the Securities and Exchange Commission.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

Except as otherwise indicated, all financial statements and other financial information included in this annual report are presented solely under U.S. GAAP.

The following table presents selected consolidated financial data as of and for each of the five years in the period ended December 31, 2008. The selected consolidated financial data presented below are derived from our audited consolidated financial statements for these periods, and should be read in conjunction with these financial statements and the related notes thereto. Our audited consolidated financial statements as of December 31, 2007 and 2008 and for each of the three years in the period ended December 31, 2008 and the related notes thereto are hereby incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009. You should read the selected financial data in conjunction with Item 5 Operating and Financial Review and Prospects.

3

	Years ended December 31,				
	2004	2005	2006	2007	2008
	(In US $ thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Sales of licenses	$ 11,699	$ 7,420	$ 8,467	$ 5,903	$ 6,191
Services	6,107	8,181	11,593	12,544	13,282
Total revenues	17,806	15,601	20,060	18,447	19,473
Cost of revenues	4,394	4,015	5,675	5,784	5,783
Gross profit	13,412	11,586	14,385	12,663	13,690
Research and development expenses	3,833	5,086	6,118	5,714	6,185
Selling, general and administrative expenses:					
Selling and marketing expenses	4,517	2,148	3,628	3,846	3,805
General and administrative expenses	1,857	1,507	2,135	1,845	2,311
Impairment of Goodwill					3,498
Impairment of Intangible Asset					185
Operating income (loss)	3,205	2,845	2,504	1,258	(2,294)
Impairment of Auction Rate Securities				(15,187)	(4,172)
Other Financial income (expenses)	3,834	1,260	(222)	2,082	568
Income (loss) before taxes on income	7,039	4,105	2,282	(11,847)	(5,898)
Taxes on income	162	43	1,373	108	525
Net income (loss)	$ 6,877	$ 4,062	$ 909	$ (11,955)	$ (6,423)
Earnings (loss) per ordinary share:					
Basic	$ 0.33	$ 0.19	$ 0.04	$ (0.55)	$ (0.30)
Diluted	$ 0.32	$ 0.19	$ 0.04	$ (0.55)	$ (0.30)
Weighted average number of ordinary shares used in computation of earnings per ordinary share - in thousands					
Basic	21,089	21,431	21,515	21,586	21,473
Diluted	21,468	21,619	21,546	21,586	21,473

4

	As of December 31,				
	2004	2005	2006	2007	2008
	(In US $ thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 18,687	$ 10,174	$ 4,771	$ 12,390	$ 9,722
Working capital	18,866	9,471	28,926	13,441	9,668
Total assets	55,716	55,652	53,791	37,726	24,363
Share capital and additional paid-in capital	59,130	59,452	59,926	57,934	53,796
Treasury Shares					1,631
Total shareholders' equity	50,244	49,485	47,859	31,809	18,434

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to Our Business

We have invested material funds in auction rate securities, whose value has been materially impaired and may be further impaired and whose illiquidity may limit our ability to pursue acquisitions

At December 31, 2008, we had an investment in auction rate security with a par value of $20.3 million. Auction rate securities include long-term bonds that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism allows existing investors either to roll over their holdings, whereby they will continue to own their respective securities, or liquidate their holding by selling such securities at par. The auctions have historically provided a liquid market for these securities as investors historically could readily sell their investments at auction. With the liquidity problems prevailing in global credit and capital markets, certain auction rate securities experienced multiple failed auctions, beginning in August 2007, as the amount of securities submitted for sale exceeded the amount of purchase orders. The estimated fair value of our auction rate security as of December 31, 2008 was $941,000. Accordingly, we have recorded an impairment charge in the amount of $15.2 million for 2007 and of $4.2 million for 2008 in respect of our auction rate security. The estimated fair value of our auction rate security as of June 1, 2009 was approximately $55,000, which will require a further impairment charge in the second quarter of 2009. If uncertainties in credit markets continue or if such markets deteriorate further, we may incur additional impairments to our auction rate security.

5

The stated maturity of these securities is 2046. There is currently a very limited market for these auction rate securities, and liquidation by us at this time, if possible, would likely be at a significant discount. Our cash and cash equivalents as of December 31, 2008 were $9.7 million. This situation leaves us with limited cash resources with which to pursue our acquisition strategy. If market conditions require us to record any additional impairment or if our business needs require us to liquidate all or a portion of our auction rate securities, there could be a material adverse affect on our financial condition and results of operations.

Conditions and changes in the local and global economic environments may adversely affect our business and financial results.

Adverse economic conditions in markets in which we operate can harm our business. Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. These current economic factors include diminished liquidity and tighter credit conditions, leading to decreased credit availability, as well as declines in economic growth and employment levels. It is commonly believed that the current recession will continue and perhaps even further deteriorate. Partly as a result, entire industries are facing extreme contraction and even the prospect of collapse. The credit crisis could have a number of follow-on effects on our business, including a possible: (i) slow-down in our business, resulting from lower customer expenditure, inability of customers to pay for products and services, insolvency of customers or insolvency of key partners, (ii) negative impact on our liquidity, financial condition and share price, which may impact our ability to raise capital in the market, obtain financing and other sources of funding in the future on terms favorable to us, and (iii) decrease in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, it may materially adversely affect our results of operations and may increase the difficulty for us to accurately forecast and plan future business.

A slow down in expenditures by telecommunications service providers could have a material adverse effect on our results of operations.

There is a global uncertainty with respect to the direction of the economy and the telecommunications market. Many new and small service providers have failed and existing service providers have been reducing or delaying expenditures on new equipment and applications. A continuation of such delays or a decline in capital expenditures by telecommunications service providers may reduce our sales and could result in additional pressure on the price of our products, both of which would have a material adverse effect on our operating results.

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

Competition in our industry is intense and we expect competition to increase. We compete both with established global billing companies such as Comverse (after the acquisition of the Global Software Services division of CSG Systems International by Comverse), Oracle Corporation (after the acquisition of Portal Software by Oracle) and Convergys Corporation (after the acquisition of Geneva Technology by Convergys) as well as with local billing companies. Some of our competitors have greater financial, technical, sales, marketing and other resources and greater name recognition than we do. Some of our competitors have a lower cost structure and compete with us on pricing. Current and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to increase their ability to address the needs of prospective customers. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. We cannot guarantee that we will be able to compete effectively against current or future competitors or that competitive pressure will not harm our financial results.

If we fail to attract and retain qualified personnel we will not be able to implement our business strategy or operate our business effectively.

Our products require sophisticated research and development, sales and marketing, software programming and technical customer support. Our success depends on our ability to attract, train, motivate and retain highly skilled personnel within each of these areas of expertise. Qualified personnel in these areas are in great demand and are likely to remain a limited resource for the foreseeable future. We cannot assure you that we will be able to retain the skilled employees we require. In addition, the resources required to retain such personnel may adversely affect our operating margins. The failure to retain qualified personnel may harm our business. In particular, we maintain a large technical and support center in Jassy, Romania and have encountered many attempts from other technology companies to recruit our employees after we have trained them. If this phenomenon continues and increases, we may be forced to raise the salaries of our Romanian employees and our results of operations will be harmed.

Because a substantial majority of our revenues are generated outside of Israel, our results of operations could suffer if we are unable to manage international operations effectively.

In 2007 and 2008, approximately 93% and 95% of our revenues, respectively, were generated outside of Israel. Our sales outside of Israel are made in more than 40 countries. We currently have sales and support offices located in Silver Spring, Maryland U.S. and in Reading, U.K. In addition, we have a technical and support team in Jassy, Romania. We plan to establish additional facilities in other parts of the world, either through acquisitions or internal expansion based on market needs. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our ability to penetrate some international markets may be limited due to different technical standards, protocols and requirements for our products in different markets. We cannot be certain that our investments in establishing facilities in other countries will produce desired levels of revenue. In addition, conducting our business internationally subjects us to a number of risks, including:

staffing and managing foreign operations;

increased risk of collection;

potentially adverse tax consequences;

the burden of compliance with a wide variety of foreign laws and regulations;

burdens that may be imposed by tariffs and other trade barriers; and

political and economic instability.

Because some of our customers require a lengthy approval process before they order our products, our sales process is often subject to delays that may decrease our revenues and seriously harm our business.

In 2008, we derived 83.5% of our revenues from the sale of software and related services to telecommunications service providers. Before we can sell our software to some of these customers, they conduct a lengthy and complex approval and purchasing process. The following factors, among others, affect the length of the approval process:

the time required for our customers to determine and announce their specifications;

the time required for the customer to receive the internal approvals necessary in order for it to commit significant resources towards acquisition of the billing solution;

the build-up of the customer's network infrastructure; and

the timely release of new versions of products comprising enhanced functionality, specifically requested by the customer.

Additional delays in product approval may decrease our revenues and could seriously harm our business and results of operations.

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

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

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

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

potential termination of long-term contracts by our customer due to lack of financing, internal changes or any other reason;

changes in our pricing policies or competitive pricing by our competitors; and

the timing of product introductions by competitors.

In future quarters, our operating results may be below the expectations of public market analysts and investors, and as a result, the price of our ordinary shares may fall.

The customer base for our traditional wireline and wireless billing and customer care products is characterized by small to medium size telephony carriers. If this market segment fails to grow, the demand for our billing and customer care software would diminish substantially.

Our traditional wireline and wireless billing and customer care products target small to medium size telephony carriers. Our growth in this field depends on continued growth of these traditional telephony carriers. We cannot be certain that small to medium size telephony carriers will be able to successfully compete with large telephony carriers in existing markets or will successfully develop in new and emerging markets. If this market segment fails to grow, the demand for our billing and customer care software would diminish substantially and our business would suffer. In addition, there may never be significant demand for new billing and customer care software by providers of traditional services.

8

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

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

- diversion of our resources and the attention of our personnel from our research and development efforts to address these errors;
- negative publicity and injury to our reputation that may result in loss of existing or future customers; and
- loss of or delay in revenue and loss of market share.

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

Our business may be negatively affected by exchange rate fluctuations.

Although the majority of our revenues are denominated in U.S. dollars, approximately 35% of our expenses are incurred in New Israeli Shekel, or NIS and approximately 30% of our expenses are incurred in Euro. As a result, we may be negatively affected by fluctuations in the exchange rate between the Euro or the NIS and the U.S. dollar. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS or of the Euro against the U.S. dollar. If the U.S. dollar cost of our operations in Israel and/or Romania increases, our U.S. dollar-measured results of operations will be adversely affected. In addition, some of our revenues are denominated in Euro and some are denominated in Great Britain Pound, or GBP. As a result, our U.S. dollar-measured results of operations will be adversely affected by devaluation in the GBP or Euro relative to the U.S. dollar We may choose to limit these exposures by entering into hedging transactions. However, hedging transactions may not enable us to avoid exchange-related losses, and our business may be harmed by exchange rate fluctuations.

9

If our products fail to achieve widespread market acceptance, our results of operations will be harmed.

Our future growth depends on the continued commercial acceptance and success of our products. We first introduced our billing and customer care software for Voice over IP in 1997 and since then we have developed new versions that offer mediation, rating, billing and customer care for multiple services. Accordingly, we cannot be sure that our products will achieve widespread market acceptance. Our future performance will depend on the successful development, introduction and consumer acceptance of new and enhanced versions of our products. We are not certain that we will be able to develop new and enhanced products to meet changing market needs. If our new and enhanced products are not well received in the marketplace, our business and results of operations will be harmed. We cannot assure you that we will be successful in developing and marketing new products.

We depend on our marketing alliances and reseller arrangements with manufacturers of telecommunications equipment to market our products. If we are unable to maintain our existing marketing alliances, or enter into new alliances, our revenues and income will decline.

We have derived, and anticipate that we will continue to derive, a portion of our market opportunities and revenues from our marketing alliances and reseller arrangements with major manufacturers of telecommunications equipment, including Alcatel-Lucent, Cisco, Ericsson and Siemens, which market or recommend our products to their customers. Our marketing alliances and reseller arrangements with these parties are nonexclusive and do not contain minimum sales or marketing performance requirements. In most instances, there is no formal contractual arrangement. As a result, these entities may terminate these arrangements without notice, cause or penalty. There is also no guarantee that any of these parties will continue to market our products. Our arrangements with our resellers and marketing allies do not prevent them from selling products of other companies, including products that compete with ours. Moreover, our marketing allies and resellers may develop their own internal mediation, rating, billing and customer care software products that compete with ours, or acquire one of our competitors. If we are unable to maintain our current marketing alliances and reseller relationships, or if these marketing allies and resellers develop their own competing mediation, rating, billing and customer care software products, our revenues and income will decline.

If our software does not continue to integrate and operate successfully with the telecommunications equipment of the leading manufacturers, we may be unable to maintain our existing customer base and/or generate new sales.

The success of our software depends upon the continued successful integration and operation of our software with the telecommunications equipment of the leading manufacturers. We currently target a customer base that uses a wide variety of network infrastructure equipment and software platforms, which are constantly changing. In order to succeed, we must continually modify our software as new telecommunications equipment is introduced. If our product line fails to satisfy these demanding and rapidly changing technological challenges, our existing customers will be dissatisfied. As a result, we may be unable to generate future sales and our business will be materially adversely affected.

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

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

- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- amortization of intangible assets;
- changes in our business model and margins;
- research and development write-offs; and
- other acquisition-related expenses.

Future acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

- we may fail to identify acquisitions that enable us to execute our business strategy;
- we compete with others to acquire companies. We believe that this competition has intensified and may result in decreased availability of, or increased prices for, suitable acquisition candidates;

we may not be able to obtain the necessary regulatory approvals, including the approval of anti-competition regulatory bodies, in countries where we are seeking to consummate acquisitions;

we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company;

we may fail to successfully integrate acquisitions in accordance with our business strategy;

we may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we acquire and, if we cannot retain such personnel, we may not be able to attract new skilled employees and experienced management to replace them; and

we may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product.

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

We depend on a limited number of key personnel who would be difficult to replace. If we lose the services of these individuals, our business will be harmed.

Because our market is new and evolving, the success of our business depends in large part upon the continuing contributions of our senior management. Specifically, continued growth and success largely depend on the managerial and technical skills of Monica Eisinger, our President and Chief Executive Officer and one of our founders, and other members of senior management. Because the demand for highly qualified senior personnel exceeds the supply of this type of personnel, it will be difficult to replace members of our senior management if one or more of them were to leave us. If either Ms. Eisinger or other members of the senior management team are unable or unwilling to continue their employment with our company, our business will be harmed.

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

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

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

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

changing customer needs.

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

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

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

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

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

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

We are subject to ongoing costs and risks associated with complying with extensive corporate governance and disclosure requirements.

As a foreign private issuer subject to U.S. federal securities laws, we spend a significant amount of management time and resources to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, SEC regulations and Nasdaq rules. Section 404 of the Sarbanes-Oxley Act requires management s annual review and evaluation of our internal control over financial reporting and attestations of the effectiveness of these controls by our management and, commencing from fiscal year 2009, by our independent registered public accounting firm. There is no guarantee that these efforts will result in management assurance or an attestation by our independent registered public accounting firm that our internal control over financial reporting is adequate in future periods. In connection with our compliance with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time, and we may need to hire additional accounting and financial staff, to assure that we continue to comply with these requirements. If we are unable to implement these requirements effectively or efficiently, or if our internal controls are found to be ineffective in future periods, it could harm our operations, financial reporting or financial results and could result in our being unable to obtain an unqualified report on internal controls over financial reporting from our independent auditor.

Risks Relating to the Market of our Ordinary Shares

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

The market for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. The price of our ordinary shares has fluctuated significantly since our initial public offering in August 2000. A number of factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly, such as:

- fluctuations in our quarterly revenues and earnings and those of our publicly held competitors;
- shortfalls in our operating results from the levels forecast by securities analysts;
- public announcements concerning us or our competitors;
- changes in pricing policies by us or our competitors;
- market conditions in our industry; and
- the general state of the securities market (particularly the technology sector).

We do not control these matters and any of them may adversely affect our business internationally. In addition, trading in shares of companies listed on the Nasdaq Global Market in general and trading in shares of technology companies in particular has been subjected to extreme price and volume fluctuations that have been unrelated or disproportionate to operating performance. These broad market and industry factors may depress our share price, regardless of our actual operating results.

Substantial sales of our ordinary shares could adversely affect our share price.

Sales of a substantial number of our ordinary shares could adversely affect the market price of our ordinary shares. Given the likely volatility that exists for our ordinary shares, such sales could cause the market price of our ordinary shares to decline.

As of June 1, 2009, we had 19,210,673 outstanding ordinary shares, which were freely tradable without restriction or further registration under the federal securities laws unless held by our affiliates , as that term is defined in Rule 144 under the Securities Act. As of June 1, 2009, there were outstanding options to purchase a total of 939,900 ordinary shares, of which 495,300 were vested. We were also authorized to grant options to purchase 2,386,310 additional ordinary shares. We have filed a registration statement on Form S-8 covering all of the ordinary shares issuable upon the exercise of options under our stock option plans, at which time these shares will be immediately available for sale in the public market, subject to the terms of the related options.

Our ordinary shares are listed for trading in more than one market and this may result in price variations.

Our ordinary shares are listed for trading on the Nasdaq Global Market, or Nasdaq, and on the Tel Aviv Stock Exchange, or TASE. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on Nasdaq and New Israeli Shekels on TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets often differ, resulting from the factors described above, as well as differences in exchange rates. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

Risks Relating to Our Location in Israel

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

We are organized under the laws of the State of Israel and a substantial portion of our assets and our principal operations, are located in Israel. Accordingly, our operations, financial position and operating results are directly influenced by economic, political and military conditions in and relating to Israel. Since the establishment of the State of Israel in 1948, a condition of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between Israel and the Palestinians which has strained Israel s relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Hamas, an Islamist movement responsible for many attacks against Israeli targets, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip by force in June 2007. Further, in the summer of 2006, Israel fought a war against Hezbollah, a Lebanon-based Islamist Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel. Rocket strikes from Gaza have increased since June 2007, and thousands of rockets have been fired at population centers in southern Israel, leading to an armed conflict between Israel and Hamas in January 2009. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Any armed conflicts or political instability in the region could negatively affect business conditions and harm our results of operations. We cannot predict the effect on the region of the increase in the degree of violence between Israel and the Palestinians. Furthermore, several countries restrict business with Israel and Israeli companies, and additional countries may restrict doing business with Israel and Israeli companies as a result of the recent increase in hostilities. These restrictive laws and policies may seriously harm our operating results, financial condition or the expansion of our business. In addition, the current situation in Israel could adversely affect our operations if our customers and/or strategic allies believe that instability in the region could affect our ability to fulfill our commitments.

We currently participate in or receive tax benefits from government programs. These programs require us to meet certain conditions and these programs and benefits may be terminated or reduced in the future.

We receive tax benefits under Israeli law for capital investments, the Law for Encouragement of Capital Investments, 1959, as amended, or the Investments Law, that are designated as Approved Enterprises . To maintain our eligibility for these tax benefits, we must continue to meet several conditions including making required investments in fixed assets. If we fail to comply with these conditions in the future, the tax benefits received could be cancelled. The termination or reduction of the tax benefits under the Investments Law could seriously harm our business, financial condition and operating results. For more information about Approved Enterprises, see Item 10.E Taxation Law for the Encouragement of Capital Investments, 1959 and Note 9 to our financial statements, which are incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009.

Because we have received grants from the Office of the Chief Scientist, we are subject to on-going restrictions that limit the transferability of our funded technology and of our right to manufacture outside of Israel any products developed with such technology, and certain of our large shareholders are required to undertake to observe such restrictions.

We have received grants in the past from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor. According to Israeli law, generally, any products developed with grants from the Office of the Chief Scientist are required to be manufactured in Israel, unless we obtain prior approval of a governmental committee. In addition, we are prohibited from transferring out of Israel the know-how developed with these grants, without the prior approval of a governmental committee. Approval is not required for the sale or export of any products resulting from the funded know-how. Any shareholder who becomes a controlling shareholder of our company or any non-Israeli who becomes a direct holder of 5% or more of our outstanding ordinary shares will be required to notify the Office of the Chief Scientist and to undertake to observe the law governing the grant programs of the Office of the Chief Scientist, the principal restrictions of which are described above in this paragraph.

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

Some of our executive officers and employees in Israel are obligated to perform military reserve duty, which could accumulate annually from several days to up to two months in special cases and circumstances. The length of such reserve duty depends, among other factors, on an individual s age and prior position in the army. In addition, if a military conflict or war occurs, these persons could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees due to military service. Any disruption in our operations would harm our business.

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

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

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

- the judgment is enforceable in the state in which it was given;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and the enforcement thereof are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the United States court.

Therefore, it may be difficult for a shareholder, or any other person or entity, to collect a judgment obtained in the United States against us or any of these persons, or to effect service of process upon these persons in the United States.

Provisions of Israeli law and our articles of association may delay, prevent or make difficult a change of control and therefore may depress the price of our stock.

Some of the provisions of our articles of association and Israeli law could, together or separately:

discourage potential acquisition proposals;

delay or prevent a change in control; and

limit the price that investors might be willing to pay in the future for our ordinary shares.

In particular, our articles of association provide that our board of directors will be divided into three classes that serve staggered three-year terms and authorize our board of directors to adopt protective measures to prevent or delay a coercive takeover, including without limitation the adoption of a Shareholder Rights Plan . In addition, Israeli corporate law regulates mergers and acquisitions of shares through tender offers, requires approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. See Item 10.B Memorandum and Articles of Associations- Mergers and Acquisitions under Israeli Law. Furthermore, Israeli tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for stock swap.

16

Item 4. Information on the Company

A. History and Development of the Company.

General

Our name is MIND C.T.I. Ltd. for both legal as well as commercial purposes. We were incorporated under the laws of the State of Israel on April 6, 1995 as a company with limited liability, and we are subject to the Israeli Companies Law, 1999 and the regulations promulgated thereunder. Our principal executive offices are located at Industrial Park, Building 7, Yoqneam 20692, Israel. Our telephone number is +972 4 993 6666. Our agent in the United States is MIND Software Inc. and its principal offices are located at 12211 Plum Orchard Drive, Suite 320, Silver Spring, MD 20904, USA.

Important Events in the Development of the Company

In 1997 we started the development and marketing of a real-time mediation and billing solution, mainly to the Internet protocol, or IP, prepaid markets, known as MIND-iPhonEX.

During 2005, we completed the acquisition of Sentori Inc., which is now named MIND Software Inc., a U.S. leading provider of customer care and billing solutions to rural wireless carriers and mobile virtual network operators, or MVNOs, mainly in the United States and the Caribbean. We have incorporated the Sentori functionality into the MIND-iPhonEX product line and brand the combined products under the MINDBill name. We plan to continue to support the Sentori product with new maintenance releases, as well as customization requests.

In October 2007, we acquired the U.K. based Omni Consulting Company Limited, (Abacus Billing). Omni, which is now named MIND Software Limited, provides billing and customer care software solutions in a service bureau mode, mainly to European carriers, using web-enabled daily reporting and billing. This company is based in the London metro area and has a strong methodology for its outsourced offering, which is supported by regulatory accreditations from the Office of Communication, or Ofcom, of the United Kingdom and from the German regulatory authority for telecommunications and postal services, known as Reg-TP.

Principal Capital Expenditures

During 2006, 2007 and 2008, the aggregate cash amounts of our capital expenditures was $0.4 million per each year. These expenditures were principally for the purchase of property and other equipment. Although we have no material commitments for capital expenditures, we anticipate an increase in capital expenditures if we decide to construct a building for our office in Romania or if we purchase or merge with companies or purchase assets in order to obtain complementary technology and to expand our product offerings, customer base and geographical presence.

B. Business Overview

Overview

We develop, manufacture and market real-time and off-line billing and customer care software for various types of communication providers, including traditional wireline and wireless, voice over IP, or VoIP, and broadband IP network operators, WiMAX operators, cable operators, 3G operators and mobile virtual network operators, or MVNOs.

Our convergent billing and customer care solution supports multiple services, including voice, data and content services as well as both prepaid and postpaid payment models in a single platform. Prepaid subscribers can enjoy the full range of services offered by the provider, with their special bundles, rating plans and limits. The prepaid solution authorizes each service and controls each session in real time, taking care that the balance is not exceeded. Postpaid subscribers, including credit-limited and non-limited, retail or business customers, represent the loyal and the higher average revenue per user, or ARPU, market. All services used by a postpaid subscriber appear in a single bill, which includes all charges, including one-time, recurring and usage-related charges. Our billing solution is unique as it includes our own integrated real-time mediation product that provides interfaces with IP, Intelligent Networks, or IN, and traditional telecommunication equipment.

The latest version of our billing and customer care solution includes a powerful workflow engine to support the creation and execution of business processes such as order management, trouble ticket and debt collection. It also includes an integral point of sale solution that covers all dealer, store and cashier management and sales processes. The MIND solution introduces multi-layered architecture supporting real-time distributed processing, achieving performance, scalability and high availability. It uses an open architecture, including Service Oriented Architecture (SOA) and Document Oriented Architecture (DOA), thus enabling fast and seamless integration with other systems and third party applications. The MIND solution is built using standardized best-of-breed object-oriented technologies such as Java and XML, and it is J2EE compatible as it is powered by a commercial application server.

We also provide professional services, primarily to our billing and customer care customers, consisting of installation, turnkey project implementation services, customer support, training and maintenance services, customization and project management. Our professional services also include enhanced support options, known as managed services, which are mainly offered to customers in the United States and Europe and are performed from our offices. These managed services include performing day to day billing operational tasks.

In addition to our billing and customer care solutions, we offer call management systems used by organizations for call accounting, telecom expense management, traffic analysis and fraud detection. Our enterprise software product has been installed in over 16,000 locations throughout the world, for traditional telephony, for IP switches and hybrid networks. Our latest product, PhonEX-ONE, delivers one unified solution for all voice communication expenses including traditional, IP and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites, it introduces full functionality through a web browser, based on Microsoft SQL database and enhanced by the advanced ASP.NET technology.

Our Market Opportunity

Billing and Customer Care Industry

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

From time to time, telecommunications service providers initiate searches for billing solutions to replace existing ones in order to offer additional services, reduce costs and improve service.

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

An additional market opportunity is the trend towards all-IP networks, offering multiple next generation services. New billing solutions are required to enable the new services, and we are well positioned to support this need. As a pioneer in VoIP billing since 1997, we have the experience and the solution portfolio that is proven to be capable of delivering these technically demanding projects for all-IP networks.

Mobile Market

The Sentori acquisition, with its existing mobile customer base, provided the required presence to build upon and enhance our position in the mobile market in the United States. With our combined product MINDBill we are able to offer convergent billing to the already existing customer base and to new GSM and CDMA operators.

A niche in the mobile market in which we see opportunities is rural mobile carriers. We have a number of such carriers as customers and we are focused on delivering solutions that address this particular market.

Voice over IP Industry

Many service providers are moving towards networks in which IP-based equipment will carry a large proportion, if not all, of their traffic. These next generation networks, or NGNs, offer cost savings over traditional switched networks, as well as the potential to offer new services like VoIP. We have a strong reputation in areas such as mediation and VoIP billing, and our products are designed to work with NGNs.

For service providers, Voice over IP presents an opportunity to generate revenue by offering additional services over the new broadband networks deployed. Voice over IP networks enable the deployment of most of the services customers receive over traditional networks at a much lower capital cost of infrastructure and reduced management cost of the network. As Voice over IP is distance independent, it allows service providers to offer competitive pricing, as only a small portion of the traffic, if any, terminates on traditional networks.

Providers of multiple IP-based services typically require billing and customer care products that can handle authentication, authorization and accounting needs in real-time in order to determine the types of services to which the subscriber is entitled, as well as any applicable limits to the availability of the services. This real-time functionality is particularly important for prepaid billing plans. Finally, billing and customer care software products need to be easily adaptable to changes in the size and configuration of an IP provider s system, to new products and services and to enable rapid growth in subscriber base. Our proven solutions cover all these needs, as described below.

Our Billing and Customer Care Solution

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

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

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

Scalability. Our billing solutions are designed to be easily adapted to changes in the size and configuration of a service provider s network. They enable the network of a service provider to grow from accommodating a small number of subscribers to a large number of subscribers, primarily through the addition of hardware. This feature allows a service provider to expand its infrastructure and its subscriber base without the need to redesign or replace its billing and customer care software. The scalability of our software is important since many service providers begin with a relatively small subscriber base and experience rapid growth. For example, we designed and provided a billing and customer care solution for China Unicom, which started offering Voice over IP services in 1999. When China Unicom first deployed our software in May 1999, it was capable of supporting one million users. Our software was upgraded to support five million users in November 1999, 20 million users in June 2000 and 30 million users in June 2001. Increases in the potential number of users have been, and future increases will be, accomplished without the need to modify or replace our installed software;

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

Our Strategy

Our objective is to be a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers and to maintain and increase profitability. We believe that the strategic acquisitions, of Sentori in August 2005 and of Omni Consulting in October 2007 strengthened our presence in the U.S. and European markets.

As we increase our focus on end-to-end billing solutions for tier 2 and tier 3 service providers, projects are now generally more complex in nature, with revenue recognized over longer periods. These factors typically extend the recognition period of both license and service revenue streams and have some balance sheet impacts. We consider this a normal and expected development for our business as it grows and matures. We have built a professional services team to support the growth in services offered to customers. Our long-term business model contemplates that licenses, maintenance and services will each represent 30-40% of revenues and gross margins will be 60-70%. The key elements of our strategy to become a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers include:

Leverage our brand name recognition and technical expertise. We were one of the first to provide billing and customer care software for IP telephony, introducing MIND-iPhonEX in 1997. We believe that our early position in the market and our reputation for offering high quality, reliable billing and customer care software has provided us with significant brand name recognition among Voice over IP providers. The acquired Sentori customer base, team and technology have provided us with significant brand name recognition in the U.S. mobile market. We intend to leverage our reputation, brand name and recognition in the wireline and wireless markets;

Enhance alliances with industry leaders. We have established cooperative relationships with leading manufacturers of telecommunications and hardware equipment and system integrators. We team with these industry leaders in marketing activities, as well as in the research and development and implementation stages of product development and enhancement. Our alliances allow us to broaden our marketing capabilities significantly, support new features offered by equipment vendors as these features are introduced to the market, and maintain our technology leadership over our competitors. We intend to continue to leverage these alliances in order to solidify and expand our market presence.

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

Expand professional services opportunities. As our projects are of larger scale and as convergent service offerings become more complex, our customers increasingly require consulting services, especially for customization, as well as for project management, installation and training, technical support and maintenance. This provides us with the opportunity to increase our revenue base from existing customers. We have begun to capitalize on this opportunity and, as a result, fees from providing professional services have increased; and

Expand offering through acquisitions. We evaluate acquisition opportunities based on our long-term policy of growing the scale of our business and enhancing our offering, through acquisitions, which will enhance shareholder value. Our active pursuit is for business lines that provide the majority of the following criteria: existing customer base, channels and partners, presence in complementary geographic areas or markets and proven complementary technology. We will pursue such an opportunity if we estimate that it will provide an additional step towards tier 2 market leadership o and that the acquisition will be accretive to our income within two or three quarters.

Our Products and Services

Billing and Customer Care Solutions

Our billing solutions include real-time and off-line mediation, provisioning, rating, billing and customer care products for voice, data, video and content services that meet the mission-critical needs of convergent IP, Wireline and Wireless service providers and is interoperable with the telecommunications equipment of major manufacturers.

Our highly functional and adaptable products enable our customers to quickly deploy new services as well as to rapidly grow and add new services. Our solutions support both prepaid billing plans, in which customers prepay for the services, or postpaid billing plans, in which customers pay for the services after using them, on the basis of either limited or unlimited credit lines. The key functionalities of our solutions are as follows:

Mediation. Our mediation platform provides real-time and batch event collection interfacing with the voice, content, data, service delivery and routing network elements. It incorporates an intelligent processing engine to correlate, aggregate, merge and filter raw events into a single valuable usage event;

Provisioning. Provisioning involves setting up the ability of a subscriber to use services. The customer database includes information regarding customers personal data, identification parameters and the services provided. This information can be provided in real time or on demand to any external system, such as network elements and legacy billing solutions. The data provided includes service parameters such as enabled features and quantitative limits;

Authentication. Our real-time mediation module authenticates subscribers who connect to the network to use the service. Authentication is based on a number of methods, including user codes, passwords and caller line identification. The identification information is passed to the system, where the subscriber is authenticated and then permitted to use the service;

Authorization. Our systems authorize a particular usage, among other ways, by reviewing the type of service to determine whether the service is permitted or by reviewing the existing balance, pre-rating the service, using the rating engine described below and calculating the resulting cut-off parameters, if any, of the call or data session. Multiple parallel sessions are supported using our Balance manager, implementing quota allocation logic;

Accounting. When each session is completed, the rating engine described below is used to determine the amount to be charged to the subscriber and update the balance of the account in real-time. In addition, the usage detail records are stored for invoicing and reporting;

Interconnect Billing. The networks operated by our customers are typically interconnected with the networks of other telecommunications service providers. Interconnecting providers need to charge other providers for carrying each other s services over their networks. Our billing solutions generate reports that enable providers to bill for traffic and services that are being transported across their networks by other providers;

Roaming. Our solutions support the ability to provide services to visiting subscribers, on the one hand, and to roam both prepaid and postpaid subscribers in other networks, on the other hand. Our billing system provides the ability to define and manage the required roaming contract terms and the applicable tariff plan (IOT) for each roaming partner;

Virtual Providers. MIND offers a solution that enables a carrier to have resellers of traffic under different brand names, while it is still managed from the same billing platform, as a separated entity known as Virtual Provider. This model enables the carriers that own the networks, to lease its network equipment and its billing system to other providers.

Multiple Services and Products Support. Our billing solutions allow service providers to take advantage of their convergent networks by providing their customers with advanced voice, data, content and video services. The MIND Product Catalog allows service providers to bundle groups of services into tailor-made packages for which they can offer special rates, discounts and promotions. There are different classes of customers with respect to the availability, bandwidth, and quality of service requirements for these services. Our billing solutions offer an easy way to define these services, combine them into products, and rate each service and product differently;

Rating. Our billing solutions include a real-time and flexible rating engine that allows service providers to offer subscribers a wide variety of billing plans. This flexibility also allows service providers to set different tariff parameters. For example, our billing and customer care software can support different rates for various content and video streaming services and for different customer groups, rates based on the day of the week and time of the day and rates based on the origin and destination of the call. International service providers may define rates in different currencies using the product s multi-currency functionality. An unlimited number of free-unit and money-bundle is supported. Voucher based payment models are supported;

Invoicing. Our billing solutions include a high-capacity invoice server that handles all stages of invoice generation. It supports multiple billing cycles and bill production on demand. The invoice includes the customer details and information, such as usage details, monthly recurring charges, discounts and taxes, which are gathered throughout the billing period. This module creates the original bills to be printed locally or exported to bill printing service bureaus, using a customizable invoice layout.

Account Receivables (A/R). MINDBill manages all A/R activities, monitors the A/R status online and ensures a continuous cash flow. Multiple payment methods are supported by the system: cash, cheque, credit and debit cards, vouchers and more. MINDBill includes a flexible open API for payments interfaces to banks and credit card clearing houses. MINDBill has pre-integrated interfaces with major financial institutions, banks, clearinghouses and credit bureaus. The A/R includes the management of deposits life cycle, including payments and refunds, is easily done. Disputes can be managed and solved, resulting in the appropriate adjustments. MINDBill identifies the ageing debt for every open invoice according to the company policy for classifying to 30-60-90 days and initiating the built in debt collection process.

Collection procedures. The MINDBill collection facility provides flexibility in defining the collection policy using different collection paths. The solution provides full monitoring and control of the collection treatment (dunning process). It identifies customers with past due debts and ensures that they are handled in accordance with the company policy. This increases efficiency through the automation of the majority of the collection functions, and helps maximizing the success ratio. Automating the collection process utilizing the built in work flow engine enables operators to monitor the account receivables and ensure the collection of the entire revenue. All of this is achieved with operational efficiency streamlining the business processes that is fully integrated within the customer suit.

Subscriber Web Interface. Our billing solutions include a user-friendly subscriber web interface that allows subscribers to resolve billing inquiries themselves. Individual customers can obtain real time information about their account, including details of calls made that have not yet been invoiced, like the time, destination, length and cost of each call. The subscriber can also browse invoices, call details and payment history records. This feature is convenient for subscribers and efficient for service providers as it reduces service costs;

Customer Support Representative Web Interface. Our billing solutions include a user-friendly customer support representative web interface that allows operators of the system to perform customer care from any location. This feature is of particular significance to service providers who have remote operations centers and are required to provide support of their system in more than one location;

Point of Sale (POS). The POS is aimed mostly at the wireless retail market, enabling operators to offer their products and services in retail stores and manage the process within our enhanced solutions. POS is fully integrated into MIND Billing and Customer Care solutions, allowing operators to seamlessly offer services and accessories for new and existing customers and even to non-subscribers. POS integrates with external systems, such as credit card clearinghouses, external taxation engines and address validation systems. POS includes two modules working together:

Resource Management Module a comprehensive inventory system that supports the operator s chain of warehouses as well as his stores. It automates the management and tracking of the equipment sold to subscribers. The solution keeps track and manages the equipment by serial number, status, and location, providing the flow management from purchase orders, through the reception of the items shipped, the distribution of the items to the stores and the allocation of the items to the customers. It also supports inventory management functions such as on-hand-counts and catalogue management.

Sales Module an easy to use cashier station that supports all service activations, phone and accessory sales through one interface on a single receipt. The Sales module enables all payment methods such as cash, check and credit card. It provides full control of the cashier devices such as cash drawer, credit card swipe, bar code reader and ribbon printer. Sales module interacts with the Resource Management module to show the sales clerk available items for sale in the store warehouse, to assign sold items to customer accounts and to enable track of items, such as returns and repairs.

Business Processes Environment. Customer care and billing processes are one of the most significant practices to drive business performance. These processes are fundamental for bringing innovative and competitive ways of delivering products and services to market. MIND s automated business processes engine allows operators to meet the challenges they confront in today s business environment. The business processes workflow implemented by the engine provides business intelligence behind day-to-day operations. The engine also automates the interaction with network elements and third party software. This is done in accordance with a uniquely defined set of business rules determined by the customer. MIND is offering in its deployments tailored, fully automated, order management processes, trouble tickets and debt collection processes.

The flexible and robust account creation order management process handles the orders from the customer s contact, through registration, package selection, provisioning and activation. The order management process involves different users from various departments (such as supervisor approval of the contract and technician test), integration with external legacy systems (such as inventory), interaction with third party services (such as address validation) and more. MINDBill uses its inherent workflow capabilities to tailor an order management process that meets the operator s business model;

Call Management and Traffic Analysis Reports (CMS module). The CMS module allows service providers to generate reports and graphic analyses of usage activity. These reports contain information regarding peak hours, usage loads to different destinations, the number of sessions per minute for a specific gateway or group of gateways, the duration of sessions and other parameters. These features enable service providers to analyze subscriber behavior and use the information to improve their marketing and business development strategies. In addition, the traffic analyses reports assist service providers in planning the growth and development of their networks;

25

Fraud Detection. Our billing solutions include a fraud detection tool that enables detection of stolen calls and telephone misuse. It detects, locates and warns of any suspicious activity by activating alarms. It is easily customized to suit the needs of each service provider and allows a provider to build fraud inquiries based on a defined set of parameters. When these specific parameters are violated, alarms at four different alarm levels may be activated. Different actions may be implemented at each level. For instance, the operator may be alerted to possible fraud via e-mail, fax, pager, audio or visual alarms;

Enterprise Software

Our enterprise products, known as PhonEX, MEIPS (our solution for IP switches) and PhonEX-ONE, are used by corporations for telecom expense management, call accounting, traffic analysis and fraud detection. PhonEX and MEIPS are call management systems that collect, record and store all call information in a customized database. The systems:

- allow customers to generate near real-time reports on the enterprise's telephone use;
- produce sophisticated reports and graphics for easy and effective analysis of call activity; and
- allow customers to allocate telephone expenses to specific departments, individual clients or projects.

These functions allow organizations to more effectively manage their telecommunications resources. The systems are easy to install and configure, user-friendly and compatible with any switchboard system, traditional or IP. The systems perform call management and traffic analysis as well as fraud management in the same manner as our billing solutions. In addition, the systems are multi-lingual and multi-currency, which means that reports can be generated in any currency defined in the system, or in two currencies simultaneously.

PhonEX-ONE, delivers one unified solution for management of all telecom expenses, including traditional voice, IP voice and data, and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites. PhonEX-ONE provides tools to monitor, budget and manage voice traffic in order to achieve maximum control over telecommunication expenses. Some of its major advantages are:

Fully web based solution. The PhonEX-ONE fully web-based solution enables managers and users to conveniently access their telecom expenses management system anytime and from anywhere, using a web browser without decreasing their control over the traffic;

User centric. The PhonEX-ONE user-centric architecture provides a consolidated solution for the collection, analysis, reporting, and managing of all the telecommunication and data traffic expenses;

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

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

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

Certification by IP switch vendors. PhonEX-ONE is interoperable and certified on a timely manner with new releases of IP switch vendors, including Cisco, 3 COM and Avaya;

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

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

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

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

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

Professional Services

We provide professional services to our customers, consisting primarily of project management, customization, installations, customer support, training and maintenance services. As our projects become more complex, more customers require customization services to add specialized features to their systems. We typically incorporate additional or specialized features developed for a particular customer into future versions of our products. We also offer enhanced support options, called managed services, which are mainly offered to customers in the United States and Europe and are performed from our offices. The managed services include performing day to day billing operational tasks. The managed services contracts are usually for a term of three to five years and are paid on a monthly basis.

Technology

Our software products are based on an open architecture, which was developed using industry standard application server programming interfaces that enables it to readily integrate with other software applications. These application program interfaces create an object-oriented, multi-layered architecture that supports a distributed environment. Our object-oriented technology enables the design and implementation of software utilizing reusable business objects rather than complex procedural codes. Our layered architecture organizes these business objects to optimize the interface between the user and the application. We implement our software in a distributed configuration. This allows various modules to be installed on different servers to support the system s scalability and security. We believe that our technology allows us to offer products with the following benefits:

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

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

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

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

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

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

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

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

Sales and Marketing

Sales

Billing and Customer Care Solutions

We conduct our sales and marketing activities primarily directly as well as through our marketing alliances with leading network equipment vendors and systems integrators. These marketing allies and resellers provide us with a global extension of our direct sales force and are a significant source of leads and referrals. We also engage in joint marketing activities with our allies, including joint responses to requests for proposals, sharing booths in trade shows, distributing each others marketing information and cross links and references to web sites. We believe that these relationships also help validate our technology and facilitate broad market acceptance of our software.

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

Enterprise Software

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

Marketing

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

participating in industry trade shows and special events;

conducting ongoing public and press relations programs; and

conducting training seminars for vendors and system integrators.

Principal Markets

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

	Years ended December 31, (in thousands of US $)		
	2006	2007	2008
The Americas (total)	9,643	7,779	7,874
Sale of Licenses	4,854	2,647	2,859
Services	4,789	5,132	5,015
Asia Pacific and Africa (total)	1,619	1,409	777
Sale of Licenses	575	579	261
Services	1,044	830	516
Europe (total)	7,693	7,975	9,861
Sale of Licenses	2,769	2,349	2,867
Services	4,924	5,626	6,994
Israel (total)	1,105	1,284	961
Sale of Licenses	269	328	204
Services	836	956	757
Total	20,060	18,447	19,473
Sale of Licenses	8,467	5,903	6,191
Services	11,593	12,544	13,282

Customers

Billing and Customer Care Solutions

We currently provide traditional telecommunications service providers, Internet telephony service providers and Internet service providers with our billing and customer care software. MINDBill, MIND-iPhonEX, VeraBill, Abacus and the Sentori product line have been installed for a large base of customers worldwide, including:

traditional telecommunications service providers that also offer IP services including VoIP or/and data, such as China United Telecommunications Corp. (China Unicom), Romtelecom S.A., Singapore Telecommunications Limited (SingTel), Sri Lanka

Telecom, Telecom Colombia, and VTI;

traditional wireline telephony providers, such as Moldtelecom, and Telefonia Bonairiano;

wireless telephony providers, such as KDDI America, Inc., Mobi PCS, Inc., Pocket Communications, and Revol;

3rd generation (3G) mobile operators that provide broadband mobile IP services, such as H3G Italy; and

MVNOs, such as Viaero.

Enterprise Software

Our enterprise software has been installed at over 16,000 locations throughout the world, for customers that include international banking firms, government agencies and other small to very large organizations.

Competition

Billing and Customer Care Solutions

Competition in the market for billing and customer care software is intense and we expect competition to continue to be strong. We compete with many local companies and worldwide companies such as Comverse (after the acquisition of the Global Software Services division of CSG Systems International by Comverse), Oracle Corporation (after the acquisition of Portal Software by Oracle) and Convergys Corporation (after the acquisition of Geneva Technology by Convergys).

We believe that our competitive advantage is based on:

our ability to rapidly deploy a complete turn-key product based solution;

our solutions' functionality, which includes billing, customer care, mediation, provisioning, rating for multiple services and prepaid IP functionality;

our proven platform and our many years of wireless and IP experience to satisfy customer requirements; and

our flexibility to meet customer requirements in a short time frame.

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

Enterprise Software

Our main competitors in the market for enterprise software products include Avotus Corporation and Veramark Technologies, Inc. To compete effectively, companies must be able to offer adequate technical support and ongoing product development and customization services. In addition, multinational companies prefer call accounting systems that can be installed at their various offices throughout the world, and therefore require call accounting products that are multilingual and support the local telecommunication requirements. The principal factors upon which we compete are customer support, ease of use, compatibility with major switchboard systems and IP switches and the multi-lingual and multi-currency nature of our system.

Israeli Office of the Chief Scientist

Under the Israeli Law for the Encouragement of Industrial Research and Development, 1984, or the Research and Development Law, research and development programs which meet specified criteria and are approved by the Office of the Chief Scientist are eligible for grants of up to 50% of certain approved expenditures, in exchange for the payment of royalties from the sale of products (and any ancillary services) incorporating or based upon know-how developed in accordance with such programs, until the repayment in full of the dollar linked amount of the grants received. We have received grants in the past from the Office of the Chief Scientist and have repaid them.

Even after repayment in full of royalty obligations, the Research and Development Law and prohibits the transfer of the funded know-how outside of Israel without the prior approval of the Office of the Chief Scientist. Further, the Research and Development Law generally requires that the manufacture of products incorporating or based upon funded know-how be performed in Israel.

The Research and Development Law contains reporting requirements with respect to certain changes in the ownership of a grant recipient. The Research and Development Law requires the grant recipient and its controlling shareholders and interested parties to notify the Office of the Chief Scientist of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the Office of the Chief Scientist to comply with the provisions of the Research and Development Law. For this purpose, control is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. Means of control refers to voting rights and the right to appoint directors or the chief executive officer. An interested party of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires directly 5% or more of our ordinary shares will be required to notify the Office of the Chief Scientist that it has become an interested party and to sign an undertaking to comply with the Research and Development Law.

C. Organizational Structure

Set forth below is a list of our significant subsidiaries:

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

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

MIND Software SRL., a wholly owned subsidiary, incorporated in Romania; and

Dirot Comp SRL., a wholly owned subsidiary, incorporated in Romania.

D. Property, Plant and Equipment

Our headquarters are located in Yoqneam, Israel, approximately 50 miles north of Tel Aviv. We lease approximately 16,000 square feet at our Yoqneam headquarters. We also lease 10,593 square feet of office space in Silver Spring, Maryland, approximately 4,000 square feet in Reading, U.K. and 21,500 square feet in Jassy, Romania. The office in Maryland is used primarily for supporting our customers in the United States, while the office in Jassy is used primarily for software development and for customer support. The office in Maryland is the group s headquarters in the Americas.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis is based on and should be read in conjunction with our consolidated financial statements and the related notes thereto, which are incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009.

Overview

We were incorporated in Israel in 1995 and started providing our enterprise software products in that year. In 1997, we introduced our billing and customer care software for Voice over IP. We have enhanced our billing solutions since then to support multiple IP services, wireless and wireline carriers and multiple play (voice, data and content) service providers. In 2008, 83.5% of our revenues were derived from providing our billing and customer care software and 16.5% were derived from providing our enterprise software. In 2008, license fees represented 32% of our revenues and services represented 68%. In 2006, no customer accounted for 10% or more of our total revenues. In 2007, one customer accounted for approximately 10% of total revenues. In 2008, no customer accounted for 10% or more of our total revenues. We expect to continue to derive sizeable revenues from a small number of changing customers.

In August 2005, we acquired Sentori Inc., a leading provider of billing and customer care solutions to tier 3 and tier 2 wireless carriers and mobile virtual network operators, or MVNOs, mainly in the United States and the Caribbean. In October 2007, we acquired the U.K.-based Omni Consulting Company Limited, which provides billing and customer care software solutions in a service bureau mode, mainly to European carriers. We evaluate acquisition opportunities based on our long-term policy of growing the scale of our business and enhancing our offering through acquisitions that are expected to enhance shareholder value.

32

In 2006, we experienced significant growth in revenue over 2005 driven primarily by our acquisition of Sentori in the third quarter of 2005, which strengthened our presence in the United States and in the mobile market generally. In 2007, we experienced a decrease in revenue driven primarily by changes to our business model, from short-term license deals to larger and more complex, long-term managed services agreements. As anticipated, this change resulted in revenue recognition of the majority of our licenses sold after 2006 over the length of three- to five-year periods, as opposed to revenue recognition at delivery in past years. We consider this a normal and expected development for our business as it grows and matures. In 2008, we experienced growth in revenue over 2007 driven by the acquisition of Omni Consulting Company Limited in the fourth quarter of 2007, which strengthened our presence in the United Kingdom.

In 2007, we recorded a $15.2 million impairment charge with respect to our holding of an auction rate security in the principal amount of $20.3 million. In 2008, we recorded an additional $4.2 million impairment charge with respect to this security. See below under Item 5.B Liquidity and Capital Resources and Item 11 Quantitative and Qualitative Disclosures About Market Risk for more information.

In July 2003, we adopted a dividend policy, according to which we declare, subject to specific board approval and applicable law, a dividend distribution once per year, in the amount of our net income from the previous year. Additionally the board approved dividend distributions in 2003, 2007, and 2008 that were subject to approvals from an Israeli Court in accordance with Section 303 of the Israeli Companies Law due to the fact that we did not have sufficient retained earnings. Since 2003 the Company distributed cash dividends of approximately $1.05 per share to its shareholders: $0.14 per share in 2003, $0.13 per share in 2004, $0.24 per share in 2005, $0.14 per share in 2006, $0.20 per share in 2007 and $0.20 per share in 2008. The board decision to approve the annual distribution is based, among other factors, on our cash position at that time, potential acquisitions and future cash needs. The board may decide to discontinue the dividend distribution in whole or in part at any time.

In September 2008, our Board of Directors authorized a plan for the repurchase of up to 2,100,000 of our ordinary shares in the open market, in an amount in cash of up to $2.8 million. As of December 31, 2008, we had repurchased 2,100,000 ordinary shares under the program at a total purchase price of approximately $1.6 million, after getting an approval by an Israeli court in accordance to the Israeli Companies Law. In February 2009, our Board of Directors authorized additional repurchase transactions of our shares in the total amount of $1.2 million pursuant to the 2008 repurchase plan. As of June 1, 2009, we have purchased an aggregate amount of 2,383,337 ordinary shares under the 2008 and 2009 programs at a total purchase price of approximately $1.8 million.

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

33

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

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

Cost of Revenues. The cost of revenues consists primarily of direct labor costs and overhead expenses related to software installation and maintenance. Cost of revenues also includes, among other things, software license fees to third parties, primarily Oracle, hardware, amortization of intangible assets, packaging and shipping costs. Our cost of professional services revenues consists primarily of direct labor costs and travel expenses. Our revenues from the sale of our licenses have a higher gross margin than that from providing our professional services. We incur variable direct labor costs when we provide professional services. There is no comparable variable direct labor cost incurred when we license our software.

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

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

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

Financial Income (Expenses), Net. Our financial income (expenses), net consists of impairment of auction rate securities and of other financial income (expenses), primarily interest earned on bank deposits and long term investments, gains and losses from the conversion of monetary balance sheet items denominated in non-dollar currencies into U.S. dollars, net of financing costs, loss from withdrawal of long-term bank deposits and bank charges in real terms as well as the devaluation of monetary assets and monetary liabilities.

Taxes on Income. Israeli companies are generally subject to income tax at the corporate tax rate of 27% for the 2008 tax year. Following an amendment to the Israeli Income Tax Ordinance that came into effect on January 1, 2006, the corporate tax rate has decreased to 26% for the 2009 tax year and is expected to decrease to 25% for the 2010 tax year and thereafter. Israeli Companies are generally subject to capital gains tax at a rate of 25% for capital gains, other than gains deriving from the sale of listed securities, derived after January 1, 2003. Substantially all of our facilities, however, have been granted approved enterprise status under the Law for the Encouragement of Capital Investments, 1959. Income derived from the approved enterprise is tax exempt for a period of ten years commencing in the first year in which we earn taxable income from the approved enterprise, since we have elected the alternative benefits route (involving a waiver of investment grants) and our approved enterprises are located in a preferred geographic location. In the event of distribution of cash dividends from income that was tax exempt, we would have to pay up to 25% tax in respect of the amount distributed. In February 2007, we finalized tax assessments for the tax years 2003 to 2005, which resulted in additional tax expenses in 2006 of approximately $1.5 million.

34

A. Operating Results

The following discussion of our results of operations for 2006, 2007 and 2008, including the percentage data in the following table, is based upon our statements of operations contained in our financial statements for those periods, and the related notes thereto, which are incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009:

	Years ended December 31,		
	2006	2007	2008
Revenues	100.0%	100.0%	100.0%
Cost of revenues	28.3	31.4	29.7
Gross profit	71.7	68.6	70.3
Research and development expenses	30.5	31.0	31.8
Selling, general and administrative expenses:			
Selling and marketing expenses	18.1	20.8	19.5
General and administrative expenses	10.6	10.0	11.9
Impairment of goodwill and intangible asset			18.9
Operating income (loss)	12.5	6.8	(11.8)
Financial income (expenses) - net	(1.1)	(71.0)	(18.5)
Income (loss) before taxes on income	11.4	(64.2)	(30.3)
Taxes on income	(6.8)	(0.6)	(2.7)
Net income (loss)	4.6	(64.8)	(33.0)

35

Comparison of 2006, 2007 and 2008

Revenues

	Years ended December 31, ($ in millions)				
	2006	2007	2008	% Change 2007 vs. 2006	% Change 2008 vs. 2007
License sales	8.5	5.9	6.2	(30.6)	5.1
Professional services	11.6	12.5	13.3	7.8	6.4
Total revenues	20.1	18.4	19.5	(8.5)	6.0

Revenues in 2007 decreased in comparison to 2006 by 8.5%, partly due to the business model shift towards more managed services deals, in which revenue is spread over a few years. Revenues in 2008 increased in comparison to 2007 by 6.0%, driven by the acquisition of Omni, which strengthened our presence in the United Kingdom. Revenues from our billing and customer care product solutions for service providers decreased from $17.2 million in 2006 to $15.4 million in 2007 and increased to $16.3 million in 2008. Revenues from our enterprise products increased from $2.9 million in 2006 to $3.1 million in 2007, and increased to $3.2 million in 2008.

Revenues from professional services as a percentage of total revenues increased from 58% in 2006 to 68% in 2007 as a result of continued growth in professional services, coupled with a decrease in license sales. In 2008, revenues from professional services remained 68% of total revenue.

The following table presents the geographic distribution of our revenues:

	Years ended December 31,		
	2006	2007	2008
The Americas	48.1%	42.2%	40.5%
Asia Pacific and Africa	8.1	7.6	4.0
Europe	38.3	43.2	50.6
Israel	5.5	7.0	4.9
Total	100.0%	100.0%	100.0%

Our sales in the Americas as a percentage of total sales decreased from 48.1% in 2006 to 42.2% in 2007 and further decreased to 40.5% in 2008. Our sales in Europe as a percentage of revenue increased from 38.3% in 2006 to 43.2% in 2007, and to 50.6% in 2008. The increase was primarily the result of the acquisition of Omni Consulting in the United Kingdom in October of 2007.

36

Cost of Revenues

	Years ended December 31, ($ in millions)				
	2006	2007	2008	% Change 2007 vs. 2006	% Change 2008 vs. 2007
Total cost of revenues	5.7	5.8	5.8	1.8	0.0

The increase in our cost of revenues in 2007 was primarily due to the increase in our revenues from professional services (as explained above) and due to the continued increase in employee payroll costs, driven by an increase in the cost of employment per employee as well as an increase in the total number of employees engaged in support and maintenance. Cost of revenues was unchanged in 2008.

Gross profit as a percentage of revenues decreased from 71.7% in 2006 to 68.6% in 2007, due to the increase in our revenues from professional services as a percentage of total revenues. In 2008, gross profit increased to 70.3% of revenue.

Operating Expenses

	Years ended December 31, ($ in millions)				
	2006	2007	2008	% Change 2007 vs. 2006	% Change 2008 vs. 2007
Research and development	6.1	5.7	6.2	(6.6)	8.8
Selling and marketing	3.6	3.8	3.8	5.6	0.0
General and administrative	2.1	1.8	2.3	(14.3)	27.8
Impairment of goodwill and another intangible asset	-	-	3.7	-	NA
Total operating expenses	11.8	11.3	16.0	(4.2)	41.6

Research and Development. We make substantial investment in research and development to maintain our advanced technology and add functionality to our products. The decrease in our research and development expenses in 2007 by 6.6% was primarily due to a decrease in outsourcing cost. Research and development expenses increased in 2008 by 8.8% primarily due to an increase in the cost attributable to payroll and related expenses of our employees engaged in research and development resulting from an increase in the salary per employee and an increase in the total number of employees engaged in research and development. The increase was partially offset by deferred charges. Research and development expenses as a percentage of revenues slightly increased from 30.5% in 2006 to 31.0% in 2007 and to 31.8% in 2008 due to a decrease in revenue in excess of the decrease of research and development expenses in 2007 and an increase in research and development expenses in 2008 in excess of the increase in revenue.

37

Selling and Marketing Expenses. Selling and marketing expenses slightly increased from $3.6 million in 2006 to $3.8 million in 2007 due to an increase of our global sales team, and remained roughly the same in 2008. Selling and marketing expenses as a percentage of revenues increased from 18.1% in 2006 to 20.8% in 2007 due to the decrease in revenue, and decreased to 19.5% in 2008 due to the increase in revenue.

General and Administrative Expenses. General and administrative expenses decreased from $2.1 million in 2006 to $1.8 million in 2007 and increased to $2.3 million in 2008. The increase between 2007 and 2008 was primarily due to the acquisition of Omni and to an increase in professional services expenses, mainly legal.

Impairment of Goodwill and another Intangible Asset. During 2008, following impairment tests for the value of goodwill and other intangible assets, we recorded an impairment charge of $3.7 million, out of which $2.3 million relate to Omni s acquisition and $1.4 million relate to Sentori s acquisition.

Financial Expenses. Financial expenses increased from $0.2 million in 2006 to $13.1 million in 2007 primarily due to the other-than-temporary impairment in the value of our holding in auction rate securities investment in the amount of $15.2 million offset mainly by financial income from interest. In 2008, financial expenses were $3.6 million due to an impairment of auction rate securities in the amount of $4.2 million offset mainly by financial income from interest that was lower than in 2007 due to lower global interest rates. See Item 5.B Liquidity and Capital Resources and Item 11 Quantitative and Qualitative Disclosures About Market Risk for more information.

Corporate Tax Rate

The general corporate tax rate in Israel is 31% for the 2006 tax year, 29% for the 2007 tax year and 27% for the 2008 tax year. Following an amendment to the Israeli Income Tax Ordinance that came into effect on January 1, 2006, the corporate tax rate decreased to 26% for the 2009 tax year and is expected to decrease to 25% for the 2010 tax year and thereafter. However, Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains, other than gains deriving from the sale of listed securities, derived after January 1, 2003. Our expected effective tax rate, however, was 3% in 2006 (before taking in consideration the one-time tax expenses in 2006 resulting from the finalization of the tax assessment for tax years 2003 to 2005), 2% in 2007, and 2% in 2008. We experienced the lower expected effective tax rates in 2006, 2007 and 2008 primarily because of tax reductions to which we are entitled under Israel s Law for Encouragement of Capital Investments, 1959. We cannot assure you that such tax benefits will be available for us in the future at their current levels or at all. In February 2007 we finalized tax assessments for the tax years 2003 to 2005 which resulted in an additional tax expense in 2006 of approximately $1.5 million. We cannot assure you that the low effective tax rates in 2006, 2007 and 2008 will be available for us in the future. For more information about the taxes to which we are subject, see above under the caption Overview Taxes on Income and below under Item 10.E Taxation.

Critical Accounting Policies

To improve understanding of our financial statements, it is important to obtain some degree of familiarity with our critical or principal accounting policies. These policies are described in note 1 to the consolidated financial statements, which are incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009. We review our accounting policies annually to ensure that the financial statements developed, in part, on the basis of these accounting policies provide complete, accurate and transparent information concerning the financial condition of our company. As part of this process, we reviewed the selection and application of our critical accounting policies and financial disclosures as of December 31, 2008, and we believe that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of our company as of that date.

38

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

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

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

Revenue Recognition. We apply the provisions of Statement of Position 97-2 of the American Institute of Certified Public Accounts (SOP 97-2), Software Revenue Recognition and Statement of Position 81-1 (SOP 81-1) Accounting for performance of construction type and certain production type contracts , as follows:

i) *Sales of licenses*: Revenue from sale of products is recognized when delivery has occurred, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection is probable. Customization of the product, if any, is performed before delivery occurs. If collection is not considered probable, revenue is recognized when the fee is collected.

We generally do not grant a right of return on products sold to customers, distributors and resellers. In the event the right of return is granted, revenue is recognized after such right has expired.

ii) *Services*: The services we provide consist of implementation, training, hardware installation, maintenance, support, managed services and project management.

All services except managed services are priced on a fixed price basis and are recognized ratably over the period in which the services are provided except services which are recognized under the percentage-of-completion method as described below.

39

Products are mainly supplied with maintenance for a period of one year from delivery. When revenue on sale of the products is recognized, we defer a portion of the sales price and recognize it as maintenance and support service revenue ratably over the above period. The portion of the sales price that is deferred is determined based on the fair value of the service as priced in transactions in which we render solely maintenance and support services.

Where the services are considered essential to the functionality of the software products, both the software product revenue and the revenue related to the integration and implementation services are recognized under the percentage-of-completion method in accordance with SOP 81-1. We generally determine the percentage-of-completion by comparing the labor performed to date to the estimated total labor required to complete the project. When the estimate indicates that a loss will be incurred, such loss is recorded in the period identified. Significant judgments and estimates are involved in determining the percent complete of each contract. Different assumptions could yield materially different results.

iii) *Managed Services*: Revenues from managed services include a monthly fee for services and for right of use and are recorded as service revenues and license revenues, respectively. The monthly fee is based mainly on the number of subscribers or customer s business volume and the agreements include a minimum monthly charge. These revenues are recognized on a monthly basis. Where customization services are sold together with a managed services contract, and vendor specific objective evidence of fair value for the managed services portion cannot be determined, the customization sales price is being deferred and is recognized over the entire contract term, commencing the deployment finalization. Accordingly, the expenses accrued during the implementation and customization period are deferred and presented in our balance sheet as deferred charges, net.

Provision for Doubtful Accounts. The provision for doubtful accounts is for estimated losses resulting from the inability of our customers to make required payments. We regularly evaluate the adequacy of this provision by taking into account variables such as past experience, age of the receivable balance, and current economic conditions that may affect a customer s ability to pay. The use of different estimates or assumptions could produce different provision balances. If collection is not probable at the time the transaction is consummated, we do not recognize revenue until cash collection. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for doubtful accounts may be required.

Long-term Investment. We account for our investment in auction rate securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and in accordance with SFAS No. 157, *Fair Value Measurements*. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, as set forth below, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on unobservable inputs which are supported by little or no market activity and significant to the overall fair value measurement.

As of December 31, 2008, our investment in auction rate securities is reported at fair value under Level 3 of fair value hierarchy provisions of SFAS No. 157. Due to the lack of availability of observable market quotes on our investment in auction rate securities, the fair value was estimated by Houlihan Smith & Company, an investment advisor, based on a valuation model. The investment advisor s model considered the structure of the security, the quality of the collateral and the default risks, and the liquidity determinants affecting the security.

Declines in fair value that are considered other-than-temporary are charged to earnings and those that are considered temporary are reported as a component of other comprehensive income in stockholders equity. We have concluded that the decline in value of our auction rate securities was other-than-temporary and recorded an impairment charge of $4.2 million for the year ended December 31, 2008. The valuation of our investment is subject to uncertainties that are difficult to predict. Factors that may impact valuation include changes to credit ratings of the securities as well as the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral values, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity. The estimated market value of our holding in auction rate securities at December 31, 2008 was approximately $0.9 million and at June 1, 2009 was approximately $55,000. This will likely require another impairment charge in the second quarter of 2009.

The credit and capital markets have continued to be uncertain in 2009. If uncertainties in these markets continue, these markets deteriorate further or the securities we hold are further downgraded, we may incur additional impairments to our investment portfolio.

Impairment of Goodwill and Other Intangible Assets. We test our goodwill for impairment using a fair value approach at the reporting unit level, on an annual basis, or more frequently if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The goodwill impairment test is a two-step test. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, we must perform the second step in order to determine the implied fair value of the reporting unit s goodwill and compare it to the carrying value of the reporting unit s goodwill. The activities in the second step include valuing the tangible and intangible assets and liabilities of the impaired reporting unit based on their fair value and determining the fair value of the impaired reporting unit s goodwill based upon the residual of the summed identified tangible and intangible assets and liabilities.

In performing our impairment tests related to goodwill, we determine the fair value of our reporting units using the discounted cash flow approach. The discounted cash flow approach uses a reporting unit s projections of estimated operating results and cash flows and applies a weighted-average cost of capital that reflects current market conditions. The evaluation of goodwill requires us to use significant judgments and estimates, including but not limited to projected future revenues and expenses, changes in operating margins, cash flows, and estimates of future capital expenditures. Our estimates may differ from actual results due to, among other things, economic conditions, changes to our business model, or changes in operating performance. Significant differences between these estimates and actual results could result in future impairment charges and could materially affect our future financial results.

Taxes on Income.

Substantially all of our production facilities in Israel have been granted Approved Enterprise status under the Law for the Encouragement of Capital Investments, 1959. Income we have derived from the Approved Enterprise is tax exempt. In the event of distribution of cash dividends from tax-exempt income, we are required to pay up to 25% tax in respect of the amount distributed. For more information about Approved Enterprises, see Item 10.E Taxation Law for the Encouragement of Capital Investments, 1959 and Note 9 to our financial statements, which are incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009.

In previous years, we did not provide for deferred taxes because we intended to reinvest the amounts of all such income and not to distribute dividends from such income. Commencing 2003, we changed our policy with regard to distribution of dividends out of earnings derived from tax-exempt income.

Due to the accumulated tax losses and since we do not have approved enterprise taxable income, no additional tax liability will be incurred by us as a result of dividend distribution from the balance of undistributed income.

Recently Issued Accounting Pronouncements.

Recently issued accounting pronouncements are described in note 1 paragraph to the consolidated financial statements, which are incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on March 9, 2009.

Our Functional Currency

The currency of the primary economic environment in which we operate is the U.S. dollar with the exception of our U.K. subsidiary. In 2008, approximately 95% of our revenues were derived from sales outside Israel, the majority of which were denominated in U.S. dollars. In addition, most of our marketing costs are incurred outside Israel, primarily in U.S. dollars. Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Balances in non-dollar currencies are remeasured into U.S. dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items reflected in our income statements, the following exchange rates are used:

- for transactions, exchange rates at the transaction dates or average rates; and
- for other items (derived from non-monetary balance sheet items such as depreciation and amortization or similar items), historical exchange rates.

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

The functional currency of our U.K. subsidiary is the Great British Pound. We consolidate this subsidiary s financial results into our financial statements, based on translation into U.S. dollars in accordance with Statement of Financial Accounting Standards (FAS) 52 of the Financial Accounting Standards Board of the United States (FASB). Assets and liabilities are translated at year-end exchange rates, while operating results items are translated at periodically average exchange rates during the year. Differences resulting from translation are presented in shareholders equity.

Impact of Foreign Currency Fluctuations on Results of Operations

The U.S. dollar cost of our operations is influenced by the extent to which any inflation in Israel is offset, on a lagging basis, or is not offset by the devaluation of the NIS in relation to the U.S. dollar. When the rate of inflation in Israel exceeds the rate of devaluation of the NIS against the U.S. dollar, companies experience increases in the U.S. dollar cost of their operations in Israel. Unless offset by a devaluation of the NIS against the U.S. dollar, inflation in Israel or weakening of the U.S. dollar in global markets will have a negative effect on our profitability as we receive payment in U.S. dollars for most of our sales while we incur a portion of our expenses, principally salaries and related personnel expenses, in NIS.

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

Years ended December 31,	Israeli Inflation Rate	Israeli Devaluation Rate	Israel Inflation Adjusted for Devaluation
2004	1.2	(1.6)	2.8
2005	2.4	6.8	(4.4)
2006	(0.1)	(8.2)	8.1
2007	3.4	(9.0)	12.4
2008	3.8	(1.1)	4.9

We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of the devaluation lags behind inflation in Israel.

A devaluation of the NIS in relation to the U.S. dollar has the effect of reducing the U.S. dollar amount of any of our expenses or liabilities which are payable in NIS, unless these expenses or payables are linked to the U.S. dollar. This devaluation also has the effect of decreasing the U.S. dollar value of any asset, which consists of NIS or receivables payable in NIS, unless the receivables are linked to the U.S. dollar. Conversely, any increase in the value of the NIS in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked NIS assets and the U.S. dollar amounts of any unlinked NIS liabilities and expenses. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

B. Liquidity and Capital Resources

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

As of December 31, 2008, we had approximately $9.7 million in cash and cash equivalents and $0.9 million in long-term investment, and our working capital was $9.7 million. In our opinion, our working capital is sufficient for our requirements for the foreseeable future.

Net Cash Provided by/Used in Operating Activities. Net cash provided by operating activities in 2006 was $0.6 million, attributable to our net income of $0.9 million and non-cash related items, net, in the amount of $1.6 million, offset by a net increase in operating assets and liabilities items in the amount of $1.9 million. Net cash provided by operating activities in 2007 was $4.7 million, attributable to our net loss of $11.9 million and non-cash related items, net, in the amount of $16.5 million, and to a net decrease in operating assets and liabilities items in the amount of $0.1 million. Net cash provided by operating activities in 2008 was $4.1 million, attributable to our net loss of $6.4 million and non-cash related items, net, in the amount of $9.5 million, and to a net decrease in operating assets and liabilities items in the amount of $1.0 million.

Cash Deposits. In March 2002, we deposited most of our cash in structured, callable time deposits. Under the arrangements with the banks, whether or not the deposits bore interest depended upon the prevailing U.S. dollar LIBOR rate. Interest was payable in respect of days during which the rate was within a certain range and no interest was payable in respect of days during which it exceeded the range. Until May 2005, we achieved relatively high interest rates of over 7% per annum. Starting in May 2005, due to the increase of the six-month LIBOR rate, the deposits did not bear interest, causing our financial income to decrease substantially starting in the third quarter of 2005. In the second quarter of 2006, we withdrew two of our three structured deposits accounts in the amount of $20 million. The financial expenses arising from the early redemption of these two deposits were $1.33 million. In the fourth quarter of 2006, the third and last structured deposit in the amount of $10 million was released with no penalty.

In December 2006, we purchased marketable debentures in the amount of $10 million with a stated term of 54 months. The debentures were presented in our balance sheet as investment and other non-current assets. In December 2007, we withdrew the debentures prior to their maturity for a total consideration amount of $9.996 million.

We hold an investment in the principal amount of $20.3 million in an auction rate security, or the Security, which is secured by collateralized debt obligations. Consistent with our investment guidelines, the Security held by us had AAA credit rating at the time of the purchase. With the liquidity stress experienced in credit markets the Security held by us has experienced multiple failed auctions and hence became illiquid. In addition, the rating of the Security has been downgraded, and as of June 1, 2009 it is rated Ca by Moody s, and CC by Standard & Poor s. We are continuing to receive monthly interest payments on this security based on the stated terms.

44

The estimated market value of the Security as of December 31, 2008, was $0.9 million, which reflects a $19.4 million decline in value of the principal investment. We have concluded that this decline in value is other-than-temporary and hence recorded a $15.2 million impairment charge for the year ended December 31, 2007, and a $4.2 million impairment charge for the year ended December 31, 2008. This impairment had, and the ongoing illiquidity of the Security continues to have, a material adverse affect on our liquidity and capital resources. Under current conditions of multiple failed auctions, the Security is illiquid and as such is presented under long-term investments on our balance sheet. If uncertainties in credit markets continue or if such markets deteriorate further, we may incur additional impairments to our investment in the Security. Any future impairment may have a material adverse affect on our liquidity and capital resources.

In accordance with our existing cash management policy, all our funds with the exception of the auction rate securities are currently invested in bank deposits, certificate of deposits, and money market funds, with maturities of less than 12 months.

Net Cash Provided by/Used in Investing Activities. During 2006, 2007 and 2008, our principal investment activity was the purchase/sale of marketable debentures. In 2007 we used $5.0 million for the acquisition of Omni Consulting.

Net Cash Provided by/Used in Financing Activities. In 2006, our financing activities used $2.9 million due to cash dividend of $3.0 million, offset by $0.1 million in proceeds from the exercise of employee stock options. In 2007, our financing activities used $4.2 million due to a cash dividend of $4.3 million, offset by $0.1 million in proceeds from the exercise of employee stock options. In 2008, our financing activities used $5.9 million due to a cash dividend of $4.3 million and the repurchase of shares in the amount of $1.6 million.

Capital Expenditures. During 2006, 2007, and 2008, the aggregate cash amount of our capital expenditures was $0.4 million in each of those years. These expenditures were principally for the purchase of property and other equipment. Although we have no material commitments for capital expenditures, we anticipate an increase in capital expenditures if we decide to construct a building for our office in Romania or if we purchase or merge with companies or purchase assets in order to obtain complementary technology and to expand our product offerings, customer base and geographical presence.

Cash Dividends. Since 2003 the Company distributed aggregated cash dividends of approximately $1.05 per share to its shareholders: $0.14 per share in 2003, $0.13 per share in 2004, $0.24 per share in 2005, $0.14 per share in 2006, $0.20 per share in 2007, and $0.20 per share in 2008. For information about our dividend policy, please see Item 8 Financial Information Dividend Policy.

Share Repurchase. As of June 1, 2009, we have repurchased an aggregate amount of 2,383,337 ordinary shares under the 2008 share repurchase plan, at a total purchase price of approximately $1.8 million. We have authority, as of June 1, 2009 to use additional approximately $1.0 million for share repurchases under the 2008 plan.

C. Research and Development, Patents and Licenses, etc.

We believe that significant investment in research and development is essential for maintaining and expanding our technological expertise in the market for billing and customer care software and to our strategy of being a leading provider of new and innovative convergent billing products. We work closely with our partners, customers and distribution channels, who provide significant feedback for product development and innovation.

We have invested significant time and resources to create a structured process for undertaking research and product development. We believe that the method that we use for our product development and testing is well suited for identifying market needs, addressing the activities required to release new products, and bringing development projects to market successfully. Our product development activities also include the release of new versions of our products. Although we expect to develop new products internally, we may, based upon timing and cost considerations, acquire or license technologies or products from third parties.

Our research and development personnel include engineers and software developers with experience in the development and design of billing and customer care software. As of December 31, 2008, our research and development department consisted of 195 employees out of a total of 322 employees.

D. Trend Information

Our billing and customer care solutions target tier 2 and tier 3 service providers. The need for comprehensive billing solutions is driven by the market trend that requires service providers to introduce new services more rapidly, to be innovative in creating new product offers and to optimize business processes for maximum efficiency. In this environment, flexible and stable billing software is seen as business critical. If a system fails, or service quality is degraded, it can be highly detrimental to both a carrier s ability to collect revenue and to its customer relations.

In our experience, the active markets lately are in the U.S. the rural mobile carriers that offer simple plans, mainly pay-as-you-go with either prepaid or pay-in-advance policies, the service providers worldwide that move towards IP networks and offer multiple services, and existing carriers that search for replacement of billing solutions as they diversify their offering and seek a convergent platform.

Integrating voice and data in enterprise switches (the IP private branch exchanges, or IP PBX s) is a trend in which we are participating. Our goal is to develop marketing and sales relationships with the vendors of IP PBX s such as Avaya, Cisco Systems and 3Com under which our enterprise software will be sold together with these vendors systems. This requires us to develop new sales channels with the distributors of IP PBX s. This process is time consuming and requires the investment of some resources to conclude the necessary agreements and to certify and train these new channel partners.

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt Obligations	0	0	0	0	0
Capital (Finance) Lease Obligations	0	0	0	0	0
Operating Lease Obligations	$ 585,000	$ 562,000	$ 23,000	0	0
Purchase Obligations	0	0	0	0	0
Other Long-Term Liabilities Reflected on our Balance Sheet under U.S. GAAP	0	0	0	0	0
Total	$ 585,000	$ 562,000	$ 23,000	0	0

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information regarding our directors and executive officers as of the date of filing of this annual report:

Name	Age	Position
Monica Eisinger	51	President, Chairperson of the Board of Directors and Chief Executive Officer
Itay Barzilay	35	Chief Financial Officer
Doron Segal	44	Vice President - Engineering and Chief Technology Officer
Tal Shain	41	Vice President - Professional Services
Danny Engle	40	Vice President - Sales for North America
Amnon Neubach	65	Director
Mihail Rotenberg	56	Director
Menahem Shalgi	59	Director
Shmuel Arvatz	46	Director

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

Monica Eisinger. Ms. Eisinger founded our company and has been President, Chairperson and Chief Executive Officer of our company since inception. Prior to founding MIND, Ms. Eisinger served as an information systems consultant to Raphael, the Israeli Armaments Industry and directed over 40 projects. Ms. Eisinger holds a B.Sc. degree in Computer Science and a M.Sc. degree in Telecommunications (with expertise in Voice and Data Integration over the Ethernet) from the Technion, Israel Institute of Technology.

Itay Barzilay. Mr. Barzilay has served as our Chief Financial Officer since May 2008. From 2003 to 2008, he held several financial management positions at Avaya Inc. From 2000 to 2002, he served as an auditor and as a corporate finance consultant at the Israeli affiliate of Ernst & Young. Mr. Barzilay is a certified public accountant in Israel and holds a B.A. degree in Accounting and Economics from Tel Aviv University and an M.B.A. degree from New York University, Stern School of Business.

Doron Segal. Mr. Segal has served as our Chief Technology Officer since October 2004 and as our Vice President of Engineering since July 2007. Prior thereto, he worked for eight years at Comverse, at which he held a number of positions including Assistant Vice President with responsibility for product requirement definition and product level design. Mr. Segal holds an M.Sc. degree in Computer Science from Bar Ilan University and a B.Sc. degree in Physics, Mathematics & Computer Science from the Hebrew University.

Danny Engle. Mr. Engle is Vice President of North American Sales for MIND Software Inc. (formerly Sentori Inc.). Mr. Engle joined Sentori in 2003 as Director of Sales, and later became Sentori s Vice President of North American Sales. Prior to joining Sentori, Mr. Engle was District Manager at Siebel Systems, a leading CRM solutions provider; Director of Sales for SOTAS, a leading provider of network efficiency maximization tools for communication service providers. Mr. Engle holds a B.S. degree in Business Administration from the University of Texas.

Tal Shain Mr. Shain joined our company in June 1999 and has served as our Vice President of Professional Services since February 2006. Prior thereto, Mr. Shain served as our R&D Manager in Romania and Chief Architect. Mr. Shain holds a B.Sc. degree in Computer Engineering from the Technion, Israel Institute of Technology.

Amnon Neubach. Mr. Neubach has served as an external director of our company since February 2001. From 2001 until 2003, Mr. Neubach served as Chairman of the Board of Pelephone Communications Ltd. Mr. Neubach has served as an economic consultant to several companies in the private sector since 1997. From 1995 to 1997, Mr. Neubach served as country advisor to Goldman Sachs in Israel, and from 1990 to 1994 he served as the Minister