TOP IMAGE SYSTEMS LTD
Form 20-F
March 27, 2014

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ________ to __________

OR

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

Date of event requiring this shell company report______

Commission File Number 001-14552

Top Image Systems Ltd.
(Exact name of Registrant as specified in its charter)

Not applicable
(Translation of Registrant's Name into English)

Israel
(Jurisdiction of incorporation or organization)

2 Ben Gurion St, Ramat Gan, 52573, Israel

(Address of principal executive offices)

Gili Shalita
Chief Financial Officer
Top Image Systems Ltd.
2 Ben Gurion St, Ramat Gan, 52573, Israel
Tel: 972-3-7679100
Fax: 972-3-6486664
(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 0.04 per share	The NASDAQ Stock Market LLC

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:

12,088,049 Ordinary Shares

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

Yes o No ý

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

Yes o No ý

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Yes ý No o

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

Yes ý No o

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ý

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

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

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No ý

This Form 20-F including all attachments is being incorporated by reference into the Registration Statement on Form S-8 (file no. 333-125064) and the Registration Statements on Form F-3 (file no. 333-119885 ,333-175546 and 333-193350).

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Forward-Looking Statements

Certain matters discussed in this Annual Report on Form 20-F ("Form 20-F") are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts and that reflect our expectations, beliefs, projections, future plans and strategies, anticipated events or trends. For example, statements related to our future financial condition or results of operations, management's strategies and objectives and expected market growth are forward-looking statements. Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "will," "intends,' "predicts," "anticipates," or "potential" and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results to differ materially from historical results or any future results, performance or achievements expressed, suggested or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to:

- our recent entry into mobile and cloud based software markets;
- unstable conditions in the global economy and capital markets, including the European debt crisis;
- our efforts to gain market share into new geographic markets, including the United States;
- future acquisitions that could require significant resources or result in unanticipated adverse consequences;
- competitive pressures in the data capture and automatic form processing markets;
- the success of our strategic marketing relationships;
- our ability to continue technological innovation and successful commercial introduction of new products;
- our history of losses and the potential for future losses;
- our ability to protect intellectual property and other proprietary information;
- political or financial instability in the countries where we do business;
- exposure to currency fluctuations;
- fluctuations in the market price of our ordinary shares;
- the possibility that our ordinary shares could be delisted from The NASDAQ Stock Market LLC, referred to as NASDAQ, or the Tel Aviv Stock Exchange, referred to as TASE;
- potential dilution to the holders of our ordinary shares as a result of future issuances of our securities;
- quarterly fluctuations in our results of operations; and
- other risks and uncertainties described in this Form 20-F.

The risks included in this section are not exhaustive. You should carefully consider the section entitled "Risk Factors" in this Form 20-F and other reports we file with or furnish to SEC, which include additional factors that could impact our business and financial performance. If any of these trends, risks or uncertainties actually occurs or continues, our business, financial condition and results of operations could be materially adversely affected.

Forward-looking statements contained in this Form 20-F are based on our current plans, estimates and projections, and, therefore, you should not place undue reliance on them as a prediction of future results. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Use of Certain Terms

In this report, "we," "us," "our," "TIS" and the "Company" refer to Top Image Systems Ltd. and its consolidated subsidiari collectively. The term "Asiasoft" shall mean Top Image Systems (Asia Pacific) Pte. Ltd. (formerly known as Asiasoft Global Pte. Ltd.) and its consolidated subsidiaries. References to "$" and "U.S. dollars" are to the lawful currency of the United States of America. Certain financial information contained in this Form 20-F is presented in thousands where noted.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The following selected consolidated financial data are presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The Israeli Securities Law – 1968 allows Israeli companies, such as us, whose securities are listed both on the Tel Aviv Stock Exchange (TASE) and on certain stock exchanges in the United States (including NASDAQ), to report to the Israel Securities Authority and the TASE in accordance with the reporting requirements under SEC rules and U.S. GAAP. All financial statements included in this annual report and all financial information released in Israel are presented solely under U.S. GAAP. The selected consolidated financial data should be read in conjunction with and are qualified by reference to Item 5 of this report entitled “Operating and Financial Review and Prospects” and the consolidated financial statements and notes thereto and other financial information included elsewhere in this report.

	2009	2010	2011	2012	2013
	U.S. dollars in thousands (except share and per share data)				
Statement of Operations Data:					
Revenues	23,534	21,762	28,673	31,330	29,057
Cost of revenues	9,258	8,350	11,184	11,989	11,816
Gross profit	14,276	13,412	17,489	19,341	17,241
Research and development, net	1,558	1,647	1,976	2,609	3,377
Selling and marketing	7,202	6,160	7,748	8,733	9,498
General and administrative	4,381	3,845	4,383	5,087	4,637
Operating income (loss)	1,135	1,760	3,382	2,912	(271)
Financial income(expenses), net	(5,452)	(2,190)	(911)	(191)	(298)
Other (expenses) income, net	(26)	(6)	4	-	381
(Loss) income from continuing operations before taxes on income	(4,343)	(436)	2,475	2,721	(188)
Taxes on income	91	24	125	(1,122)	1
(Loss) Income from continuing operations after taxes on income	(4,434)	(460)	2,350	3,843	(187)
Equity in earnings (including impairment losses) of affiliated companies	(677)	-	-	-	-
Net (loss) income from continuing operations	(5,111)	(460)	2,350	3,843	(187)
Income (loss) from discontinued operations, net of tax	13	-	-	-	-
Net (loss) income	(5,098)	(460)	2,350	3,843	(187)
Net basic (loss) income per share:					
Continued operations	$(0.55)	$(0.05)	$0.23	$0.34	$(0.02)
Net diluted (loss) income per share:					
Continued operations	$(0.55)	$(0.05)	$0.21	$0.31	$(0.02)
Discontinued operations	-	-	-	-	-
Weighted average number of shares outstanding for basic net income (loss) per share	9,322,341	9,389,512	10,207,111	11,403,596	11,718,960
Weighted average number of shares outstanding for diluted net income (loss) per share	9,322,341	9,389,512	11,100,654	12,317,502	11,718,960

	As of December 31,				
	2009	2010	2011	2012	2013
Summary of Balance Sheet Data:					
Cash and cash equivalents	2,866	1,763	2,090	2,223	3,203
Working capital	3,933	1,762	2,463	7,674	8,498
Total assets	18,167	15,024	15,598	21,535	21,647
Long term debt	6,729	5,250	1,543	1,808	1,956
Total liabilities	13,137	10,732	6,458	6,709	5,933
Shareholders' equity	5,030	4,292	9,140	14,826	15,714

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RISK FACTORS

Risks Related to Our Business

If we are unable to achieve and maintain a leading position and to build awareness of our brands, we may not be able to compete effectively against competitors with greater name recognition and our sales could be adversely affected.

If we are unable to economically achieve and maintain a leading position in data recognition software or to promote and maintain our brands, our business, results of operations and financial condition could suffer. Development and awareness of our brands will depend largely on our success in increasing our customer base. In order to attract and retain customers and to promote and maintain our brands in response to competitive pressures, we may be required to increase our marketing and advertising budget or increase our other sales expenses. There can be no assurance that our efforts will be sufficient or that we will be successful in attracting and retaining customers or promoting our brands. Failure in this regard could harm our business and results of operations.

We are entering into new market sectors such as mobile and SAAS applications and may not succeed in garnering sufficient market share to remain competitive.

Since 2012, we have focused on expanding our eFLOW products to mobile platforms. We have also expanded our solutions to include SAAS, or software as a service, cloud-based products. Our experience with mobile and SAAS services is limited and we face stiff competition. In addition, mobile and SAAS technologies change quickly, and we may not be able to penetrate the market in any material way. If our solutions fail to effectively operate on the latest mobile devices or if our SAAS services are not compatible with the latest hardware, there could be a material adverse effect on our business, prospects and financial condition.

If we acquire additional businesses, it may lead to increased expenditures and integration costs, and could strain management, financial, and operational resources.

Between 2007 and 2009, we acquired related complementary businesses in an effort to expand capacity, enter new markets and diversify our sources of revenue. Those acquisitions strained our management, financial and operational resources. Any future acquisition may also generate such strain.

If we engage in a strategic mergers or acquisitions, the consideration we pay may be in cash or ordinary shares. Our underwritten offering during the first quarter of 2014, of 3,162,500 of our ordinary shares yielded approximately $13.7 million in net proceeds and we may use some or all of such proceeds toward strategic mergers or acquisitions should we choose to engage in them. The aggregate amount of ordinary shares sold reflects the exercise in full by the underwriters of their option to purchase up to 412,500 additional ordinary shares to cover over-allotments. Those proceeds may prove insufficient to fund potential transactions, or we may elect to engage in stock rather than cash transaction In the event we do engage in additional acquisitions or mergers, they may also result in potentially dilutive issuances of equity securities, incurrence of additional debt, the assumption of known and unknown liabilities, the amortization of expenses related to intangible assets and the impairment of goodwill, all of which could harm our business, financial condition and operating results. In addition, the market’s reaction to any transaction could be negative and cause a drop in the trading price of our ordinary shares. The prospect of possible mergers or acquisitions could result in significant volatility in our stock price.

We currently have subsidiaries in foreign countries and additional acquisitions in foreign countries, should we choose to pursue them, may pose additional problems. We could experience inefficiencies in conducting our business as we integrate new operations and manage geographically dispersed operations. Also, the acquired businesses may not yield the income and levels of activity we expected them to yield, which may result in losses.

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Additionally, we may not succeed in retaining or hiring qualified management, sales, customer support, and technical personnel to integrate acquired operations, manage future growth effectively, and accomplish our overall objectives. Competition for qualified personnel is intense. If we expand too fast, or fail to integrate our recently acquired businesses or other new businesses, or lose key personnel from our recently acquired businesses or other businesses, there could be a material adverse effect on our business, prospects, financial condition and results of operations.

The market for data capture systems, automatic form processing systems and mobile data captures highly competitive.

The market for data capture systems in general, and for automatic form processing systems in particular, is characterized by intense competition, significant price erosion over the life of the product, and rapidly changing business conditions, customer requirements, and technology. Our relatively recent entry into the mobile and SAAS markets compounds the challenges we need to overcome to attain market success. Our products compete with those developed and marketed by numerous well-established companies, including EMC (Captiva Software), Mitek, Banctec, Kofax (formerly, Dicom Group), and ReadSoft, as well as with manual data entry systems. Many of our competitors have longer operating histories and greater financial resources than we do. Furthermore, certain of these competitors are industry leaders with the financial resources necessary to enable them to withstand substantial price competition or downturns in the market for computer software. The fact that our resources are more limited places us at a significant disadvantage. This risk is particularly acute during difficult economic times. Further, the emerging market for mobile data capture systems in which we are competing, even at this stage of its development, is characterized by intense competition and rapidly changing business conditions, customer requirements, and technology. We are in competition with Mitek and others in that market. The emerging nature of the market may impose financial risks that competitors with greater financial resources are more equipped to bear.

A slowdown in our customers' industries could adversely impact the sale of our products and our prospects of achieving or maintaining profitability.

A slowdown in the industries to which we sell our products would likely result in significantly reduced product demand, erosion of selling prices and overcapacity. Such a downturn could materially reduce demand for the products and technology that we offer. In addition, our ability to reduce expenses in response to any downturn or slowdown in such industries may be limited because of:

- our continuing need to invest in research and development;
- our capital equipment requirements; and
- marketing requirements.

Many of our current and prospective customers are large financial and business institutions. An economic downturn could result in downward price pressure on vendor solutions and could result in intense price competition. A downturn may also cause prospective customers to delay implementation of software solutions and thereby delay purchases of our products. A slowdown could have a material adverse effect on our business, prospects, financial condition and results of operations.

The impact of a continuing global economic downturn, including the European debt crisis, may have a material adverse effect on our business, results of operations and financial condition.

We sell our products and services in various countries around the world, with a concentration in Europe. Consequently, our sales and profitability are dependent on general economic conditions globally and locally. The weakening of consumer and corporate confidence, declining income and asset values in many areas and other adverse factors related to the global economic downturn that has been ongoing during the past several years has resulted in our customers and the end-users of our products, services and solutions, postponing or reducing spending on our products, services and solutions. A substantial and lasting slowdown of the global economy could result in a continuation of that trend thereby adversely affecting our business.

The global economic downturn and the European debt crisis in particular have also led to more limited availability of credit which may have a negative impact on the financial condition, and in particular on the purchasing ability, of some of our customers and may also result in requests for extended payment terms, credit losses, insolvencies, limited ability to respond to demand or diminished sales channels available to us. The generally difficult economic conditions combined with tightening credit markets may also cause financial difficulties for our suppliers and collaborative partners which may result in their failure to perform as planned and, consequently, in delays in the delivery of our products, services and solutions.

For example, the European debt crisis, which has had a negative impact on the European economy, may have adverse impact on our operations. In 2011, 2012 and 2013, we generated $20.5 million, $19.9 million, and $ $16.6 million respectively, of revenues from our operations in Europe, which represented 71%, 64% and 57%, respectively, of our total revenues. We are not certain that we will be able to maintain those levels in light of the ongoing economic difficulties in Europe. The tightening of European credit markets may result in additional deterioration of our customers' and end-users' credit quality or access to cash, which could lower the realization rate on our accounts receivable. In addition, the debt crisis in certain European countries could cause the value of the Euro to deteriorate, reducing the purchasing power of our customers and end-users of our products or services, which can lead to the lower demand for such products or services, increase our exposure to losses from bad debts or result in our customers or end-users ceasing operations, any of which could materially adversely affect our business, financial condition and results from operations.

The difficult global economic conditions may also result in inefficiencies due to our reduced ability to forecast developments in our industry and plan our operations accordingly. Adverse economic conditions affecting us, our current and potential customers, their spending on our products, services and solutions, and our suppliers and collaborative partners may have a material adverse effect on our business, results of operations and financial condition.

For a more detailed discussion of our liquidity and capital resources, see "Operating and Financial Review and Prospects - Liquidity and Capital Resources."

Our success depends on our strategic marketing relationships and the marketing and distribution efforts of our distributors and other strategic partners.

Our business and prospects depend upon our ability to maintain our existing, and to develop additional, strategic marketing relationships and upon the marketing and distribution efforts of our distributors and other strategic partners. In particular, our marketing efforts with respect to our mobile products involve our forging and maintaining relationships with parties in a position to purchase or deploy our solutions, including banking and financial institutions which could potentially purchase our mobile solutions and make them available to their customers. The loss or diminishment of our relationship with any one of our significant strategic partners could have a material and adverse

effect on our existing operations and growth prospects. We normally attempt to recruit distributors with established distribution channels and reputations for marketing and installing document imaging, data capture and workflow systems to market our products. We cannot assure you that we will be able to develop such relationships. Our litigation with Mitek (see "We may be subject to potential liabilities arising from a patent claim filed against us in the United States.”") may impact the willingness of others to enter strategic partnerships with us.

Our industry is marked by rapid technological changes and frequent new or updated product introductions, and if we do not respond to such rapid technological changes, new product introductions and enhancements and evolving industry standards, our products and services could become obsolete.

As processing speeds increase, memory capacities expand and software is upgraded, we need to ensure our products, capitalize on these developments, and remain compatible with industry standards. Our ability to compete will depend upon our ability to offer state-of-the-art products in a timely and cost-effective manner. Our product decisions must anticipate the changing demand for products. If we are unable to develop, modify and enhance our existing technology to respond to such changing standards and customer demands, our business could be adversely affected. In addition, the development of new technologies, new product introductions or enhancements by our competitors could adversely affect our sales. There are presently numerous platforms for data capture and there is presently no single industry standard for processing. We can provide no assurance that our solutions will be adopted by industry players or that they will be compatible. These uncertainties are compounded by the fact that mobile technologies are rapidly evolving and we may not be able to adapt our products quickly enough to accommodate changing platforms, mobile imaging capabilities, and device configurations.

Our capital requirements have historically been significant and we may not in the future be able to meet our requirements with our working capital.

Historically, our capital requirements have been significant. We may in the future require additional financing to fund our operations and capital requirements beyond our current resources, our cash flow from our operations or funding under our revolving line of credit. In such event, we cannot assure you that additional financing will be available to us when needed, on commercially reasonable terms, or at all. We have no expectation that our existing shareholders will provide any portion of our future financing requirements. Any inability to obtain additional financing when needed would have a material adverse effect on us, requiring us to curtail our expansion efforts. In addition, to the extent that we incur substantial indebtedness, we will be subject to risks associated with incurring substantial indebtedness, including the risk that interest rates may fluctuate, and cash may be insufficient to repay interest and principal on any such indebtedness. Any additional equity financing may involve substantial dilution of the interests of our then-existing shareholders.

We have a history of quarterly fluctuations in our results of operations and expect these fluctuations to continue, this may cause our stock price to decline.

We have experienced and expect to experience in the future significant fluctuations in our quarterly results of operations.

Our lengthy sales cycle increases our exposure to customer cancellations or delays in orders, which may result in volatile quarterly revenues. Given the high average selling price of, and the cost and time required to sell our solutions, a customer's decision to license our products typically involves a significant commitment of resources and is influenced by the customer's budget cycles and internal approval procedures for information technology purchases. In addition, selling our solutions requires us to educate potential customers about our solutions' uses and benefits. As a result, our solutions have a long sales cycle, which can take 9 to 12 months or more. Consequently, we have difficulty predicting the quarter in which sales to expected customers may occur and actual sales may not necessarily be in the same calendar quarter or even year in which we expended resources in connection with marketing to the client. The sale of our solutions is also subject to delays from the lengthy budgeting, approval and competitive evaluation processes of our customers, which typically accompany significant capital expenditures.

Other factors that may contribute to fluctuations in our quarterly results of operations include:

- the size and timing of orders;

- customer deferral of orders in anticipation of new products, product upgrades or price enhancements;

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- customer deferral of orders due to general economic conditions or a customer's specific cash flow shortages;
- the high level of competition that we encounter; and
- the timing of our product introductions, upgrades or enhancements or those of our competitors or of providers of complementary products.

Fluctuations in our quarterly results could discourage investors and cause the market price of our ordinary shares to decline.

Large customers have historically constituted a significant portion of our orders and if we become dependent on large customers, the loss of such customers could adversely affect us.

Sales to large customers have historically accounted for a significant part of our sales. In 2013, sales to one customer accounted for 10.2% of our total revenue. In 2012 and 2011, we had no customer who accounted for more than 10% of our total revenues. We are actively recruiting large customers and partners for our products in our efforts to continue to avoid dependence on individual customers. However, if we become dependent on large customers, our business, prospects, financial conditions and results of operations could be adversely affected by the loss of one or more such customers.

Uncertainties related to our recent management changes may adversely affect our business, strategy and financial results.

In November, 2013, we announced that Dr. Ido Schechter will step down as CEO effective December 31, 2013, and that our executive chairman Mr. Izhak Nakar will take over some of the responsibilities of the CEO, until the recruitment of a permanent CEO and currently serves as our principal executive officer. These management transitions may cause or result in disruption of our business or distraction of our employees and management; difficulty in recruiting, hiring, motivating, and retaining talented and skilled personnel, including current members of management; and difficulty in negotiating, maintaining, or consummating business or strategic relationships or transactions. If we are unable to timely recruit a CEO and mitigate these or other potential risks, our revenue, operating results and financial condition may be adversely impacted.

Our success depends on our key personnel.

Our success depends upon the contributions of our executive officers and other key personnel. All of our key management and technical personnel have expertise, which is in high demand among our competitors, and the loss of any of these individuals could cause our business to suffer. We do not as a general matter maintain key person life insurance policies on our officers, directors and key employees.

Our solutions require a sophisticated sales effort targeted at senior management of our prospective customers. New employees in our sales department require extensive training and typically take several months to achieve full productivity. There is no assurance that we will be able to retain our sales staff, or that new sales representatives will ultimately become productive. If we were to lose qualified and productive sales personnel, our revenues could be adversely impacted.

We have had a history of losses and may incur future losses.

Since our inception in March 1991, we have incurred net losses in every year other than in 1995, 1997, 1998, 2006, 2008, 2011 and 2012, and our losses may recur and continue. For the year ended December 31, 2013, we had an

accumulated deficit of $19,993,000. We plan to maintain the level of our aggregate product development expenses. We cannot assure you that our revenues will grow or that we will continue to achieve profitability in the future. Failure to increase revenues could result in a material adverse effect on our business, prospects, financial results and results of operations.

We may be subject to potential liabilities arising from a patent claim filed against us in the United States.

On September 25, 2012, TIS America Inc. and Top Image Systems, Ltd. were named as defendants in Case Number 1:12-cv-01208-UNA, filed by Mitek Systems, Inc. for alleged infringement on five United States patents in the United States District Court for the District of Delaware. Mitek filed a First Amended Complaint on January 11, 2013. An answer to the First Amended Complaint was filed on January 28, 2013 adding one additional patent. A scheduling order was entered on February 21, 2013 Discovery is underway and a trial is scheduled for December 8, 2014.

The lawsuit relates to technology used in our MobiCHECK software. Mitek is seeking a declaration of infringement, an injunction, damages, and enhanced damages, costs, expenses including reasonable attorneys' fees, pre-judgment and post-judgment interest and any other relief, in law and in equity, to which the Court finds Mitek is justly entitled.

While we believe that Mitek's claim is without merit, we cannot assure you that the suit will be dismissed or that we will prevail. If Mitek is successful, or if we agree to settle the lawsuit, we might be unable to pursue, or severely limited in, our marketing and sale of MobiCHECK and possibly other products might be restricted or be subject to significant obligations to pay royalties. Further, even if we prevail in the lawsuit, intellectual property litigation is expensive and tends to divert management attention from our business. Accordingly, if any of the foregoing risks are realized, the lawsuit could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Our success depends on our proprietary software technology.

Our success depends upon our proprietary software technology. Although we believe that our technology has been developed independently and does not infringe on the proprietary rights of others, we cannot assure you that the technology does not and will not infringe or that third parties will not assert infringement claims against us in the future. In the case of infringement, we would, under certain circumstances, be required to modify our products or obtain a license. We cannot assure you that we would be able to do so either in a timely manner under acceptable terms and conditions or at all, or that we will have the financial or other resources necessary to defend successfully a patent infringement or other proprietary rights infringement action. Further, even if we were not infringing, intellectual property litigation is expensive and time consuming for management. Failure to do any of the foregoing could have a material adverse effect on us. Furthermore, if our products or technologies are deemed to infringe upon the rights of others, or if infringement claims are asserted against third parties whom we are obligated to indemnify, we could become liable for damages, which could have a material adverse effect on us.

Our products contain third party intellectual property which may expose us to additional risks.

We license components of our software systems and technology from third parties in reliance on such parties' representations as to ownership of the licensed intellectual property. If our licensors are found not to own or have rights to sublicense such rights to us or if we otherwise lose the right to use such components, and we are unable to replace the licensed technology with a comparable substitute, there could be a material adverse effect on our business prospects and financial results. Even if we were to replace licensed technology with available alternatives, it could take time to identify the best replacement and integrate it into our software. The delay and uncertainty could negatively impact our financial results. Furthermore, we could be sued for, or found liable for infringement arising from our use of such licensed technology and indemnity obligations, if any, on the part of the providers of such licensed technology might not be sufficient to cover liabilities we incur.

We use certain "open source" software tools that may be subject to intellectual property infringement claims, the assertion of which could impair our product development plans, interfere with our ability to support our clients or require us to pay licensing fees.

Certain of our products contain open source code, and we may use more open source code in the future. Open source code is code that is covered by a license agreement that permits the user to liberally copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code. As a result of our use of open source software, we could be subject to suits by parties claiming ownership of what we believe to be open source code, and we may incur expenses in defending claims that we did not abide by the open source code license. If we are not successful in defending against such claims, we may be subject to monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow. We monitor our use of such open source code to avoid subjecting our products to conditions that we do not intend. The use of such open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

Our inability to protect our intellectual property could adversely affect our competitive position and, consequently, our business and operations.

Our success depends on our ability to protect our intellectual property (see "Our success depends on our proprietary software technology"). We rely upon trade secret protection, employee and third-party nondisclosure agreements and other intellectual property protection methods to protect our confidential and proprietary information. Despite these efforts, we cannot be certain that others will not otherwise gain access to our trade secrets or copy and use information that we regard as proprietary without our authorization. In the past, we have not obtained any patents. As a result of a change in our intellectual property protection policy, we have begun to file patent applications with regard to relevant technology. We have applications at this point for patents in the United States with regard to Mobile capture, full page images and contextual classification. We may file additional patent applications in the future. We cannot assure you that:

- any of our existing patent applications will be accepted;
- we will be successful in generating technology in the future which will be susceptible to applications for patents;
- any patents which we may obtain will be broad enough to protect our technology, will provide us with competitive advantages or will escape challenge or invalidation by third parties;
- the patents of others will not have an adverse effect on our ability to do business; or
- others will not independently develop similar products, duplicate our products or, if patents are issued to us, design around these patents.

Further, the laws of foreign jurisdictions where we sell and seek to sell our products may afford little or no protection of our intellectual property rights. We cannot assure you that the protection provided to our intellectual property rights by the laws and courts of foreign nations will be substantially similar to the remedies available under U.S. law.

Our products may contain defects, damaging our reputation, causing a loss of customers, requiring us to allocate significant time and financial resources to correct, and potentially resulting in liability claims.

Our products may contain undetected errors or defects, particularly when first introduced or when new versions or enhancements are released. In the past, we have discovered minor software bugs in certain products after they were released to the market. Such errors or defects could require us to divert financial and other resources to correct the problems.

In addition, our products are combined with complex products developed by other vendors. As a result, should problems occur, it may be difficult to identify the source or sources of the problems. Defects and errors, or end-user perception of defects and errors, found in current versions, new versions or enhancements of these products after commencement of commercial shipments may result in:

- damage to brand reputation;

- loss of customers;
- delay in market acceptance of current and future products;
- diversion of development and engineering resources to correct defects or errors; and
- warranty or product liability claims.

Although we have product liability insurance, defects, errors or successful product liability claims against us could have a material adverse effect on our business, prospects and financial results. For additional information on our warranty policy, see below " Business Overview – Customers --- Warranty and Service."

We engage in international sales, which expose us to a number of political and economic risks.

We have significant operations in several countries, including research and development, sales and customer support operations. Currently, in addition to our operations in Israel, we have significant operations in the United Kingdom, Germany, and Singapore and the United States. Our international sales and other operations are subject to risks inherent in doing business in foreign countries, including, but not limited to:

- changing domestic and foreign customs and tariffs or other trade barriers;
- potential staffing difficulties and labor disputes;
- managing and obtaining support and distribution for local operations;
- difficulty in enforcing agreements through the different legal systems of the countries in which we operate;
- customers in the various countries in which we operate may have long payment cycles;
- seasonal reductions in business activity in certain parts of the world;
- restrictions on our ability to repatriate earnings from countries in which we operate;
- credit risk and financial conditions of local customers and distributors;
- potential difficulties in protecting intellectual property;
- potential imposition of restrictions on investments;
- potentially adverse tax consequences;
- foreign currency exchange restrictions and fluctuations;
- natural disasters; and
- local political and social conditions, including the possibility of hyperinflationary conditions, terrorism and political instability in certain countries.

Approximately 57% of our revenues in 2013 were generated from sales made in the European Union. If this trend continues, we may be more particularly exposed to the risk of losing business and revenues as a result of trade restrictions imposed by the European Union as well as ramifications of the debt crisis in certain European countries. See “The impact of a continuing global economic downturn, including the European debt crisis, may have a material adverse effect on our business, results of operations and financial condition”.

We may not be successful in developing and implementing policies and strategies to address the foregoing risks in a timely and effective manner at each location where we do business. Consequently, the occurrence of one or more of the foregoing factors could have a material adverse effect on our international operations or upon our financial condition and results of operations.

Our recent entry into the United States market may not prove successful.

We recently upgraded our efforts to reach markets for our products in the United States though our U.S. subsidiary. We face competition intense competition in the U.S. and may not may be able to successfully establish any meaningful market share. Our time and capital investments in the U.S. may not prove worthwhile and may intensify our competitor's efforts both in the U.S. and other markets in which we operate. If our efforts toward developing a presence in U.S. markets are unsuccessful, our distraction from our primary existing markets and investments in the U.S. could have a material adverse effect on our business, prospects, and financial condition.

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

We maintain operations and generate revenues in a number of countries. The results of operations and the financial position of our local operations are generally reported in the relevant local currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements, exposing us to currency translation risk. In addition, we are exposed to currency transaction risk because some of our expenses are incurred in a different currency from the currency in which our revenues are received. Our most significant currency exposures are to the Euro, New Israeli Shekel, British Pound and Singapore dollar. Approximately 57% of our revenues are generated in the European Union. In periods when the U.S. dollar weakens against these other currencies, our reported results of operations may be adversely affected. Although from time to time we may purchase forward exchange contracts to reduce currency transaction risk, these purchases will not eliminate translation risk or all currency risk.

Political, economic and military conditions in Israel may adversely affect our ability to develop, manufacture and market our products.

Because our principal offices and research and development facilities are located in Israel, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. There has been a marked increase in such hostility especially since Hamas, an Islamic movement responsible for many attacks against Israelis, has governed Gaza. In 2010, events and developments related to the Israeli-Palestinian conflict have also led to a deterioration in Israel's relations with Turkey, with whom Israel currently has a free trade agreement. In addition, since the "Arab spring" various neighboring Arab countries have been unstable including Egypt and prolonged civil war in Syria. Tension with Iran, relating to its nuclear capabilities and regional influence remains high. Continuing or escalating hostilities in the region or curtailment of trade between Israel and its present trading partners as a result of or in response to such instabilities may have an adverse effect on our business conditions, including our ability to develop, manufacture and market our products.

Rising political tensions and negative publicity about Israel may negatively impact demand for our products.

Our principal offices are located in Ramat Gan, Israel. A number of groups in several countries have called for consumer boycotts of Israeli products. While many of those boycotts are focused on products originating in the West Bank and Ramat Gan is not in that area, other boycotts do not differentiate between different areas under Israeli control. Various political events from time to time have led to the revival or intensification of boycott efforts. The United States recently launched an initiative to facilitate a peace agreement between Israel and the Palestinians. Those

efforts have not yet produced concrete results, and it is unclear as to whether they will lead to any interim or final agreements. A failure of the talks to produce results could trigger expressions of frustration worldwide, including, but not limiting, renewed boycott efforts which have already been threatened. Existing or future boycott efforts might adversely affect our sales efforts, and could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our operations may be disrupted by the obligation of key personnel to perform military service.

Generally, all male adult citizens and permanent residents of Israel under the age of 42 (or older, for citizens who hold certain positions in the Israeli armed forces reserves) are obligated, unless exempt, to perform military reserve duty annually and some of our executive officers and employees in Israel are so obligated. Moreover, in the event of armed conflict in which Israel is involved or the threat of such conflict, our executive officers and employees might be called for active military duty for an unlimited period of time. Increased military activity could also result in a reduction of prospective qualified employees available to work for us to expand our business or replace employees on active military duty. Our operations could be disrupted by the absence for a significant period of our executive officers or key employees as a result of military service. Any disruption in our operations could adversely affect our ability to develop and market products.

We may not be able to expand our personnel or marketing efforts quickly enough to support our growth.

Because of our small size and our business strategy to increase our sales we anticipate an increased demand on all of our resources. To the extent that our efforts to generate new business and increase demand for our products and services are successful, we will need to accurately estimate our need for personnel or marketing and customer support, or we may not be able to support our future growth. For example, if we are successful in our efforts to obtain significant orders for our products, we may be required to install and service, on a timely basis, large numbers of installations at our customers' locations. We cannot assure you that we will be able to provide such services on adequate terms and conditions or at all. Furthermore, in order to remain competitive and keep our products up to date, we need to continue to attract and retain a qualified team of employees. If we fail to obtain the human resources our business requires, there could be a material adverse effect on our business, prospects, financial conditions and results of operations.

Government grants we received for research and development expenditures may be reduced or eliminated in the future due to Israeli government budget cuts. Furthermore, our receipt of such grants limits our ability to develop products and transfer technologies outside of Israel, and require us to satisfy specified conditions.

In 2013, as several times in the past, we received grants from the government of Israel through the Office of the Chief Scientist of the Ministry of Industry Trade and Labor, or the OCS, under the Law for the Encouragement of Industrial Research and Development, 1984 for the financing of a portion of our research and development expenditures in Israel. Such grants bear royalties on sales of products utilizing technologies developed using such grants or arising out of such technologies up to a maximum of 100% of the amount of participation received, linked to the dollar, plus interest at the LIBOR rate for 12 month loans on the first day of trading in the year during which the grant was approved. The total grants received in 2013 were about $214,000. The terms of the OCS grants limit our ability to develop products and transfer technologies outside of Israel without the prior approval of the OCS, if such products or technologies were developed using OCS grants or arose out of such technologies. The Israeli government may decide not to continue the program in the future at its current level or to terminate it altogether. Such approval, if granted, will generally be subject to additional financial obligations. In addition, if we fail to comply with any of the conditions imposed by the OCS, including the payment of royalties with respect to grants received, we may be required to refund any payments previously received from the OCS, together with interest and penalties. See also "Governmental Regulation" in Item 4 below.

If we fail to satisfy the conditions specified under Israeli law, we may be denied benefits to which we are currently entitled or may be entitled to in the future.

Our activities in Israel have been granted "Approved Enterprise" (established plan) and "Benefited Enterprise" status under "The Law for the Encouragement of Capital Investments, 1959", or the Investment Law, as amended. The

benefits available to an Approved Enterprise program or a Benefited Enterprise are normally in the form of favorable tax rates and are dependent upon the continuing fulfillment of ongoing conditions stipulated in the certificate of approval or under applicable law. If we fail to comply with these conditions, in whole or in part, benefits from tax exemptions or reduced tax rates would likely be denied us in the future.

For a description of the investment law and its recent material amendments, see "Additional Information-Law for the Encouragement of Capital Investments, 1959."

The application and/or amendment of Israeli laws or laws of other countries may adversely affect our ability to enforce judgments or other rights.

Because our principal offices are located in Israel, we are subject to Israeli law. Many of our contracts with third parties are subject to the laws of other jurisdictions. We cannot assure you that any judgments granted in the United States or any jurisdiction other than Israel would be capable of enforcement or execution in Israel. Nor can we assure you that any of our contracts pursuant to the laws of any foreign country are enforceable by us. The inability to enforce or execute judgments or other rights and/or the possibility of the laws of various jurisdictions being amended from time to time may have a material adverse effect on our business, prospects, and financial condition.

It may be difficult to enforce a U.S. judgment against us, our officers and directors, assert U.S. securities law claims in Israel or serve process on substantially all of our officers and directors.

We are incorporated in Israel. Most of our executive officers and directors are nonresidents of the United States, and a majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any such persons or to effect service of process upon these persons in the United States. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws if they conclude Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court would agree 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. Additionally, there is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel.

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

In general, we have entered into non-competition agreements with our employees in Israel. These agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors for a limited period. Under current law, we may be unable to enforce these agreements, and it may be difficult for us to restrict our competitors from gaining the expertise that our former employees gained while working for us. For example, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer that have been recognized by the courts, such as the secrecy of a company's confidential commercial information or its intellectual property. If we cannot demonstrate that harm would be caused to our material interests, we may be unable to prevent our competitors from benefiting from the expertise of our former employees.

Risks Related to Our Ordinary Shares

Our ordinary shares have been subject to frequent significant price fluctuations.

Trading in shares of companies listed on the NASDAQ and TASE in general and trading in shares of technology companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to operating performance. These broad market and industry fluctuations may depress our share price, regardless of our actual operating results.

In addition, the trading price of our ordinary shares has been highly volatile and could continue to be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including, but not limited to:

- actual or anticipated period-to-period fluctuations in financial results;
- litigation or the threat of litigation;
- failure to achieve, or changes in, financial estimates by securities analysts, if any;
- announcements regarding new or existing products or services or technological innovations by us or our competitors;
- conditions or trends in the software industry;
- additions or departures of key personnel or directors;
- regulatory developments in the United States and other countries in which we operate;
- developments or disputes concerning our intellectual property rights;
- general market conditions;
- overall fluctuations in the U.S. and Israeli equity markets; and
- economic and other external factors or disasters or crises.

If we fail to maintain NASDAQ minimum price requirements, the TASE minimum valuation requirements or other applicable continued listing requirements, our ordinary shares could be delisted.

According to NASDAQ listing standards, if the stock price of a listed company falls below $1.00 a share for a period of 30 consecutive business days, such company's stock may be subject to delisting unless such failure is cured within 180 days from the date on which NASDAQ notifies the listed company of such failure. There were periods in 2009 and 2010 during which our stock price fell below $1.00 per share.

According to the TASE rules, a company with stock that trades on both the TASE and NASDAQ must comply with the TASE minimum valuation requirements which currently provide that it must have a minimum market capitalization of NIS 25 million. If the company does not comply with the minimum valuation requirements, compliance with which is being tested on a semi-annual basis, it is given six months to regain compliance or be delisted. Our ordinary shares were in compliance with the minimum valuation requirements as of March 11, 2014.

If we fail to maintain the minimum price for our ordinary shares required by NASDAQ, maintain the minimum valuation required by TASE rules, or comply with other continued listing requirements of these exchanges, our ordinary shares could be delisted.

In addition, if our ordinary shares are delisted from NASDAQ, we will lose our status as a "dually-listed company" which will result in us being subject to different reporting requirements under Israeli securities laws and the rules and regulations of the Israeli Securities Authority and the TASE which may cause an increase in our reporting related costs and expenses. In addition, the rules and regulations of the Israeli Securities Authority and the TASE will require our financial reports to be prepared in accordance with a different accounting method than we currently utilize, which will result in increases in our reporting related costs and expenses.

A large number of our ordinary shares could be sold in the market in the near future, which would cause downward pressure on the market price for our ordinary shares.

As of March 11, 2014, we had approximately 15,406,976 ordinary shares outstanding, of which 12,979,992 were held by shareholders who were not our directors, executive officers and more than 10% shareholders. Since the effectiveness of the registration statement on Form F-3, the selling security holders named in that registration statement have been able to freely sell all of the ordinary shares covered by such registration statement, which is substantial in relation to our outstanding ordinary shares and public float of our ordinary shares. In addition, a substantial portion of our shares is currently freely trading without restriction under the Securities Act of 1933, as amended, or the Securities Act, having been registered for resale or held by their holders for over one year and are eligible for sale under Rule 144. As of March 11, 2014, there were outstanding options and warrants to purchase an aggregate of approximately 1,479,675 ordinary shares.

During the first quarter of 2014, we closed on an underwritten public offering of 3,162,500 of our ordinary shares at a per share sale price of $4.75 per share, a discount to the market price of our ordinary shares immediately prior to the offering. The offering significantly increased the number of our ordinary shares outstanding and sales pursuant to the offering had the effect of lowering the market price of our ordinary shares from market prices before the offering. Furthermore, if our shareholders determine to sell a significant number of shares into the market or there is a perception that the holders intend to sell these shares, including upon their exercise of options or warrants, there likely will not be a sufficient demand in the market to purchase the shares without a decline in the market price of our ordinary shares. Moreover, continuous sales into the market of a number of shares in excess of the typical trading market for our ordinary shares, or even the availability of such a large number of shares, could depress the trading market for our ordinary shares over an extended period of time.

In addition, our recent registration statement on Form F-3 included our registration of the resale of up to 850,000 of our ordinary shares by Izhak Nakar, our Active Chairman of the Board, Ido Schechter, our former CEO and current director, and Alex Toh Kian Hong. Mr. Hong is the Managing Director of certain of our Asian operations. While Mr. Nakar and Dr. Schechter's resale is restricted by a lockup agreement with the underwriters in our recent offering which expires no earlier than April 21, 2014, once the restriction expires, a sale of their ordinary shares could result in an increase in the number of our securities in the markets and have a negative effect on our trading price. In addition, even if those individuals sell shares for personal reasons, public perception of sales by insiders may result in negative publicity that could further negatively impact our share price.

Future issuances of our ordinary shares could adversely affect the trading price of our ordinary shares and could result in substantial dilution to shareholders.

We may need to issue substantial amounts of our ordinary shares in financings or acquisitions in the future. To the extent that the market price of our ordinary shares declines, we will need to issue an increasing number of ordinary shares per dollar of equity investment. In order to obtain future financing if required, it is likely that we will issue additional ordinary shares or financial instruments that are exchangeable for or convertible into ordinary shares. Capital raising activities, if available, and dilution associated with such activities could cause our share price to decline.

Also, in order to compensate our directors, provide incentives to our employees and induce prospective employees and consultants to work for us, from time to time we offer and issue options to purchase ordinary shares and/or rights exchangeable for or convertible into ordinary shares. Future issuances of shares could result in substantial dilution to shareholders.

Our ordinary shares are traded on more than one market and this may result in price variations.

Our ordinary shares are traded on the NASDAQ and on the TASE. Trading in our ordinary shares on these markets is effected in different currencies (US dollars on the NASDAQ and New Israeli Shekels on the TASE) and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Consequently, 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 and from political events and economic conditions in the United States and Israel. 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.

Our ordinary shares may become subject to the SEC's penny stock rules.

Generally, transactions in securities that are traded in the United States at a market price per share of less than $5.00, may be subject to the "penny stock" rules promulgated under the Exchange Act. Under these rules, broker-dealers who recommend such securities to persons other than institutional investors:

- must make a special written suitability determination for the purchaser;
- receive the purchaser's written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

As a result of these requirements, if our ordinary shares become subject to the "penny stock" rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our ordinary shares in the United States may be significantly limited. Some broker-dealers have adopted a policy under which they refuse to allow clients to hold penny stocks in their brokerage accounts, or refuse to open new accounts holding penny stocks. Accordingly, the market price of our ordinary shares may be depressed or limited, and investors may find it more difficult to sell the shares.

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We have not paid dividends in the past.

We have never declared or paid any cash dividends on our ordinary shares. We have retained any future earnings to finance operations and to expand our business and, therefore, may not pay any cash dividends in the future.

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

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our articles of association and by the Israeli Companies Law, 5759-1999, or the Companies Law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, pursuant to the Companies Law each shareholder of an Israeli company has to act in good faith in exercising its rights and fulfilling its obligations toward the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders and class meetings, on amendments to a company's articles of association, increases in a company's authorized share capital, mergers, and transactions requiring shareholders' approval under the Companies Law. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company, or has other powers toward the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

As a foreign private issuer whose shares are listed on NASDAQ, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.

As a foreign private issuer whose shares are listed on NASDAQ, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Listing Rules. As a foreign private issuer listed on NASDAQ, we may also follow home country practice with regard to, among other things, composition of the board of directors and quorum at shareholders' meetings. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

Provisions of Israeli law could delay, prevent or make difficult a change of control and therefore depress the price of our shares.

The Companies Law generally provides that a merger be approved by the board of directors and by the shareholders of a participating company by the vote of a majority of the shares of each class present and voting on the proposed merger. The Companies Law has specific provisions for determining the majority of the shareholder vote. Upon the request of any creditor of a constituent in the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy its obligations to creditors. In general, a merger may not be completed until the passage of certain statutory time periods. In certain circumstances, an acquisition of shares in a public company must be made by means of a tender offer that complies with certain requirements of the Companies Law that differ from those that apply to U.S. corporations. Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign

company, less favorably than U.S. tax laws. These provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult an acquisition of or merger with us, which, if public trading in our ordinary shares resumes, could depress our share price.

We are a foreign private issuer and you will receive less information about us than you would from a domestic U.S. corporation.

As a "foreign private issuer", we are exempt from rules under the Exchange Act that impose certain disclosure and procedural requirements in connection with proxy solicitations under Section 14 of the Exchange Act. Our directors, executive officers and principal shareholders also are exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder with respect to their purchases and sales of our shares. In addition, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. As a result, you may not be able to obtain the same information relating to us as you would for a domestic U.S. corporation.

Although our internal control over financial reporting was considered effective as of December 31, 2013, there is no assurance that our internal control over financial reporting will continue to be effective in the future, which could result in our financial statements being unreliable, government investigation or loss of investor confidence in our financial reports.

If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. We may also identify material weaknesses or significant deficiencies in our internal control over financial reporting. In addition, our internal control over financial reporting has not been audited by our independent registered public accounting firm. In the future, if we are unable to assert that our internal controls are effective; our investors could lose confidence in the accuracy and completeness of our financial reports, which in turn could cause our stock price to decline. Failure to maintain effective internal control over financial reporting could also result in investigation or sanctions by regulatory authorities.

ITEM 4. INFORMATION ABOUT THE COMPANY

History and Development

Establishment, Legal Name, Office and Trading Markets

We were incorporated in March of 1991, are domiciled in Israel and exist as a company with limited share liability subject to Israeli law. Our legal name is Top Image Systems Ltd. and our registered and principal executive offices are located in Israel at 2 Ben Gurion St, Ramat Gan, 52573, and our telephone number is + 972-3-767-9100. Our website is http://www.topimagesystems.com (the information contained in our website is not a part of this annual report and no portion of such information is incorporated herein).

Our ordinary shares began trading on the NASDAQ in November 1996 and on the TASE in December 2006.

Recent Developments

In February 2014, we closed on an underwritten public offering of 3,162,500 of our ordinary shares at $4.75 per share for gross proceeds of $15.0 million. The aggregate amount of ordinary shares sold reflects the exercise in full by the underwriters of their option to purchase up to 412,500 additional ordinary shares to cover over-allotments. We received net proceeds of approximately $13.7 million from the sale of ordinary shares, after deducting the underwriters' discounts and other estimated offering expenses. The net proceeds from the offering will be used for general corporate purposes, including potential acquisitions. Canaccord Genuity Inc. acted as the sole book-running manager for the offering, and Roth Capital Partners and The Benchmark Company, LLC acted as co-managers.

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In late 2012, we decided on an organizational restructuring aimed at establishing a scalable, balanced organization to facilitate global expansion of our product lines and related business activities in the many markets in which we operate around the globe. The reorganization plan includes setting up a global solutions group to develop, manage and support market-driven solutions and setting up a field operations group in an attempt to maximize the business potential of the company in each of our regions. Under the new structure, we hope to grow in the U.S. and Asia Pacific by promoting sales of those products we already sell in high volume in Europe, the Middle East and Africa (EMEA), while in parallel introducing our mobile solutions to the European market and allowing for improved cross-organizational knowledge transfer that will enable us to meet these goals. The two groups are intend to work closely together and foster integration processes our leadership and support. We are in the process of implementing the reorganization.

In June 2012, we opened our North American headquarters in New York City. Our new office provides us with proximity to the financial institutions and banks that comprise a significant segment of our target customer base. We anticipate that our new office will provide the foundation for us to strengthen our sales and marketing activities in the US and elsewhere in North America, focusing on the banking and financial sectors as well as on enterprises in other industries employing content-rich business processes.

On June 13, 2011, we closed a private placement transaction, which we refer to as the private placement. In the private placement, we issued an aggregate of 1,425,000 ordinary shares at a price of $2.00 per share and warrants to purchase an aggregate of 441,750 ordinary shares at an exercise price of $2.20 per share, which we refer to as the warrants, pursuant to the Securities Purchase Agreement, dated June 6, 2011, that we entered into with investors. The warrants may be exercised for five years after the closing date. We also entered into the Registration Rights Agreement, dated June 13, 2011 with the investors in the private placement, pursuant to which we filed a registration statement on Form F-3 to cover the resale of the ordinary shares sold in the private placement and the ordinary shares issuable upon exercise of the warrants issued in the private placement. We used the proceeds of the offering of $2,497,000, net of issuance expenses, to repay, in part, the remaining principal balance of debentures originally issued in December 2006. We completed the repayment of the debentures and retired our debt under them on October 4, 2011.

We held, through Top Image Systems (Asia Pacific) Pte. Ltd. investments in affiliated companies such as: Asiasoft Hong Kong Ltd ("AS HK"), in which we held 23.37%. During 2010 AS HK sold its business to another company. In December 2010, AS HK received an advance in the amount of $369,000 as a result of such sale. In July 2013 the sale was completed and it was determined that no additional payment will be received.

Until May 2011 we also held an investment in Asiasoft (M) Sdn Bhd ("AS M"), in which ASG holds 30% equity interest, is a Malaysian registered company which provides information system products and related services. During May 2011 we decided to waive its holding in AS M and transferred its holding for no proceed. Due to the fact that the investment book value was $0, no gain or loss was recorded in connection therewith.

Business Overview

1. Products and Solutions

Our product and solutions offering is based on our flagship eFLOW® proprietary platform, an industry-leading content capture and workflow platform that empowers a wide variety of solutions. Today we focus our primary software development, sales and marketing efforts on the eFLOW® INVOICE solution for Accounts Payable (AP) Automation; the eFLOW® Digital Mailroom for intelligent data input management; e-Government, eFLOW® for Banks, and our most recent offering, our innovative Mobile Imaging Platform (MIP). The TIS mobile imaging platform empowers a wide variety of mobile applications based on our high-quality data and image capture and

recognition capabilities.

Since our foundation in 1991, TIS has developed and marketed innovative solutions that optimize the capture, recognition, validation and delivery of content in every format, from any source. Our robust platform and best-in-class recognition technologies have facilitated TIS' successful implementation of the industry's highest volume document imaging projects, capable of scanning over a million documents a day. Large and mid-sized enterprises across the globe benefit from this expertise and deploy eFLOW® end-to-end solutions to collect information from different types of inbound documents and process them to provide actionable data delivered to their ERP, CRM and workflow systems. eFLOW® integrates with all leading enterprise applications, including certified bi-directional integration with SAP and other leading ERP solutions. Our most recent release, eFLOW5, the next generation capture and workflow platform we launched in 2013, offers industry-leading cloud, SaaS and web enablement, full capture and workflow capabilities for automating comprehensive business processes and mobile image processing functionality fully integrated within the multichannel solution.

Looking to the future, in sync with leading technology partners, TIS hopes to leverage Top Image Systems leverages its core knowhow and to invest in innovative, game-changing technologies to develop capture functionalities in new arenas with high market potential such as cloud-based solutions, mobile devices, wearable solutions and even crowdsourcing. In alignment with the direction the market is headed, we continue to invest significantly in cloud and mobility and are expanding our hybrid business model to grow our SaaS operations while maintaining our existing on-premise business. Leveraging our early-to-market position developing technologies for mobile devices, we have developed very high mobile imaging quality and continue to develop an expanding set of new mobile applications. This activity has in a sense opened up for us a new "B2B2C" market segment with an attractive business model; enterprises purchase our B2B applications to provide them on a transactional basis to their extensive B2C customer bases. Going forward, as big data, big content and analytics become increasingly significant for document-driven process automation solutions, we will continue to enhance our solutions and offer high value cutting-edge technologies.

Challenges for Document-Centric Process Management

As the volume of documents enterprises handle in their routine business operations continues to increase, enterprises incur high expenses and endure errors, slow processes and delays. Processing of paper documents translates to delivery and storage charges, as well as to mistakes and penalties due to errors and lost documents, slow response to customers and overall low efficiency and productivity. Enterprises in every industry sector, including banks and insurance companies in particular, need to optimize document-centric processes to ensure productivity and responsiveness to customers. Forward-looking companies are challenged to execute business transformation to achieve Straight-through Processing (STP) to accelerate processes and reduce operational costs, as well as to maintain optimal access to business-critical data.

eFLOW® Platform

TIS has developed its flagship product eFLOW®, an advanced proprietary platform that leverages our over 20 years of experience in the market. "One platform. Multiple Choices." The uniform eFLOW® platform provides a common architectural infrastructure for all the eFLOW® solutions it drives. A modular solution, each module has been customized to tackle different business challenges using one underlying technology and infrastructure. Companies can target their most urgent problems and then expand the solution through their enterprise as required. Businesses benefit from streamlined processes across the company and a consistent look and feel. eFLOW® is a scalable solution that grows with the customer's business.

The eFLOW® technology includes mechanisms and engines that allow it to continuously achieve very high recognition rates for even very complex documents. eFLOW® captures all incoming information at all points of origin and collects them into one gateway to the business – from structured, semi-structured, and unstructured document formats, and from multiple channels - scanned paper, fax, email and other digital files, mobile devices and more. Both printed and handwritten content is processed using our powerful OCR and ICR software functionality. The software effectively and automatically extracts, classifies and verifies the relevant information from the documents and routes it intelligently for further action, accelerating business processes.

Our R&D group constantly improves the eFLOW® technology, its algorithms and architecture in order to maintain its industry-leading intelligent capture and recognition of complex documents. In 2012 eFLOW® was recognized by Forrester Research as one of the top five multichannel capture solutions, being the only solution to score 5 out of 5 in both "Intelligent Data Capture" and OCR Support categories. In 2013 TIS released eFLOW5, the latest version of the eFLOW® platform offering enhanced capture at point of origin, performance monitoring and analysis tools and integrated mobile functionalities that address the latest demands on the market. eFLOW5 has enhanced the existing system with a uniquely powerful and comprehensive combination of web-enabled and cloud-enabled architecture,

reinforced security, fully integrated mobile capture and end-to-end capture-enabled workflow.

Based on a single, integrated environment, the eFLOW® platform provides a visual application designed to enable the implementation of a complete solution quickly and easily. Leveraging this modular platform with its open, scalable and flexible architecture, eFLOW® facilitates the development of a wide range of applications, from desktop, stand-alone applications through to high-volume, network-based, remote and local systems. The eFLOW® platform allows maximum flexibility, using one set of rules for all applications, dramatically reducing implementation time while broadening the utility of the solution across the organization.

eFLOW® offers a definite advantage in mixed environments where documents in different formats need simultaneous processing, classification and storage in databases for retrieval at a later date. The technology can easily and concurrently process unstructured, semi-structured and structured documents and manage them within common, integrated processes. eFLOW® manages these tasks without the need to pre-design templates.
eFLOW®'s open architecture allows for integration with all major content management, enterprise resource planning (ERP), CRM and workflow systems as well as with all major multi-function printers and scanners. Therefore, eFLOW® enables end-to-end solutions for enterprise content management projects, eliminating a significant portion of traditional manual data entry, decreasing the need for data entry resources and processing time, and significantly improving the quality, accuracy and value of the data.

eFLOW®'s underlying infrastructure utilizes advanced technologies, such as Microsoft .NET Framework . eFLOW® is based on the Microsoft .NET technology, ensuring compatibility with future Microsoft technologies and other technology partners, and ensuring customers shorter and easier implementation processes, faster run-time and robust and secure execution environments. The use of these technologies allows customers, developers and partners to modify user interfaces, extend functionality and connect TIS' eFLOW® with other mission-critical applications to create fully integrated business solutions. eFLOW® includes support for the XML standard which enables the interchange of documents between systems and applications in a standard format.

eFLOW®'s scalable Client/Server architecture allows all users to uniformly access the solution via one standard interface residing on the eFLOW® server, which results in superior network security and efficiency. Customers can select between a centralized or decentralized mode of operation. Multiple applications and servers may be viewed and controlled at any given moment, on site or remotely; additional servers may be added to a system without any downtime.

To support the needs of clients' global operations, the eFLOW® system can process multiple languages at the interface, database (Unicode), and OCR / ICR levels. Currently the system supports all major European languages, as well as Chinese and Japanese.

Latest Release: eFLOW5

Our newest release eFLOW5 combines a new and improved, cutting-edge version of our robust, industry-leading platform incorporating cloud and web-enabled architecture, a powerful, flexible workflow engine and fully integrated mobile capture. Our flexible, modular full-functionality multichannel enterprise capture applications have been reinforced with a unique set of process management monitoring and supervision tools that let users continually measure and improve document processing operations. These components come together to form the next generation of best-in-class best practice business process solutions that solve enterprises' most critical document-driven business issues - such as accounts payable automation and intelligent digital mailroom.

This latest release preserves all the flexibility, reliability and robust performance for which eFLOW® is well-known, along with

- Scalability & New Architecture; Modern Technology

- Web-Enabled User Interfaces
- Recognition Workflow
- Monitor & Control Tools
- Mobile Capture
- New eFLOW® INVOICE and eFLOW® DMR End-to-End Solutions

eFLOW5 includes an integrated workflow engine which enables eFLOW5 to automate and support all kinds of end-to-end document-centric processes in accordance with specific business rules. These include complex workflows with step sequences such as capture, recognition, validation, approval, payment, intelligent routing, classification, response, archive and more. Users can conveniently access the workflow through a web browser or smartphone. The demand for integration between capture solutions and business workflows increases as enterprises seek end-to-end fully automated processes.

TIS has completely revamped the architecture of eFLOW5 with a new cloud and web-enabled architecture which supports full and easy scalability. Servers are stateless machines – i.e. they can be seamlessly interchanged without interruption. The architecture uses load-balancing to ensure optimal performance of all stations at all times, deciding automatically which server will handle requests and when. So when an unusually heavy load of documents needs to be processed, additional servers can be added, to make the system bigger, stronger, and support more users and more documents.

Organizations seek state-of-the-art technology systems in order to maintain confidence that it will remain relevant for years to come. Great consideration has gone into the selection of the eFLOW5 technology infrastructure, which includes the most up-to-date technology such as HTML5, WCF (Windows Communication Foundation), .NET, and many others.

The eFLOW5 main modules include:

DESIGN: eFLOW5 DESIGN allows the creator of an eFLOW®5-based solution to construct a recognition algorithm without any need to write code. Simple dragging and dropping of recognition components enables the creation of algorithms for very complex documents and recognition needs. These recognition templates can be easily designed by IT administrators or TIS implementation partners.

SNAP: Unique, fully integrated mobile imaging technology can effectively capture any document – large documents, full-size multi-page documents, ID cards, even a check, which can be remotely deposited using the eFLOW5 mobile capture technology. Insurance applications and payments, proof of identification, mobile Bills of Lading, account opening forms and others can be addressed by eFLOW5using its mobile capture capabilities and processed in real-time on our multichannel platform in sync with all content.

COLLECT: eFLOW5 supports collection of all types of content, email, faxes, paper, unstructured, semi-structured or structured. Paper-based documents may undergo central scanning or scanning at the point of origination using traditional scanners, MFPs or even mobile devices. eFLOW5 web-based scanning extends the capture capability across the Internet, enabling rapid input to business process workflow.

RECOGNIZE: eFLOW5 has among the highest recognition rates in the industry, extracting meaning from complex documents such as multiple languages or faded or crumpled documents. The RECOGNIZE module employs multiple recognition engines to provide the most accurate results. This module automatically classifies and identifies those items whose content is incomplete, incorrect or unintelligible and forwards them to the VALIDATE module for manual validation.

VALIDATE: Manual validation can be carried out on a robust server-based format, or the new web-based option based on HTML5, providing a rich and accessible interface for an unlimited number of operators to check flagged items using only Internet-based browsers, anywhere, anytime. Enterprises can operate with maximum flexibility and efficiency by distributing their validation workload across as many stations as they choose, requiring no installation procedures and minimum hardware to activate those stations.

CONTROL & SUPERVISE: The new SUPERVISE module provides graphs, reports and statistics, which help operations managers to meet their service-level agreements, pointing them to bottlenecks, and highlighting where problems exist. This module supplements the CONTROL module, which administers the full capture process. It is used by manual data entry collections supervisors, and can be used to forecast, adjust and improve performance of enterprise-wide data collection activities and then present in executive reports. Companies with millions of documents to be processed of all types and sizes may have dozens of simultaneous SLAs – e.g. 10,000 documents by 10 am, or a million from morning to evening – and SUPERVISE enables managers to identify if a problem slowing the process down lies in the data entry personnel, the recognition servers, or just a peak in the number of inbound documents. Being able to identify and fix these issues rapidly enables managers to meet their business objectives.

REPORT: eFLOW® REPORT module comes pre-loaded with a broad-range set of reports. These reports change dynamically as they receive new data, providing a real-time snapshot of capture and workflow activity and giving executives visibility into capture operations.

DELIVER: eFLOW5 delivers content right into the company's IT systems – integrating easily into SAP, Oracle, or any enterprise ERP, CRM or other system – applying that content to activate business processes and systems that enable the enterprise to get its work done. Because of the high level of accuracy throughout the eFLOW® capture and recognition process, the data transferred to the corporate systems is clean and error-free, eliminating re-processing work.

eFLOW® Core Offering - Enterprise Solutions

The unique and robust eFLOW® platform powers a suite of preconfigured best practice business automation and document and data processing solutions that can be configured to meet the needs of different industry sectors. The core solutions we focus on today are eFLOW® INVOICE/ERP and eFLOW® Digital Mailroom (DMR). In addition we have configured a variety of document process automation solutions that suit the needs of various industries such as Government, Banking, Insurance, etc.

eFLOW® INVOICE for Accounts Payable (AP) Automation

Accounts Payable (AP) automation, is a need shared by almost every large and mid-sized enterprise which receives numerous invoices to pay every day as part of their standard business activities. eFLOW® INVOICE automates and streamlines the process of handling invoices in an organization, and interfaces with the customer's ERP system.

eFLOW® INVOICE lets Accounts Payable and Purchasing Departments streamline their processes – from order to payment. The end-to-end multichannel invoice capture and workflow solution collects invoices of any type, extracts the relevant invoice data and validates it with three-way matching against the database, enabling seamless process automation. The efficient approval workflow, fully integrated with SAP and other ERPs enables efficient payment, improves Accounts Payable monitoring and cash flow planning. Maximized straight-through processing and compressed invoice processing cycles, eliminating delays and penalties and achieving discounts, mean significantly reduced invoice processing costs.

eFLOW® INVOICE streamlines the process from capture to payment in simple straightforward steps. First, eFLOW® INVOICE can capture any invoice that comes into the organization, whether paper, EDI , XML or other digital eINVOICE formats and or PDF via; scanner, email, file transfer or mobile phone. The system automatically recognizes the important fields on an invoice – the date, amount, invoice number, vendor and other key fields. Next it validates the fields and also the invoice as a whole, comparing it to the appropriate purchase order and receipt for goods, extracting relevant information from enterprise IT systems to complete the automatic examination and validation. Then eFLOW® INVOICE manages the approval workflow by applying the internal business rules of the organization to expedite the otherwise long and tedious approval process. Once approved, the invoice can be posted and paid through integration with the ERP system in the organization, whether SAP, Oracle, Microsoft Dynamics or any other – to complete the process.

Important features include the Exception Station module – an easy-to-use graphic user interface that allows manual intervention when invoices are rejected. The eFLOW® Archive module facilitates legal compliance with documentation archiving requirements by enabling business users – and auditors - to easily access, retrieve and view all invoice images from any location. The eFLOW® INVOICE Dashboard gives management visibility into payment schedules, bottlenecks and AP performance metrics. The Dashboard notifications ensure that High Priority tasks such as Early Discounts or SLAs are not missed. The eFLOW® INVOICE Supplier Portal eliminates repeated inquiries

from vendors about invoice status. Vendors can log into the portal through the web to check status themselves.

In 2013, we launched eFLOW® INVOICE on the eFLOW5 platform. Deployment of eFLOW® INVOICE on the new platform enables important enhancements:

- Fully embedded invoice approval workflow;
- Web-based architecture enables users to approve invoices via browser;
- Full integration with mobile device, meaning users can capture and approve invoices via smart device;
- New Supervise module enables users (for example, BPOs) to monitor and analyze invoice-related Service Level Agreements (SLAs) to supervise and improve operational performance.

eFLOW® DMR - Intelligent Digital Mailroom

eFLOW® Digital Mailroom manages all content entering an organization, whether handwritten or printed, regardless of its form or origin. All inbound information is collected on one platform and combined into a single electronic data capture workflow. The data is captured, classified and dispatched at high speed out to the relevant points within the organization and offers powerful sorting, routing, prioritization and automatic response capabilities to ensure that all mission-critical input immediately reaches the right destination while in parallel all routine data is handled efficiently. The solution eliminates delays and errors and accelerates document-centric initiation of processes to significantly improve responsiveness to customers. This process results in improved efficiency and customer service, better relationships with suppliers and business partners, as well as reduced errors and associated costs.

eFLOW® DMR utilizes powerful artificial intelligence algorithms, enabling it to recognize incoming documents in complete context related to other materials, and allowing faster and more accurate recognition and classification. The solution generates automatic responses to incoming mail which facilitate immediate reaction to critical issues, improve responsiveness to customers and significantly save time and money by eliminating routine manual mail-related tasks.

In 2013, eFLOW® Digital Mailroom was deployed on the new eFLOW5 platform, offering many enhancements and new functionalities. The eFLOW5 Supervise and Dashboard modules are key in high volume Digital Mailroom implementations, where they help eFLOW® administrators monitor and optimize system performance to ensure that processes are executed in accordance with Service Level Agreements. The eFLOW5 embedded workflow component gives eFLOW® Digital Mailroom extended Business Process Management capabilities, incorporating content capture into numerous enterprise processes. One area of critical benefit is automatic response management, where workflows generate automatic context-relevant intelligent responses to customers in response to various incoming correspondence. Clearly eFLOW® Digital Mailroom takes advantage of the integrated mobile image processing functionalities in eFLOW5 to enable input of documents of all types via mobile devices; similarly, eFLOW® Digital Mailroom employs another new technology developed in 2013, eFLOW® CrowdBridge, to enable the use of low-cost, efficient crowdsourcing workers to validate content. Web Front Office is another new feature added in 2013; users can split, merge, delete, sort, classify and capture documents using only a web client.

Mobile Image Processing

TIS has leveraged its core offering to develop the next generation of mobile capture and image processing applications, including MobiCHECK, MobiPAY and MobiFLOW. As the market continues to discover more and varied use cases that can benefit from mobile imaging, demand for new solutions increases and TIS is well-positioned to meet this demand. To do so, the company is investing significant resources to expand its mobile solution portfolio. In parallel, the company is marketing its mobile imaging platform as a stand-alone SDK to speed go-to-market, enabling enterprises and other developers to leverage TIS' technologies to develop and configure additional apps on the TIS mobile platform.

The mobile applications harness the company's long-lived recognition & deep imaging expertise to enable sophisticated next-generation capture and imaging applications that run on myriad mobile devices for a variety of new use cases that are becoming increasingly important for enterprises today. Our patent-pending APMI (Automatic Perfect Mobile Image) technology and embedded quality verification functionalities ensure that our applications provide the best user experience available.

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Our "APMI" technology delivers easy-to-use "auto-capture" functionality. APMI guides the user to hover with the smartphone above a document; in the split second that the APMI technology identifies that conditions are sufficient to take the picture (based on lighting, angle, distance, stability and other parameters) it automatically takes the picture. The APMI-based application also helps the user by hinting how the handset should be held (e.g. - closer, turn right, tilt down) in order to improve image quality. Consequently the user avoids time-consuming repetitive image creation, examination, enhancement and rejection. A high-quality image of the document is captured the first time out.

MobiCHECK enables check deposit via mobile device. The application lets banks offer a simple, easy to use, quick and secure mobile check deposit solution employing innovative capture and recognition algorithms and integrating with bank core systems. Upon automatic capture of a check image, the system interfaces with the bank's server to authenticate user credentials, processes the image and extracts all required data, and then interfaces again with the bank core system via CHECK21 protocol to accept the check. MobiCHECK can be provided as either a standalone application or as a set of libraries that can be integrated into a bank's broader mobile services platform.

MobiPAY enables users to add payees and pay bills simply by capturing the image of the bill and of the payment method – check, credit card, etc. MobiPAY then applies intelligent recognition algorithms to automatically identify and extract relevant data. This includes the type of bill, the amount payable and the payee (e.g. the municipality, the phone, gas or electric company). MobiPAY then seamlessly performs the selected transaction against the user's bank account - be it adding the payee or actually paying the bill. By using MobiPAY, users can also enable new payment methods for their accounts. For example, by capturing an image of a check or of a credit card, they can instruct the bank to use that payment method information in the future. By using the stored information, future mobile payment transactions can be carried out even faster.

MobiFLOW is a multi-purpose mobile capture and processing platform that enables capture of any document of any size – A4 or multiple page documents - "in the field" using a mobile device. The software recognizes, indexes and classifies the document locally and can then transfer it to an eFLOW®®-based MobiFLOW server for additional classification and recognition as well as for manual validation. MobiFLOW uses a combination of "AutoCapture" and "document video capture" methodologies in order to allow the user to easily capture the document. The unique characteristic of the MobiFLOW solution is the fact that much of its capabilities are found on the mobile device, preventing the user from having to wait until the document is transferred to the server in order to be sure that the document image is sufficiently high quality for recognition and understanding. MobiFLOW serves the enterprise demand to transport business processes dependent upon complex documentation to the mobile workforce via mobile device.

An important advantage of all these applications is that they can be fully integrated with the eFLOW® platform and various eFLOW® industry solutions. For example, using eFLOW® for Banks with MobiCHECK together, banks can offer their customers the fastest, smoothest, most accurate and reliable check processing experience possible. By accelerating both the external and internal steps in the check processing workflow, the bank can speed fund transfers and account reconciliation to ensure its account holders optimal customer service.

Since 2012, TIS has successfully introduced its mobile suite to the high-paced and exponentially expanding mobile capture market in the US, where we have received recognition and acceptance through signing highly-reputed partners such as Jack Henry & Associates and recently a multi-million dollar agreement with Fiserv, which was reported by Gartner Research to have game-changing significance for the digital banking industry. (Source: "Fiserv-TIS Alliance Signals Rapid Shift in Mobile Imaging Platforms" Stessa Cohen, Gartner Research, October 15, 2013) In 2013 we continued to develop a range of different mobile image processing applications to support new use cases with great market potential, such as pharmaceutical prescription processing, Identity Card verification for enrollment and registration programs, MobiMETER for automatic utilities meter readings and MobiCLAIM for secure mobile claim submission, the POC for which is the final stages of acceptance by one of the world's leading consulting firms.

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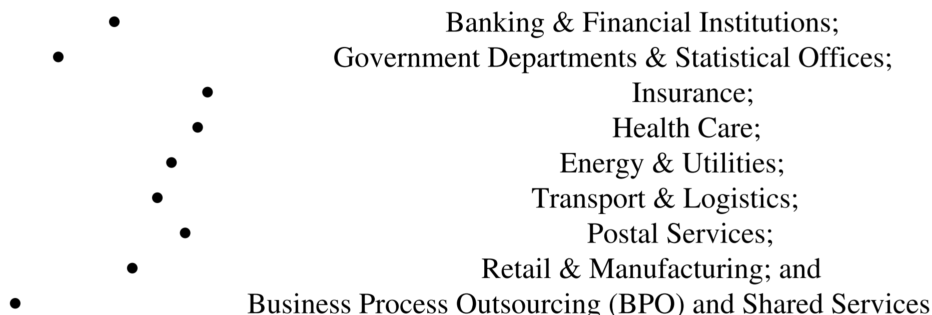
eFLOW® Industry Solutions

We provide innovative solutions to a range of vertical markets in both the private and public sectors. With eFLOW®clients gain a remarkable improvement in business process efficiency while reducing their operating costs. We have packaged eFLOW®in pre-configured solutions for the following sectors:



- Banking & Financial Institutions;
- Government Departments & Statistical Offices;
- Insurance;
- Health Care;
- Energy & Utilities;
- Transport & Logistics;
- Postal Services;
- Retail & Manufacturing; and
- Business Process Outsourcing (BPO) and Shared Services

Our eFLOW® applications and solutions provide proven value to all the industry markets above; we have been very active automating document-centric processes across various industry segments, including not only in the financial services sector (banking, insurance) but also in postal, transportation and logistics and retail and manufacturing. In parallel we expend great efforts to build and support our partnerships with many large BPOs that base their document processing services on eFLOW® technology.

eFLOW® e-Government & Forms Processing

Our continue to be a global leader in processing population censuses and related projects in which governments need to collect and process high volumes of form-based data in very short timeframes. Related projects include election processing projects, social security, tax and other government form processing projects, as well as postal service projects in which various types of postal items are quickly scanned and processed for accurate and rapid tracking and delivery. In 2013, in a United Nations Population Fund (known as UNFPA) bid for census solutions, our representative was awarded a Long Term Agreement or LTA certifying TIS as a UNFPA supplier for a comprehensive census management package including scanner hardware, recognition software, census questionnaires and related census project services. The LTA agreement is posted in the official UN procurement portal UNGM (United Nations Global Marketplace). Any country that will execute a census within the next three years can obtain the eFLOW®Census Management Package via the UNFPA.

eFLOW® for Banks

The eFLOW® for Banks solution automates numerous daily typical document-centric processes, including account opening, lockbox, loan origination and many more. The eFLOW® for Banks solution enables banks to more easily implement various procedures and workflows, such as account initiation and administration involving the application of regulatory rules such as KYC (Know Your Customer) and Four-Eyes. Check clearing, lockbox, fraud detection and signature verification, credit card verification and many other document- based processes can be digitized and automated to significantly improve efficiency and customer satisfaction.

New Technologies Driving Future Growth

From its inception, TIS has earned its reputation for being a visionary technology leader by bringing strong value to the market that enterprises choose over competitors; our high percentage of customer retention is another proof point of the lasting value of our core offering. In parallel with the steady and stable business we have built for our

traditional solutions, TIS has also worked to grow revenues faster by developing new growth engines as offerings for new markets that demonstrate high growth potential. Top Image recognized very early on the great value of the mobile device for document capture and was early to market with its mobile imaging offering. Since then the program has developed into strong portfolio of mobile image processing applications that is attracting great interest from the now maturing mobile capture market, for which analysts predict that the growth potential is enormous.

Along with integrated mobile capture, following the recent launch of eFLOW5, in 2013, TIS developed new technology for crowdsourcing and launched eFLOW® CrowdBridge, an innovative cloud-based collaboration between TIS and Amazon that outsources cost-intensive elements of capture operations via crowdsourcing. Developed on Amazon Mechanical Turk, the solution allows enterprises to accurately, efficiently, economically and securely validate manual content on crowdsourcing platforms to substantially reduce IT and labor resource costs. eFLOW® CrowdBridge is available to 500,000 registered Amazon Mechanical Turk workers from over 190 countries worldwide. This forward-thinking application of cloud-based technologies for document capture is certain to have far broader applications beyond validation in the crowd that will meet other diverse and valuable business needs.

Pushing the envelope even further, in 2013 TIS filed a patent to the U.S. Patents Office for another innovative new capture product - GlassCapture™ running on a wearable computer such as Google Glass; GlassCapture™ recognizes and processes documents on the fly, aiding users to make decisions based on the captured documents and related information retrieved during document processing. TIS expects GlassCapture™ to bring about a paradigm change in how people interact with documents, further empowering the remote workforce. TIS illustrates that the successful combination of experience and expertise in the document capture space combined with thorough research of the emerging mobile device technologies is an effective synergy that facilitates cutting-edge new products with real business value that are sure to become solid drivers for Top Image System's future growth.

Principal Markets

As of December 31, 2013, we operated offices and branches in Israel, the United States, the United Kingdom, Germany, Hong Kong, Singapore and Japan. Our U.S. branch is responsible for sales, marketing and support activities in the United States, Canada, and Latin America. In addition, we believe that significant opportunities exist in other countries of Western and Eastern Europe, South Africa and Australia. We have several local sales and technical representatives in France, Spain, Italy and the Netherlands. These representatives manage our sales, marketing and operational activity in their locations, providing integration and implementation services, as well as marketing support.

The following table summarizes total revenues by category of activity and geographic market for each of the last three completed fiscal years:

Product Revenues by Region
(U.S. dollars in thousands)

	2011			2012			2013		
	$	%		$	%		$	%	
Europe	10,370	74	%	9,146	60	%	4,934	39	%
Far East	1,060	7	%	1,534	10	%	2,362	19	%
North and South America	1,635	12	%	2,442	16	%	4,407	35	%
Africa & Middle East	864	6	%	2,052	13	%	711	6	%
Israel	120	1	%	129	1	%	114	1	%
Total	14,049	100	%	15,303	100	%	12,528	100	%

Service Revenues by Region
(U.S. dollars in thousands)

	2011			2012			2013		
	$	%		$	%		$	%	
Europe	10,111	69	%	10,790	67	%	11,632	70	%
Far East	3,109	21	%	3,482	22	%	3,220	20	%
North and South America	1,247	9	%	1,595	10	%	1,131	7	%
Africa & Middle East	103	1	%	112	1	%	531	3	%
Israel	54	0	%	48	0	%	15	0	%
Total	14,624	100	%	16,027	100	%	16,529	100	%

2. Description of Markets and Trends

Our technologies and software solutions are generally categorized under the ECM (Enterprise Content Management) segment of Enterprise IT, and within this segment we offer Multichannel Capture, Workflow and Delivery solutions. Enterprises increasingly demand integration between their multichannel capture solutions to their business workflows, an area generally referred to as Business Process Management (BPM) and more specifically referred to in this context as “Smart Process Applications”, a term coined by Forrester Research. Smart Process Applications are simpler to implement than their BPM predecessors and are designed to streamline activities involving people, data and processes, combining content and context. TIS continues to expand activities in this area. In addition, our mobile imaging platform and expanding portfolio of mobile imaging applications are not only a part of our multichannel capture solution but are also marketed independently in the new and rapidly expanding, high-growth potential mobile imaging market, which targets primarily but not exclusively the mobile banking market.

Image and Capture segment

We believe in the robustness and that future growth prospects of our core business are promising. The worldwide capture software market is expected to be worth $4.2 billion by 2016, showing a CAGR of 11%. (source: Worldwide Market for Document Capture Software Featuring 2011-2016 Market Analysis, Harvey Spencer & Assoc., July 2012) Within this market, TIS is a player in various sectors, including in the largest and still growing segment of Batch Transaction Capture, much of the growth in which comes from Invoice Processing and AP Automation sales. TIS also participates in the Ad-Hoc Capture, Transactional Capture and Batch Image capture segments, expected to grow at CAGRs of 15.2%, 13.3% and 11.8% respectively by 2016. Looking at the geographical breakdown of this market, growth is highest in North America, followed by EMEA and then Rest of World (same source). We are therefore investing considerable resources to expand our activities in North America.

In 2012, Forrester Research surveyed the vendors in the multichannel capture market and ranked TIS as one of the five leaders of this segment. Describing this market looking forward, Forrester predicted that in the next five years, capture will incorporate advanced analytics, mobile solutions, BPM and case management, and stronger integration with enterprise production platforms. Office staff and point-of-service workers who capture information to complete a transaction invoke so-called on-demand capture, i.e., the ability to capture information at the point of origin utilizing standalone scanners, multifunction devices, and mobility. Forrester believes that this will be the growth market for the multichannel capture. (Source: The Forrester Wave: Multichannel Capture, Q3 2012)

As mentioned, the integration between capture and workflow activities demanded by enterprises has brought TIS to play also in the area of business process automation (BPA), in a segment that Forrester Research refers to as Smart

Process Applications (SPA); they forecast that smart process apps and BPM suites for building custom smart process apps together will grow to $34B by 2015, with a CAGR of 18%. (Source: Smart Process Applications Fill a Big Business Gap, Forrester Research, August 2012).

In a later report analyzing Multichannel Capture, Business Process Management, and Smart Process Applications from 2013 through 2016, Forrester indicates that the combined market opportunity of multichannel capture, BPM and SPA will grow from $7.1 billion in 2012 to $14 billion in 2016, effectively doubling in four years. (Source: Market Analysis of Multichannel Capture, Business Process Management, and Smart Process Applications, 2013 through 2016, Forrester Research, January 2013) In this report, Forrester forecasts that new growth in multichannel capture will come mainly from mobile in developed markets, while production and on-demand drive growth in emerging markets. BPM enjoys a CAGR of over 18%, significantly higher than the 11% CAGR for the global software market as a whole. The SPA market seems strongest in the financial services, government, insurance, and healthcare verticals; the financial services market has the largest market size, and tends to be an early adopter of capture and smart technology.

Focus on High Growth Markets: The New World of Mobile Image Processing

The idea of capturing structured and unstructured data using a mobile device is a natural outgrowth from our core activity in the multichannel capture market. As mentioned, enterprise capture is evolving, moving from batch image capture in large centralized processing centers to on-demand ad-hoc transactional capture at multiple points of origin. Today consumers are not only willing, but in fact demanding the freedom to execute self-service capture in exchange for the convenience of being able to carry out the capture process anytime, anywhere – for example, using their own mobile devices. These changing trends are changing enterprise operations.

To illustrate, in the financial institutions segment, banks are moving away from the traditional time and cost-intensive solution of outsourced remote deposit capture vendors processing batches of paper checks and adopting instead new mobile check deposit solutions that offload the costly process of capture onto the consumers themselves. TIS is perfectly positioned to provide our solutions to these financial institutions, as well as to enterprises across other verticals with other similar use cases. Unlike our B2B core enterprise market, by actively involving consumers as participants in the business processes, the business model for the new mobile imaging market is B2C, exponentially expanding the number of users – and number of licenses – involved in any given sale.

In 2012, leading capture expert Harvey Spencer forecast that the Mobile Capture market would expand into a $1.6B market by 2016. (Source: Worldwide Market for Document Capture Software Featuring 2011-2016 Market Analysis, Harvey Spencer & Associates, July 2012) Across the board, industry analysts have recognized that the exponential growth in sales of smart connected devices, far beyond the sales of PCs and other devices, portended that the demand for applications to leverage those devices would soar. IDC forecast that unit shipments of smart connected devices would have a CAGR of 15.4% for the five-year forecast period 2010-2016. ("Worldwide Smart Connected Devices Market Forecast, IDC, Q4 2012) Forrester Research described a mobile power shift accelerating as devices, access and apps skyrocketed globally; they predicted that by 2016 US consumers would own 126 million tablets and 257 million smartphones, driving a mobile app market that would reach $557B by 2015. (Source: Forrester Research Consumer PC and Tablet Forecast, 2011 to 2016 (US) within "Mobile is the New Face of Engagement", Forrester Research, Q1 2012) Leading industry analyst firm Gartner Research wrote "We expect global mobile transaction volume and value to average 42% annual growth between 2011 and 2016, and we are forecasting a market worth $617 billion with 448 million users by 2016." (Source: Forecast: Mobile Payment, Worldwide, 2009-2016, Gartner, Q2 2012)

Enterprises began to push hard to harness the power of this new platform. Business leaders began to prioritize mobile investments. Forrester predicted that business spending on mobile projects would grow 100% by 2015. They forecast that tablet and smartphone apps, even at an average price of $2.43, would grow explosively to $56 billion in 2015 as first-time device owners tapped into the wealth of innovative apps. (Source: Mobile is the New Face of Engagement, Forrester Research, Q1 2012). They indicated that enterprises sought to take advantage of mobile devices for systems of engagement to connect easily and rapidly with customers, partners, employees and even with smart

appliances. The remote workforce can leverage mobile devices to connect to enterprise applications. Multichannel capture solutions such as TIS' eFLOW® can leverage mobile devices to capture documents anytime, anywhere.

The value of leveraging mobile devices to optimize processes has been especially appealing to financial institutions, where customers suffered from low visibility and delays in document –driven processes. One study in 2011 showed the number of mobile banking app users to increase by 20% quarter to quarter. Of 234 million smartphone users in the US, 36.7m, or 16%, had accessed personal financial information via a mobile device in the past month. (Source: comSCORE State of Online and Mobile Banking, February 2012) Analysts urgently recommended that their banking customers make mobile banking available to their customers. In "The Mobile Banking Imperative" published in Q4 2012, Forrester Research analysts indicated that in the US and Canada, more than one in five online adults are now active mobile banking users. They expect to see more than 100 million active mobile bankers in the US alone by 2017. (Source: The Mobile Banking Imperative, Forrester Research, Q4 2012) Going to our earlier example of check deposit operations, there are predictions that from no checks in 2010, mobile check deposit will grow to a volume of 2.2B checks by 2016. (Source: Mobile Financial Services Tracking Study, Alix Partners, May 2011)

TIS has developed numerous apps to supply this growing demand. Another example is mobile bill payment; adoption of mobile bill payment among online consumers grew 33% from 2011 to 2012. (Source: Billing Household Survey, Fiserv 2013) Another report predicts that mobile bill pay customers will increase from 14 to 57 million. (Source: Aite: Mobile Banking Forecast: Smartphone and Tablet Use in the US - December 2012)

While the mobile banking segment is among the strongest mobile technology early adopters, mobile apps are gaining traction across all verticals, from insurance to healthcare, from utility companies to telecom. With huge opportunity in both traditional B2B markets where mobile apps serve the mobile workforce and in B2C segments where enterprises promote usage of mobile apps by their consumer customers, the mobile image processing market is expected to grow exponentially.

With so many and varied opportunities developing across the market concurrently, in parallel to its existing application portfolio, TIS is now making its mobile imaging platform available to third-party developers so that TIS can concentrate its resources on its proprietary mobile technology. In contrast to the "first generation" of mobile capture applications whose deployment proved to be challenging, especially in the area of image quality, TIS'' mobile apps have overcome the image quality challenge and provide "recognition-proof" images for documents and checks captured by mobile devices.

Seasonality

Seasonality does not currently affect our business in a material manner because the seasonality of different markets substantially offset each other.

Our business significantly depends upon the requirements of large corporations and governmental agencies. As many of these entities operate according to annual budgets, their tendency is to approve budgets in the beginning of the fiscal year and release the budgets toward the end of the fiscal year. This mode of operation affects our results of operations throughout the year. Nevertheless, in Japan and the United Kingdom, the fiscal year for most of our customers ends on March 31 while in other markets the fiscal year ends on December 31. Thus activity in the Japanese and UK markets tends to reduce the seasonality of our other business. We could become subject to fluctuations in seasonality in the event the volume of business from different markets changes significantly, including, but not limited to, strong and rapid growth in the United States.

See the section of Item 5 herein entitled "Sale Cycle" for additional details.

5. Marketing Channels

We continue to sell our solutions both through our own direct sales force as well as via partners, resellers and integrators worldwide. In terms of direct sales channels, in 2013 we continued to build up our new US office and boosted our direct sales efforts in the Americas by hiring a US-based Senior Director of Global Marketing along with additional sales people to sell both our mobile platform and portfolio as well as our core enterprise solutions.

TIS has expanded its credibility, brand recognition and presence worldwide through its channel sales program and investment in technology partnerships. TIS cooperates with over 70 partners, including Xerox, PFU (Fujitsu) Imaging Solutions, DICOM International and Kodak. We work with numerous eFLOW® resellers worldwide as well as with leading BPOs. We maintain technology partnerships with the world's leading software vendors as well as with recognition engine providers and with BPM and workflow providers. We also hired a new Director of Corporate Alliances to reinforce our focus on enhancing existing as well as developing new partnerships.

Partnerships are key in the new arena of mobile imaging, where our strategy is to accelerate our presence primarily through developing partnerships for sales. Following important agreements forged with well-known suppliers to the US financial industry such as TransCentra and Jack Henry & Associates, TIS significantly strengthened its position by signing a substantial agreement with Fiserv, one of the leading global solution providers to banks and other financial institutions. TIS is open to establishing a broad network of mobile imaging partners to maximize its market access to this large, dynamic and growing sector.

7. Competition

Competition in the multichannel capture, workflow and delivery market is intensifying. The market is fragmented and is characterized by numerous local applications, varying requirements, a multitude of specific vertical solutions and various combined software offerings to customers. Competitors usually focus on one or more key business processes and their solutions address differing needs which vary according to company size, industry, geography and platform. Within the ECM lifecycle, TIS is focused primarily on the Imaging and Capture phase along with integrated, embedded BPM workflow capabilities. The big three ECM players (IBM, Opentext, and Oracle) primarily focus on the stages that follow Capture, meaning BPM, content storage (archiving) and records management.

In contrast to smaller players, the eFLOW®platform was built from ground up and covers the entire spectrum of Capture / Imaging, as opposed to those that focus only on specific areas (such as Accounts Payable). The data capture/imaging market is highly fragmented with more than 50 players. We compete with EMC, Kofax, Readsoft, Perceptive Software, IBM (who acquired Datacap), Oracle, Banctec, Hyland (who acquired AnyDoc), eCopy, Global360, Ikon, Itesoft, Parascript, Scansoft, Scan Optics, as well as a variety of manual data entry systems.

Globally, in our core enterprise offering domain, our three main competitors are Kofax, Readsoft and EMC. Kofax became the market leader via acquisitions and strong distribution channels. Readsoft is our second competitor mainly in the AP - Invoice solution and especially in the EU market. EMC which acquired Captiva is strong in the global enterprise marketplace and is also a significant competitor. In the United States and Europe, we often compete against multiple competitors supplying similar solutions. In the Asia Pacific region we compete mainly against local technology providers and the large global competitors. TIS competes in global and regional tenders as well as in the open market.

In the area of mobile capture and payments, we compete primarily with Mitek Systems, Inc., who was first to market and is mostly active in the US. Mitek has commenced a legal suit against us claiming infringement of patents they own in the area of mobile check deposit. Kofax also has brought to market a mobile capture solution. As the market is so large and growing and changing so rapidly, yet so new, we welcome competitive activity which serves primarily to educate the market and increase prospects' confidence.

Licensed Technology

We license various recognition software technologies from third parties in order to utilize them in our products. We currently use technologies developed by several different companies. Depending upon the requirements of each customer, we incorporate one or several of such technologies into a specific product. We are not dependent upon any single source of recognition software technology and the various technologies that we use are, in large part, interchangeable.

Intellectual Property Rights

Our success depends upon our proprietary software technology. We rely on trade secret protection, employee and third-party nondisclosure agreements and other intellectual property protection methods to protect our confidential and

proprietary information. In addition, we are engaged in efforts to protecting our intellectual property through the filing of patent applications. Despite these efforts, we cannot be certain that others will not otherwise gain access to our trade secrets or copy and use information that we regard as proprietary without our authorization. None of our patent applications have yet been productive of a patent and we cannot assure you that we will file for or obtain any patents. In addition, we cannot assure you that:

- any patents which we may obtain will be broad enough to protect our technology, will provide us with competitive advantages or will escape challenge or invalidation by third parties;

- the patents of others will not have an adverse effect on our ability to do business; or
- others will not independently develop similar products, duplicate our products or, if patents are issued to us, design around these patents.

Further, the laws of foreign jurisdictions where we sell and seek to sell our products may afford little or no protection of our intellectual property rights. We cannot assure you that the protection provided to our intellectual property rights by the laws and courts of foreign nations will be substantially similar to the remedies available under U.S. law.

We believe that our technology has been developed independently and does not infringe on the proprietary rights of others. However, we cannot assure you that the technology does not and will not infringe or that third parties will not assert infringement claims against us in the future. In the case of infringement, we would, under certain circumstances, be required to modify our products or obtain a license. We cannot assure you that we would be able to do either in a timely manner under acceptable terms and conditions or at all, or that we will have the financial or other resources necessary to defend successfully a patent infringement or other proprietary rights infringement action. Further, even if we were not infringing, intellectual property litigation is expensive and time consuming for management. Failure to do any of the foregoing could have a material adverse effect on us. Furthermore, if our products or technologies are deemed to infringe upon the rights of others, we could become liable for damages, which could have a material adverse effect on us.

In addition, we license components of our software systems and technology from third parties in reliance on such parties' representations as to ownership of the licensed intellectual property. If our licensors are found not to own or have rights to sublicense such rights to us and we are unable to replace the licensed technology with a comparable substitute, there could be a material adverse effect on our business prospects and financial results. Even if we were to replace licensed technology with available alternatives, it could take time to identify the best replacement and integrate it into our software. The delay and uncertainty could negatively impact our financial results.

We believe that product recognition is an important competitive factor in the form processing industry. Accordingly, we promote the eFLOW® name in connection with our marketing activities. On March 10, 2009, the United States Patent and Trade Office (the "USPTO") registered a trademark for one of our significant solution and module names, namely eFLOW®, for computer software applications; namely, software applications that processes and integrates data provided from various sources across a single platform, in Class 9 (U.S. CLS. 21, 23, 26, 36 and 38).

Likewise, on May 26, 2009, the USPTO registered our trademark TIS® for use in connection with "Application service provider (ASP) featuring software, technical consultation and technical assistance in the field of computer systems and installation, maintenance, and updating of computer software" in International Class 042 (U.S. CLS. 100 and 101). Similarly, on May 26, 2009, the USPTO registered our trademark TOP IMAGE SYSTEMS® for use in connection with "Technical consultation in the field of computer systems; technical assistance in the nature of technical support services, namely, troubleshooting of computer hardware and software systems; installation, maintenance and updating of computer software", in International Class 042 (U.S. CLS. 100 and 101).

On September 25, 2012, TIS America Inc. and Top Image Systems, Ltd. were named as defendants in Case Number 1:12-cv-01208-UNA, filed by Mitek Systems, Inc. for alleged infringement on five United States patents in the United States District Court for the District of Delaware. Mitek filed a First Amended Complaint on January 11, 2013. An answer to the First Amended Complaint was filed on January 28, 2013 adding one additional patent. A scheduling order was entered on February 21, 2013 discovery is underway and a trial is scheduled for December 8, 2014.

The lawsuit relates to technology used in our MobiCHECK software. Mitek is seeking a declaration of infringement, an injunction, damages, and enhanced damages, costs, expenses including reasonable attorneys' fees, pre-judgment and post-judgment interest and any other relief, in law and in equity, to which the Court finds Mitek is justly entitled.

While we believe that Mitek's claim is without merit, we cannot assure you that the suit will be dismissed or that we will prevail. If Mitek is successful, or if we agree to settle the lawsuit, we might be unable to pursue, or severely limited in, our marketing and sale of MobiCHECK and possibly other products might be restricted or be subject to significant obligations to pay royalties. Further, even if we prevail in the lawsuit, intellectual property litigation is expensive and tends to divert management attention from our business. Accordingly, if any of the foregoing risks are realized, the lawsuit could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Warranty and Service

We generally negotiate our warranty obligations with respect to our products on a case-by-case basis. Normally our warranty period is up to three months. We may be exposed to potential product liability claims by our customers and users of our products. Currently, we hold worldwide product liability insurance and professional indemnity policies that provide coverage limited to different amounts up to $9 million. Despite this coverage, a successful claim against us for product liability could have a material adverse effect on our financial condition. While we have not experienced material warranty liability in the past, we cannot assure you that future warranty expense will not have an adverse effect on us.

We have various maintenance and support agreements with many of our customers. These agreements typically provide us with regular payments of fees ranging 15-25% per annum of the applicable license fees. Our technical team also provides support to value-added resellers, distributors and systems integrators to assist in the integration of our products.

Governmental Regulation

The government of Israel encourages research and development projects through the OCS pursuant to the Law for the Encouragement of Industrial Research and Development, 1984 (the "Research Law"). In 2013, as several times before, we have received grants from the government of Israel through the Office of the Chief scientist of the Ministry if Industry Trade and Labor, or the OCS, under the Law for the Encouragement of Industrial Research and Development, 1984 for the financing of a portion of our research and development expenditures in Israel. Such grants bear royalties on sales of products utilizing technologies developed using such grants or arising out of such technologies, up to a maximum of 100% of the amount of participation received, linked to the dollar plus interest at the LIBOR rate for 12 month loans on the first day of trading in the year during which the grant was approved. The total grants received in 2013 were about $214,000

The terms of the OCS grants limit our ability to transfer technologies outside of Israel without the prior approval of the OCS, if such technologies were developed using OCS grants or arose out of such technologies. The OCS has the right but not the obligation, to allow transfer of technology outside of Israel. Also, even if we receive approval for the transfer of technology outside of Israel, such approval is likely to involve a significant payment to the OCS. We cannot be certain that any approval of the OCS will be obtained on terms that are acceptable to us, or at all.

We also benefit from being designated as an "Approved and Benefited Enterprises" under Israel's Law for the Encouragement of Capital Investments, 1959. For additional information, see the section below entitled "Additional Information - Law for the Encouragement of Capital Investments, 1959."

Additionally, we may be subject to varied regulation in the markets where we sell our products. The burden of complying with such regulatory schemes (which may be contradictory) could have a material adverse effect on our ability to diversify or grow our sales.

Organizational Structure

Top Image Systems Ltd. is the parent company of several companies. It has a number of subsidiaries worldwide, the most significant and operational of which are the following wholly owned subsidiaries:

— TIS America Inc. (incorporated in Delaware);

— Top Image Systems UK Limited (incorporated in the United Kingdom);

— Top Image Systems (2007) UK Limited (incorporated in the United Kingdom), formerly known as CPL;

— TIS Deutschland GmbH (incorporated in Germany);

— Top Image Systems (Asia Pacific) Pte. Ltd (incorporated in Singapore), formerly known as Asiasoft Global Pte Ltd ; and

— TIS Japan Ltd. (incorporated in Japan)

Top Image Systems (Singapore) Pte. Ltd and Asiasoft System (China) Limited, are wholly-owned subsidiaries of Top Image Systems (Asia Pacific) Pte. Ltd, formerly known as Asiasoft Global Pte. Ltd. Top Image Systems (China) Ltd. Is a wholly-owned subsidiary of Asiasoft System (China) Limited, and is currently not operational.

Property, Plant and Equipment

Our principal executive offices are located in Ramat Gan, Israel and our principal business and service operations are located in Cologne, Germany, New York, USA, Tokyo, Japan, and Singapore. We also have regional offices in Hong Kong.

All facilities are leased. The following table sets forth details of the square meters and approximate monthly rental fees in U.S. dollars of our main current leased property, all of which are fully utilized:

Facility	Monthly rent in USD (approximate)	Square meters (approximate)	Expiration date
Ramat Gan, Israel	14,000	670	2014
Cologne, Germany	24,000	740	2016
Tokyo, Japan	6,000	120	2015
Hong Kong	2,000	100	2015
New-York, USA	2,000	12	2014
Singapore	10,000	200	2015

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Management’s discussion and analysis of financial condition and results of operations

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes and other financial information contained elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties, including those discussed in "Item 3. Key Information—Risk Factors." See "Forward-looking statements" at the beginning of this annual report.

Overview

We develop and market automated data capture solutions for managing and validating content gathered from customers, trading partners and employees. Whether originating from electronic, paper, mobile or other sources, our solutions deliver digital content to the applications that drive an enterprise by using advanced technologies including wireless communications, servers, form processing and information recognition systems. Our software improves business processes by integrating different types of data from multiple sources. Our products integrate information regardless of the source and format of the data, whether structured, as in the case of application forms or surveys, or semi-structured, such as invoices, purchase orders, checks, freight and shipping bills and others. Our solutions seamlessly deliver the extracted data to applications such as document and content management, enterprise resource planning, or customer relationship management. Our solutions minimize the need for manual data entry by automatically reading, identifying, interpreting and processing information, thereby increasing data capture accuracy and the rate of information processing. The platform solution we offer replaces traditional means of extracting information from paper-based documents and integrates multiple information sources into a single enterprise-level solution that increases speed and efficiency.

We develop and market our software solutions to wide range of customers, based on one end-to-end solution that automatically classifies, recognizes and understands data processed into the organization systems. We process, validate and integrate the data into ERP, CRM and workflow systems, while our solution, eFLOW® Unified Content Platform, performs business-critical key data capture, lying within incoming documents (paper forms, eForms, fax, image files, microfiche and electronic).

In 2013, we had net loss of $187,000 compared to net income of $3,843,000 in 2012.

Sales Cycle

Our sales to end-user customers, value-added resellers, distributors and system integrators are made on open credit terms and we do not hold collateral to secure payment. The terms of the arrangements with these customers, generally, do not provide them with the right to return the purchased products or solutions. Payment with respect to such sales is generally due within a specified period following receipt of an invoice. The period varies from customer to customer, but usually we provide credit terms of up to 120 days for end-user customers and up to 180 days for resellers, distributors and system integrators. In some arrangements, management can offer longer payment terms as mentioned above, evaluating business sense, creditworthiness of the customer and other facts needed to establish such decision.

Our sales cycle for eFLOW® solutions ranges from 9 to 12 months. These sales cycles vary by customer and could extend for longer periods depending on the time required by the customer to evaluate the utility of the applicable product to its operations. Our operating results could vary between periods as a result of this fluctuation in the length of our sales cycles, the purchasing patterns of potential customers, the timing of introduction of new products and product enhancements introduced by us and our competitors, technological factors, variations in sales by distribution channels, competitive pricing and generally non-recurring product sales. Consequently, our product revenues may vary significantly by quarter.

Geographical Considerations

The following table summarizes total revenues by geographic market for each of the last three completed fiscal years.

Revenues by Region
(U.S. dollars in
thousands)

	2011			2012			2013		
	$	%		$	%		$	%	
Europe	20,481	71	%	19,936	64	%	16,566	57	%
Far East	4,169	15	%	5,016	16	%	5,582	19	%
North and South America	2,882	10	%	4,037	13	%	5,538	19	%
Africa & Middle East	1,141	4	%	2,341	7	%	1,371	5	%
Total	28,673	100	%	31,330	100	%	29,057	100	%

Acquisitions and Dispositions

We didn't engage in any acquisitions and dispositions during the three years ended December 31, 2013.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, which could potentially result in materially different results under different assumptions and conditions. These are our management's best estimates based on experience and historical data; however, actual results could differ materially from these estimates. Our significant accounting principles are presented within Note 2 to our consolidated financial statements attached to this annual report. While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. Management believes that the following policies are those that are most important to the portrayal of our financial condition and results of operations and are the most critical to aid in fully understanding and evaluating our reported results:

- Revenue recognition
- Allowance for doubtful accounts
- Convertible Debentures
- Contingencies and accrued expenses
- Share-based compensation
- Income taxes

Revenue Recognition

We derive our revenues mainly from sales of products and services. Product revenues include mainly sales of software. Revenues from services include maintenance and technical support, consulting and training.

We account for software sales in accordance with ASC 985-605 "Software". ASC 985-605 generally requires revenues earned from software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements determined by the vendor's specific objective evidence ("VSOE") of fair value. Revenues are allocated under the "residual method" when VSOE of fair value exists for all undelivered elements and VSOE of fair value does not exist for all of the delivered elements, and when all ASC 985-605 criteria for revenue recognition are met.

Revenue from license fees is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectability is probable.

Maintenance and support revenue are deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The VSOE of fair value of the undelivered elements (maintenance, support and services) included in multiple element arrangements is determined based on the price charged for the undelivered element when sold separately or renewed.

Deferred revenues represent mainly unearned amounts received under technical support and maintenance arrangements that are paid by customers and not yet recognized as revenues.

We generally do not grant a right of return to our customers.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses inherent in our accounts receivables portfolio. In establishing the required allowance, we base our determination, among other factors, on information available about the debtors' financial condition, the volume of their operations and our evaluation of the security received from them. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is determined to be remote.

Convertible debentures

We adopted ASC 825, "Financial Instruments" as of the beginning of 2008 and irrevocably elected to apply the fair value option to our convertible debentures. The primary reasons for electing the fair value option were simplification and cost-benefit considerations as well as expansion of use of fair value measurement consistent with the FASB's long-term measurement objectives for accounting for financial instruments. The fair value of the debentures is determined according to its quoted market price in TASE.

As of December 31, 2013, we had no outstanding convertible debentures.

Contingencies and Other Accrued Expenses

We are, from time to time, involved in claims, lawsuits, government investigations, and other proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

Share-based compensation

We have selected the Monte-Carlo option-pricing model to determine the fair value of our awards on the date of grant. Determining the fair value of equity-based awards on the grant date requires the exercise of judgment, including the amount of equity-based awards that are expected to be forfeited. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates.

Although management believes that their estimates and judgments about equity-based compensation expense are reasonable, actual results could differ.

Income taxes

We account for income taxes in accordance with ASC 740, "Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We account for uncertain tax positions in accordance with the provisions of ASC No. 740 "Income Taxes". This accounting guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements, under which a Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Accordingly, we report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Recently Enacted Accounting Pronouncements

During the year ended December 31, 2013, we adopted ASU. 2013-02, Topic 350, "Comprehensive Income", which amends Topic 220 to improve the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. The adoption of ASU 2013-02, Topic 350 did not have a material impact on our consolidated financial statements.

Results of Operations

The following table sets forth the percentage relationships of certain items from our consolidated statements of operations, as a percentage of revenues for the periods indicated (dollar amounts in thousands):

	Year ended December 31,		
	2011	2012	2013
	%	%	%
Product revenues	49.0	48.8	43.1
Service revenues	51.0	51.2	56.9
Revenues	100.0	100.0	100.0
Cost of product revenues	5.8	3.9	9.4
Cost of service revenues	33.2	34.4	31.2
Cost of revenues	39.0	38.3	40.6
Gross profit	61.0	61.7	59.4
Research and development costs, net	6.9	8.3	11.6
Selling and marketing expenses	27.0	27.9	32.7
General and administrative expenses	15.3	16.2	16.0
Total operating expenses	49.2	52.4	60.3

Operating income (loss)	11.8	9.3	(0.9)
Financial expenses, net	(3.2)	(0.6)	(1.0)
Income (loss) from continuing operations before taxes on income	8.6	8.7	(1.9)
Taxes on income	(0.4)	(3.6)	(0.0)
Other (expenses) income, net	(0.0)	(0.0)	1.3
Net income (loss)	8.2	12.2	(0.6)

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

Revenues. Total revenues for the year ended December 31, 2013 amounted to $29,057,000 compared to $31,330,000 for the year ended December 31, 2012, a decrease of 7.3%. The decrease in revenues was driven by a decrease in product revenues of $2,775,000, or 18.1%, from $15,303,000 in 2012 to $12,528,000 in 2013. Service revenues increased by $502,000, or 3.1%, from $16,027,000 in the year ended December 31, 2012 to $16,529,000 in the year ended December 31, 2013. The increase in service revenues was due to the increase in our maintenance stream as well as higher levels of professional services provided by our larger services team.

Cost of Revenues. Cost of Revenues decreased by 1.5%, from $11,989,000 in 2012 to $11,816,000 in 2013.

Cost of revenues from products increased by 125 % from $1,218,000 in 2012 to $2,740,000 in 2013. The increase is a result of our increased use of third party licenses and subcontractors in connection with customizing our solutions for specific customers.

Cost of revenues from services decreased by 15.7%, from $10,771,000 in 2012 to $9,076,000 in 2013 as a result of decrease in our headcount as well as reduce in usage of service providers.

Gross margin decreased by 2.4% from 61.7% gross margin in 2012 to 59.4% gross margin in 2013.

Research and Development, net. Research and Development expenses increased by 29.4%, from $2,609,000 in 2012 to $3,377,000 in 2013. Most of the cost of our Research and Development is incurred in Israel, where our Research and Development team is located. The increase is the result of higher investment in developing new products, and recruiting additional personnel in 2013, with our R&D and quality assurance head count increasing from 24 at the end of 2012 to 28 at the end of 2013.

Selling and Marketing. Selling and Marketing expenses amounted to $9,498,000 in the year ended December 31, 2013 and $8,733,000 in the year ended December 31, 2012. This 8.8% increase is the result of recruiting additional sales and marketing personnel in 2013 with our sales team headcount increasing from an average of 40 employees at 2012 to 44 in average at 2013 as well as investing in tradeshows and additional marketing activities.

General and Administrative Expenses. General and Administrative expenses in the year ended December 31, 2013 amounted $4,637,000, compared to $5,087,000 for the year ended December 31, 2012. This decrease of 8.8% is mainly result of non-cash compensation expenses vested to equity issues to consultant for professional service in 2012.

Financial expenses, net. Our net financial expenses for the year ended December 31, 2013 increased to $286,000, from $191,000 for the year ended December 31, 2012.

Tax income. In 2013, we recorded a net tax expenses in the amount of $1,000. We incurred current tax expenses in the amount of $206,000 and recorded tax income from deferred tax assets for $205,000, related to our net operating losses as of December 31, 2013 in TIS Ltd, as we believe we'll utilize these losses in the upcoming years.

Net (loss) income. As a result of the increased cost and lower revenues as described above, we incurred a net loss of $187,000 in 2013, compared to net income in the amount of $3,843,000 in 2012.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues. Total revenues for the year ended December 31, 2012 amounted to $31,330,000 compared to $28,673,000 for the year ended December 31, 2011, representing an increase of 9.3%. The increase in revenues was driven by our focus on our Digital Mailroom and ERP solutions over the last few years as well as several census projects that occur once every few years.

Product revenues increased by $1,254,000, or 8.9%, from $14,049,000 in 2011 to $15,303,000 in 2012. Service revenues increased by $1,403,000, or 9.6%, from $14,624,000 in the year ended December 31, 2011 to $16,027,000 in the year ended December 31, 2012. The increase in service revenues was due to the increase in our maintenance stream as well as higher levels of professional services provided by our larger services team.

Cost of Revenues. Cost of Revenues increased by 7.2%, from $11,184,000 in 2011 to $11,989,000 in 2012.

Cost of revenues from products decreased by 27.1%, from $1,670,000 in 2011 to $1,218,000 in 2012. The decrease is a result of lower expenses for third party product costs.

Cost of revenues from services increased by 13.2%, from $9,514,000 in 2011 to $10,771,000 in 2012 as a result of an increase in headcount for our larger services team.

Gross margin slightly increased by 0.7% from 61% gross margin in 2011 to 61.7% gross margin in 2012.

Research and Development, net. Research and Development expenses increased by 32%, from $1,976,000 in 2011 to $2,609,000 in 2012. Most of our Research and Development costs are incurred in Israel, where our Research and Development team is located. The increase is the result of higher investment in developing new products, and recruitment of additional personnel in 2012, with our R&D and quality assurance team head count increasing from an average of 19 employees in 2011 to an average of 24 in 2012.

Selling and Marketing. Selling and Marketing expenses amounted to $8,733,000 in the year ended December 31, 2012 and $7,748,000 in the year ended December 31, 2011. This 12.7% increase is the result of recruiting additional sales and marketing personnel in 2012 with our personnel increasing from 34 at the end of 2011 to 46 at the end of 2012.

General and Administrative Expenses. General and Administrative expenses in the year ended December 31, 2012 amounted $5,087,000, compared to $4,383,000 for the year ended December 31, 2011. This increase of 16.1% is

mainly result of non-cash compensation expenses arising from the vesting of equity issued to consultants for professional services in 2012.

Financial expenses, net. Our net financial expenses for the year ended December 31, 2012 decreased to $191,000, from $911,000 for the year ended December 31, 2011. $745,000 of our financial expenses in 2011 were connected to the debenture that was recorded at fair value in accordance with ASC 825. The debenture was completely repaid in October 2011.

Tax (expenses) income. In 2012 we recorded tax income in the amount of $1,123,000, related to our net operating losses as of December 31, 2012 in TIS Ltd, as we believe we'll utilize these losses in the upcoming years.

Net (loss) income. As a result of the foregoing, we earned a net income of $3,843,000 at 2012 compared to net income in the amount of $2,350,000 in 2011.

Impact of Currency Fluctuation and Inflation.

We maintain operations and generate revenues in a number of countries. The results of operations and the financial position of our local operations are generally reported in the relevant local currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements, exposing us to currency translation risk. In addition, we are exposed to currency transaction risk because some of our expenses are incurred in a different currency from the currency in which our revenues are received. Our most significant currency exposures are to the Euro, New Israeli Shekel (NIS), British Pound and Singapore dollars. In periods when the U.S. dollar fluctuates against these other currencies, our reported results of operations may be adversely affected.

The annual rate of inflation in Israel was 1.6% and 1.8% in 2012 and 2013, respectively. The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by devaluation of the NIS through actions taken by Israel's central bank or due to other factors in relation to the U.S. dollar. For example, during the years 2012 and 2013, the appreciation of the NIS against the dollar, amounted to 2% and 7% respectively.

From time to time we purchase forward exchange contracts to reduce currency transaction risk. However, these purchases will not eliminate translation risk or all currency risk.

Political and Economic Conditions in Israel Affecting our Business.

Because our principal offices and research and development facilities are located in Israel, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. There has been a marked increase in such hostility especially since Hamas, an Islamic movement responsible for many attacks against Israelis, has governed Gaza. In 2010, events and developments related to the Israeli-Palestinian conflict have also led to a deterioration in Israel's relations with Turkey, with whom Israel currently has a free trade agreement. In addition, since the "Arab spring" various neighboring Arab countries have been unstable including Egypt and prolonged civil war in Syria. Tension with Iran, relating to its nuclear capabilities and regional influence remains high. Continuing or escalating hostilities in the region or curtailment of trade between Israel and its present trading partners as a result of or in response to such instabilities may have an adverse effect on our business conditions, including our ability to develop, manufacture and market our products.

Some of our executive officers and employees in Israel are obligated to perform military reserve duty annually. Moreover, in the event of armed conflict in which Israel is involved or the threat of such conflict, our executive officers and employees might be called for active military duty for an unlimited period of time. Increased military activity could also result in a reduction of prospective qualified employees available to work for us to expand

our business or replace employees on active military duty. Our operations could be disrupted by the absence for a significant period of our executive officers or key employees as a result of military service. Any disruption in our operations could adversely affect our ability to develop and market products.

Economic Conditions.

The Israeli government's monetary policy contributed to relative price stability in recent years. Economic growth has continued in recent years, though at varying rates. We cannot assure you that the Israeli government will be successful in its attempts to keep prices stable or that economic growth will continue. Price volatility or a decrease in growth rates may have a material adverse effect on our business.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is also a member of the World Trade Organization and is a signatory of the Global Agreement on Trade in Services and the Agreement on Basic Telecommunications Services. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs. Israel is also a member in the Organization of Economically Developed Countries. Israel and the European Economic Community, now known as the European Union, signed a Free Trade Agreement in 1975. This agreement confers advantages on Israeli exports to most European countries and obligates Israel to lower its tariffs on imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a free trade area. The free trade area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the EFTA (European Free Trade Association), which includes Austria, Norway, Finland, Sweden, Switzerland, Iceland and Liechtenstein, established a free trade zone between Israel and the EFTA nations. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, Turkey and other nations in Eastern Europe and Asia. In 2010, events and developments related to the Israeli-Palestinian conflict have also led to a deterioration in Israel's relations with Turkey, although such deterioration did not result in any suspension or termination of such agreement. We cannot assure you that our ability to conduct trade in the international market will be unhindered by political developments in our region.

Liquidity and Capital Resources

As of December 31, 2013, we had $3,203,000 in cash, cash equivalents, compared to $2,223,000 as of December 31, 2012.

Our capital resources are derived from our operating activities. In 2013, we generated $414,000 in cash from operating activity compared to $409,000 used by operating activities in 2012. The increase in cash provided by operating activities in 2013 compared to 2012 was mainly attributed to a decrease in trade receivables and an increase in deferred revenues.

We believe that our current cash, cash equivalents and cash deposits and our forecasted positive cash flows for future periods, will be sufficient to meet our on-going operations for the year ending December 31, 2014.

Net cash used by investing activities for the year ended December 31, 2013 was $168,000 compared to $184,000 in 2012. In 2013, net cash used in investing activities consisted primarily of increasing restricted deposits as well as purchase of property and equipment.

For the years ended December 31, 2013 and 2012, our aggregate capital expenditures were $76,000 and $119,000, respectively. These expenditures were principally for the purchases of computer hardware and software.

Net cash provided by financing activities was $725,000 in 2013 compared to $744,000 in 2012. The cash provided by financing activities is attributable to proceeds from exercise of Warrants and stock options.

Public Sale of Securities

In February 2014, we closed on an underwritten public offering of 3,162,500 of our ordinary shares at $4.75 per share for gross proceeds of $15.0 million. The aggregate amount of ordinary shares sold reflects the exercise in full by the underwriters of their option to purchase up to 412,500 additional ordinary shares to cover over-allotments. We received net proceeds of approximately $13.7 million from the sale of ordinary shares, after deducting the underwriters' discounts and other estimated offering expenses. The net proceeds from the offering will be used for general corporate purposes, including potential acquisitions. Canaccord Genuity Inc. acted as the sole book-running manager for the offering, and Roth Capital Partners and The Benchmark Company, LLC acted as co-managers.

Private Placement of Securities

On June 13, 2011, we closed a private placement transaction pursuant to which we issued an aggregate of 1,425,000 ordinary shares at a price of $2.00 per share and warrants to purchase an aggregate of 441,750 ordinary shares at an exercise price of $2.20 per share pursuant to the Securities Purchase Agreement, dated June 6, 2011, that we entered into with investors. The warrants may be exercised until June 13, 2016. We also entered into the Registration Rights Agreement, dated June 13, 2011 with the investors in the private placement, pursuant to which we filed a registration statement on Form F-3 to cover the resale of the ordinary shares sold in the private placement and the ordinary shares issuable upon exercise of the warrants issued in the private placement. We used the proceeds of the offering of $2,497,000, net of issuance expenses, to repay, in part, the remaining principal balance of Original Debentures, as described below.

Line of Credit

We currently have a short-term line of credit with Leumi Bank. During 2013, from time to time we used the line of credit and recorded interest expenses in the amount of $29,000. The short-term line of credit bears interest rate of Libor + 4%. The actual Libor interest rate at December 31, 2013 was 0.08%. Any indebtedness under this credit line is secured by a floating charge on our assets. As of March 11, 2014, there were no amounts outstanding under the credit line.

The terms of the credit line provide, as a condition precedent to borrowing that our annual consolidated earnings before interest, taxes depreciation and amortization commencing from the year ended December 31, 2012 and thereafter be no less than $1,500,000. This covenant is to be tested annually by reference to the consolidated financial statements as of the end of each calendar year. As of December 31, 2013, we did not meet this condition. Accordingly, while the foregoing did not result in any default and as of December 31, 2013 there were no amounts outstanding under the credit line, unless we receive a waiver from Leumi Bank, we would not be able to borrow under the credit line.

In the event that we default under the line of credit, the Bank could declare our indebtedness immediately due and payable and, if we are unable to make the required payments, foreclose on our assets. Moreover, to the extent that our assets continue to secure such indebtedness, such assets will not be available to secure additional indebtedness unless approved by the Bank.

Research and Development, Patents and Licenses

In order to accommodate the rapidly changing needs of our markets, we place considerable emphasis on research and development projects designed to improve our existing product lines and to develop new product lines to meet the changing needs of our market. In 2013, as part of our position strengthening, we invested substantially in research and development with expenses level of $3,377,000 in 2013, compared to $2,609,000 in 2012, and to $1,976,000 in 2011. As of December 31, 2013, 28 of our employees were engaged primarily in research and development activities. We expect that we will continue to commit substantial resources to research and development in the future. For further details about our product see “Business Overview - Products and Solutions”.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements.

Tabular disclosure of contractual obligations.

The following is a summary of our significant contractual obligations as of December 31, 2013:

	Payment due by period ($ thousands)				
Contractual Obligation*	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligation	1,835	936	899	-	-
Accrued severance pay	1,956				1,956

*Our contractual obligations and commitments at December 31, 2013 principally include obligations associated with our operating lease obligations and contractual and legal obligations related to employees and officers' severance expense. Such obligations are detailed in Note 10 to the consolidated financial statements for the year ended December 31, 2013 as well as the section entitled "Compensation" herein. We expect to finance these contractual commitments from cash on hand and cash generated from operations.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following table sets forth the identity of our directors, and senior management as of March 11, 2014. The mailing address for each of the individuals below is c/o TIS at our address set forth herein.

Name	Age	Title
Izhak Nakar	63	Active Chairman of the Board
Michael Schrader	38	Chief Operating Officer
Gili Shalita	38	Chief Financial Officer
Ido Schechter	53	Director
Asael (Asi) Karfiol	48	External Director
Osnat Segev-Harel	51	External Director
Lyron Bentovim	44	Director

Izhak Nakar founded the Company in 1991, and served as our Chairman of the Board and CEO from inception until 2001. In 2001 – 2009, Mr. Nakar served as a Director. Since 2009, Mr. Nakar has served as the Active Chairman of the Board and is currently our principal executive officer.

In the beginning of 2009, Mr. Nakar purchased most of the equity in the Company held by Charterhouse Group International, substantially increasing his ownership in the Company which was 13.4% at December 31, 2013 (based on actually outstanding shares).

Mr. Nakar has co-founded several technology companies including us and TopGuard (acquired by Elron Software NASDAQ:ELRN), e-Mobilis and has founded Anir Vision and NIR 4 YOU TECHNOLOGY. Mr. Nakar served in the Israeli Air Force from 1970 to 1987, where he led various large-scale, highly technical development projects, including leading a development team that worked in cooperation with the U.S. Air Force. He received his B.Sc. in Computer Science from Bar Ilan University in 1982, and an MBA from Bar Ilan University in 1984. Mr. Nakar is a recipient of the "Israel Defense Award," bestowed annually by the President of Israel, for the development of high-tech systems in the field of intelligence for the Israeli Defense Forces. He also received the "Man of the Year Award" in Business and Management ('95-'96) in recognition of his business accomplishments and contributions to the growth and development of Israeli high-tech companies. In addition, in 2004, Mr. Nakar was elected as a member of the Board of Israel-Japan chamber of Commerce.

Michael Schrader has served as our COO since November 2013. Prior to that, from 2004 he served as manager of our German operation. Mr. Schrader has been with us since 1999, initially serving as a software engineer, a technical team leader, an international strategic project manager and as the director of engineering for Europe. Prior to joining us, Mr. Schrader was a software engineer at Siemens and owned a Document Management consulting and development business. Mr. Schrader holds a B.Sc. of Business Engineering and Administration and is an Associate Engineer of Siemens Technical College.

Gili Shalita has been our CFO since August 2008. From August 2007 until she became CFO, Ms. Shalita served as our Director of Finance. Prior to joining us, from March 2005, Ms. Shalita served as the Controller of PMC-Sierra Israeli branch (Formerly: Passave). From July 2003 until March 2005, Ms. Shalita served as risk and control manager of Intel Israel. Between the years 2000 and 2003, Ms. Shalita worked at Ernst & Young Israel as a CPA in the high-tech practice group. Ms. Shalita is certified licensed public accountant (Isr.). She holds a B.A. in Economics and Accounting from the Tel Aviv University and an MBA in Finance from Bar Ilan University.

Ido Schechter served as our CEO from January 2002 through December 2013, and has been a director since December 2004. From January 2001 until he became CEO, Dr. Schechter was Vice President of TIS' ASP2, our initiative to offer data collection services via the Internet, using the eFLOW® platform solution. Prior to that Dr. Schechter had been TIS's Vice President of Sales from August 1996. From January 1995 until August 1996, Dr. Schechter served as General Manager of Super Image, a former affiliate of ours, which operated a form processing service bureau. From August 1993 to December 1994, Dr. Schechter oversaw the start-up of automatic form processing services at Israel Credit Cards, Ltd. From 1991 to 1993, Dr. Schechter was a research scientist at the Horticultural Research Institute of Ontario, Canada. Dr. Schechter is the recipient of eight Honors and Scholarships, has published or presented more than twenty-five articles and is a Captain in the Israeli Air Force. Dr. Schechter received his Ph.D. and M.Sc. in Plant Physiology from the University of Guelph in Ontario, Canada and his B.Sc. from the Hebrew University in Israel.

Asi Karfiol was elected to serve as an external director for a third three year term in October 2013. Mr. Karfiol has been active in the field of venture capital and investment banking for more than 15 years in which he incorporates his financial education and expertise together with his technological and marketing education and expertise. Mr. Karfiol is a Partner and an Executive Director in Mooreland Partners, a global technology focused investment banking firm based in Greenwich Connecticut, with offices in New York, Silicon Valley and London. Prior to that, Mr. Karfiol served as General Partner at Hyperion Israel Venture Partners for seven years. From 1995 through 2001, Mr. Karfiol served as Vice President at Ascend Venture Capital, an Israeli venture capital fund and at ITI – Integrated Technologies of Israel, an American-Israeli investment company. Prior to that, Mr. Karfiol served as Marketing Manager for the Keter Plastic Group and as General Manager of a strategic international marketing consulting firm for leading Israeli corporations. Mr. Karfiol holds a B.Sc. (summa cum laude) in Electrical Engineering and an MBA (magna cum laude) from Tel Aviv University.

Osnat Segev-Harel was elected to serve as an external director in December 2011. Ms. Segev-Harel has extensive experience of over 15 years in business development for high-tech companies. Ms. Segev-Harel is currently serves as a go to market consultant for early stage high tech companies. Until December 2013 Ms. Segev-Harel served as CMO and VP of business development for Sapiens International Corporation N.V. From 2005 through 2009 Ms. Segev-Harel served as a director of sales strategy and planning and as director of business development in NICE Actimize Inc. in New York, in which she has acquired a deep knowledge of the global banking industry in general and in North America in particular From 1995 through 2005 she served as business development executive in IBM, Israel, including as an account manager in IBM's Banking Division. Prior to that, between 1988 and 1994 Ms. Segev-Harel was a User Interface project leader in Digital Equipment Corporations, Israel. Ms. Segev-Harel holds a Practical Engineering degree from the Hadassah College in Jerusalem, a B.Sc. in Futurism from the State University of New York and an MBA from Derby University majoring in Strategy. Ms Segev-Harel has completed a Directors Certification Program at Bar Ilan University. Ms. Segev-Harel possesses professional competence as required by the Companies Law and regulations deriving thereof.

Lyron Bentovim has been serving as a director since November, 2008. Mr. Bentovim is currently serves as the CFO of NIT Health, previously Mr. Bentovim served as Chief Operating Officer, the Chief Financial Officer and Managing Director of Cabrillo Advisors. From August 2009 until July 2012, Mr. Bentovim served as the Chief Operating Officer and the Chief Financial Officer of Sunrise Telecom, a US company engaged in developing test and measurement solutions for telecom networks. Prior to joining Sunrise Telecom Mr. Bentovim was a Portfolio Manager for Skiritai Capital LLC, an investment advisor based in San Francisco. He has over 15 years of industry experience, including his experience as a member of the board of directors at Three-Five Systems, Sunrise Telecom, and Argonaut Technologies. Prior to his position in Skiritai Capital LLC, Mr. Bentovim served as the President, COO, and co-founder of WebBrix Inc. Additionally; Mr. Bentovim spent time as a Senior Engagement Manager with strategy consultancies USWeb/CKS, the Mitchell Madison Group and McKinsey & Company. As a Senior Engagement Manager, Mr. Bentovim advised many Fortune 1000 companies in the Financial Services, Insurance, Retail, and Manufacturing sectors. During his consulting career, Mr. Bentovim assisted companies in exploring and developing solutions in the areas of strategic planning and operational improvements. Mr. Bentovim is experienced in evaluating Global 500 organizations and implementing strategies designed to streamline processes, reduce inefficiencies and achieve significant overhead reductions. Mr. Bentovim has an MBA from Yale School of Management and a Law degree from the Hebrew University in Jerusalem.

The foregoing information is based upon data provided to us by the relevant director or senior management member.

There are no familial relationships between any of the persons named above.

Compensation

The aggregate direct remuneration paid or payable to all persons who served in the capacity of executive officer during 2013 was approximately $1,064,000, including approximately $126,000, which was set aside for pension and retirement benefits and including amounts expended by us for automobiles made available to our executive officers.

The total amount paid or payable to our directors, including external directors, for 2013 was $106,000. As of March 11, 2014, 510,834 options to purchase our ordinary shares were held by certain executive officers and directors (consisting of 7 persons). 368,334 of the options are currently exercisable or exercisable within 60 days of March 11, 2014. See “Share Ownership.”

On October 15, 2013, our shareholders approved our Board of Director’s decision regarding compensation of external directors. The compensation of the directors is as follows:

- Each of Messrs. Lyron Bentovim, and Asael Karfiol and Ms. Osnat Segev- Harel, who will serve in 2014 as a member of the Board of Directors and committees of the Board, will receive compensation for his or her service, in the amount of NIS 36,935 (approximately $10,550) per year and an amount of NIS 2,470 (approximately $705) for each meeting of the Board of Directors or any committee in which they will participate.

  - During 2013, each of Messrs. Lyron Bentovim, and Asael Karfiol and Ms. Osnat Segev- Harel was awarded options to acquire 25,000 Ordinary Shares of the Company. Half of the options vested on December 31, 2013 and the remainder will vest on December 31, 2014 (with acceleration in the event of an earlier change of control). The exercise price per share of the options is $3.86 per share.

- Prior to ceasing his service as our Chief Executive Officer, Dr. Schechter waived rights to separate compensation as a director, conditionally upon his service as Chief Executive Officer. We anticipate that he will request compensation as a director that is parallel to the compensation of the other directors mentioned here for his continued service as a director following ceasing his service as Chief Executive Officer.

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- Mr. Izhak Nakar has waived, for 2014, any separate compensation in return for serving as a Director in excess of his compensation as the Active Chairman.

For further details about Mr. Izhak Nakar compensation see “Related Party Transactions”.

Ido Schechter, our former Chief Executive Officer who is also a director may be entitled, by virtue of his being an employee, to severance compensation and other payments required by Israeli law upon termination of his employment. The terms of severance are dictated by Israeli law and provide for one month’s salary for every year in which Dr. Schechter is employed by us. In addition, as additional severance pursuant to Mr. Schechter’s agreements with us, we will pay Mr. Schechter a monthly amount equal to $23,250 until June 30, 2014.

Committees of the Board

Audit Committee

Our audit committee is comprised of Lyron Bentovim, and the external directors Asael Karfiol and Osnat Segev-Harel. The Companies Law requires that public companies appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company’s business, decide if certain actions are material or extraordinary to the company’s activity with relation to related parties transactions, approving related party transactions as required by law, approving the internal auditor work plan, examining the internal auditing array of the company and the way the internal auditor is operating and determine if it has the sufficient tools as well as budget to operate, taking into consideration the size of the company and its special needs and to set arrangements regarding the ways of treatment given to complains by the company’s employees regarding impairments in the management of the company’s business and the protection give to such employees. In addition, as described under Item 16, the audit committee is responsible for the approval of all audit and non-audit services provided to the Company by Ernst and Young and to oversee the qualifications, independence, appointment, compensation and performance of the Company’s independent auditors. The audit committee operates under a charter adopted by our Board of Directors and which is on display on our website at http://www.topimagesystems.com. An audit committee must consist of at least three directors, including all of the external directors of the Company and, its chairman is required to be an external director. Asael Karfiol is the chairman of our audit committee. Furthermore, as required by the NASDAQ rules all the members of our audit committee are independent, see “Directors, Senior Management and Employees- Independent Directors”.

Compensation Committee

Our compensation committee is comprised of Osnat Segev-Harel, Lyron Bentovim and Asael Karfiol. Under the 2012 Amendment (see "Approval of Terms of Office and Employment") public companies are required to appoint a compensation committee comprised of at least three directors, including all of the external directors. The external directors must also constitute a majority of the members. All other members of the committee, who are not external directors, must be directors who receive compensation that is in compliance with the Compensation Regulations. In addition, the chairperson of the compensation committee must be an external director and the position is currently held by Asael Karfiol. The Companies Law further stipulates that directors who are not qualified to serve on the audit committee may not serve on the compensation committee and that similar to the audit committee, generally, any person who is not qualified to be a member of the compensation committee may not attend the compensation committee’s meetings. Our compensation committee meets those standards.

The responsibilities of the compensation committee under the Companies Law include: (i) making recommendations to the board of directors with respect to the approval of the Compensation Policy and any extensions thereto; (ii) periodically reviewing the implementation of the Compensation Policy and providing the board of directors with

recommendations with respect to any amendments or updates thereto; (iii) reviewing and resolving whether or not to approve arrangements with respect to the Terms of Office and Employment of office holders; and (iv) resolving whether or not to exempt a transaction with a candidate for chief executive officer from shareholder approval. The compensation committee also oversees the administration of the Company's various compensation plans and arrangements, in particular, the incentive compensation, deferred compensation and equity based plans of the Company (and to the extent appropriate, the subsidiaries of the Company) and assists the Board in fulfilling its responsibilities relating to the compensation of directors, the chief executive officer and other office holders of the Company.

Strategy Committee

The strategy committee is comprised of Lyron Bentovim, Izhak Nakar and Osnat Segev-Harel. The function of the strategy committee is to develop a strategy for advancing and developing our business for each market, based on the specific characteristics of each territory and the specific characteristics of each product, and to recommend such strategy and steps for its implementation to the board of directors.

Independent and External Directors

The rules of the NASDAQ Stock Market require that a majority of our directors be "independent" as defined in Rule 5605(a)(2) thereof. The board of directors has determined that Lyron Bentovim, Osnat Segev Harel and Asael Karfiol are each independent directors for purposes of the NASDAQ rules.

Israeli law requires that a public company such as us, have at least two external directors. The two external directors of the Company are Osnat Segev Harel and Asael Karfiol. The Companies Law requires as a general principle that at least one statutory external director have financial and accounting expertise, and that the other statutory external director have professional competence, as determined by the board of directors. The Companies Law also requires a company's board of directors to determine the minimal number of members of the board of directors to possess financial and accounting expertise, based, among other things, on the type of company, its size, the volume and complexity of its activities and the number of directors. Our Board of Directors decided that the minimal number of directors to possess financial and accounting expertise on the Company's board shall be two. Under the Companies Regulations (Qualifications of Director Having Financial and Accounting Expertise and of Director Having Professional Competence) – 2005, a director having financial and accounting expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business and accounting matters and financial reports, in a manner that enables him or her to deeply understand the company's financial statements and to arouse discussion in respect of the manner in which the financial data is presented. The board of directors has determined that Asael Karfiol possess financial and accounting expertise as required by the above mentioned regulations. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the company's business, or has at least five years' experience in a senior position in the business management of a corporation with a substantial scope of business, in a senior position in the public service or in the field of the company's business. The board of directors has determined that Osnat Segev Harel possesses professional competence as required by the above mentioned regulations.

NASDAQ rule 5605(c)(3) provides that an audit committee must have at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Asael Karfiol meets those requirements.

Employees

The following table presents the number of our employees categorized by geographic location:

Location	No. of Employees as of December 31,		
	2011	2012	2013
Israel	32	30	37
Germany and rest of Europe	80	91	77
Japan	7	7	7
USA & Latin America	8	12	14
United Kingdom	16	13	11
Singapore and Hong Kong	20	18	23
Total	163	171	169

The following table presents the number of our employees categorized by activity:

	No. of Employees as of December 31,		
	2011	2012	2013
Professional services	84	81	79
Research and development	23	24	28
Sales and marketing	34	46	41
Operations and administrations	22	20	21
Total	163	171	169

We have never experienced any strikes or work stoppages. Substantially all of our employees have employment agreements and none are represented by a labor union.

We are subject to labor laws and regulations in Israel and in other countries where our employees are located. Although our Israeli employees are not parties to any collective bargaining agreement, we are subject to certain provisions of collective bargaining agreements that are applicable to our Israeli employees by virtue of expansion orders of the Israeli Ministry of Industry, Commerce and Labor. Israeli labor laws and the laws of other countries where our employees are located may differ materially from U.S. labor laws and, in some cases, impose material obligations on us (such as requirements to pay overtime, minimum wages, procedures for dismissal, severance pay or obligatory pensions and mandatory cost of living increases).

Share Ownership

Board of Directors, Senior Management and Certain Employees

Izhak Nakar, the chairman of our Board of Directors beneficially owned 1,789,409 ordinary shares representing 11.5% of the Company's issued and outstanding share capital, as of March 11, 2014. Ido Schechter, our former Chief Executive Officer, beneficially owned 520,075 ordinary shares representing 3.4% of the Company's issued and outstanding share capital, as of March 11, 2014. Alex Toh Kian Hong, our APAC general manager, beneficially owned 420,000 ordinary shares representing 2.7% of the Company's issued and outstanding share capital, as of March 11, 2014. All other directors and executive officers each beneficially owned less than 1% of the Company's shares. The following table sets forth information regarding options held by our directors and officers currently exercisable or exercisable within 60 days as of March 11, 2014. Ordinary shares subject to these options are deemed to be outstanding for the purpose of computing the ownership percentage of the person holding these options, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person.

Name	Ordinary Shares Underlying Options	Expiration Dates	Exercise Prices ($/share)
Izhak Nakar	167,500	2015 - 2023	1.30 - $$3.86
Ido Schechter	115,000	2013 - 2023	2.11 - $$3.86
All other directors and officers as a group	85,834	2013 - 2023	2.20 - $$6.04

None of the ordinary shares beneficially owned by any of the directors or executive officers of the Company has any voting rights which are different than the voting rights held by all other holders of ordinary shares.

Stock Options

In order to attract, retain and motivate employees (including officers) who perform services for or on our behalf, we maintain three Employee Share Option Plans, one established in 1996 ("ESOP 1996"), the second in 2000 ("ESOP 2000") and the third in 2003 ("ESOP 2003"). Upon adoption of ESOP 2003, all shares previously available for grant under ESOP 1996 and ESOP 2000 that were not the subject of outstanding options were transferred to ESOP 2003 and are subject to the terms of ESOP 2003. On August 29, 2013, our board of directors, based on the recommendation of our compensation committee of the same day, resolved to amend and restate ESOP 2003 ("Amended ESOP 2003"). Those decisions were approved by the shareholders on October 15, 2013. While Amended ESOP 2003 retains most of the terms and conditions of the ESOP 2003, it incorporates changes, inter alia, with regard to conformance with provisions of relevant tax law, the treatment of options in the context of a merger or acquisition of the Company and with the default vesting terms of options awarded Amended ESOP 2003.

Below is information with respect to our options plan.

Employee Share Option Plan (2003)

Amended ESOP 2003 is valid until August 28, 2023. The terms of ESOP 2003 are substantially the same as those of ESOP 2000. All the shares reserved for grant under ESOP 2000 and ESOP 1996 that were not granted or that were not the subject of outstanding options under those plans were transferred to the new plan. Further, all options under such old plans that expire prior to their exercise according to the conditions detailed therein will be transferred into the new plan. We filed the necessary documents with the Israeli tax authorities for the approval of the new option plan on June 4, 2003. Such approval provides the grantees the eligibility for certain benefits under Section 102 of the Israeli Income Tax Ordinance (New Version) 1961 and the rules promulgated thereunder as revised by the Israeli tax reform. As of March 11, 2014, options to purchase an aggregate of 1,272,250 ordinary shares were outstanding. Most of outstanding options are exercisable at an exercise price between $1.30 - $6.04. In addition to shares reserved in the event of the exercise of the outstanding options, 857,782 shares are reserved in the event of the issue of additional options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders.

The following table sets forth certain information regarding the beneficial ownership of our outstanding ordinary shares as of March 11, 2014, for each person whom we know (based on filings with the SEC) beneficially owns five percent or more of the outstanding ordinary shares.

Beneficial ownership of shares is determined under rules of the SEC, and generally includes any shares over which a person exercises sole or shared voting or investment power. In addition, the following table includes the number of shares underlying options or warrants that are currently exercisable or may be exercised in 60 days. Ordinary shares subject to these options are deemed to be outstanding for the purpose of computing the ownership percentage of the person holding these options, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person. Applicable percentages are based on 15,406,976 ordinary shares outstanding as of March 11, 2014.

Name	Number of Shares Beneficially Owned	Percentage of Shares

Izhak Nakar(1)	1,789,409	11.5	%

(1) The information is based upon the recent Schedule 13G filed with the SEC by Nir 4 You Technologies Ltd., an investment company under Mr. Izhak Nakar's control, and Mr. Izhak Nakar on February 13, 2014. Mr. Nakar's beneficially owned shares includes 1,562,735 ordinary shares held by Nir 4 You Technologies Ltd.

Significant Changes in Percentage Ownership

In February 2014, we closed on an underwritten public offering of 3,162,500 of our ordinary shares at $4.75 per share for gross proceeds of $15.0 million. The aggregate amount of ordinary shares sold reflects the exercise in full by the underwriters of their option to purchase up to 412,500 additional ordinary shares to cover over-allotments. We received net proceeds of approximately $13.7 million from the sale of ordinary shares, after deducting the underwriters' discounts and other estimated offering expenses. The net proceeds from the offering will be used for general corporate purposes, including potential acquisitions. Canaccord Genuity Inc. acted as the sole book-running manager for the offering, and Roth Capital Partners and The Benchmark Company, LLC acted as co-managers.

On June 6, 2011, the Company entered into a Securities Purchase Agreement (the "SPA") with several shareholders (the "Investors"), pursuant to which the Company issued to the investors 1,425,000 ordinary shares of NIS 0.04 par value each, at a price per share of $2 each, for proceed of $2,5 million, net of issuance expenses. As part of the private placement transaction under the SPA, the Company granted the Investors and certain agents, warrants to purchase additional 441,750 of the Company's Ordinary shares of NIS 0.04 par value each. The warrants may be exercisable on or after six months from June 13, 2011 for a period of five years thereafter at an exercise price of $2.20 per share. As of December 31, 2013 112,500 warrants had been exercised into 112,500 shares and additional 55,575 warrants had been converted into 26,533 shares.

As of March 11, 2014, 15,406,976 ordinary shares of Company were issued and outstanding. The Company believes that, as of March 11, 2014, there were 80 shareholders of record of the Ordinary Shares in the United States, who, collectively held as of that date a total of 13,203,385 ordinary shares, or 85.7% of the Company's total outstanding ordinary shares.

Related Party Transactions

Our agreement with Mr. Izhak Nakar provides that in consideration for his services to the Company worldwide, Mr. Nakar is entitled to compensation in the amount of $28,125 plus VAT per month. During 2013, we paid Mr. Nakar $324,188 in consulting fees.

During 2013, Mr. Nakar was awarded options to acquire 30,000 Ordinary Shares of the Company. Half of the options vested on December 31, 2013 and the remainder will vest on December 31, 2014 (subject to acceleration upon the occurrence of an earlier change of control). The exercise price per share of the options is $3.86 per share. Pursuant to our agreements with Mr. Nakar, Mr. Nakar would have been entitled to receive a payment equal to 4% of our EBITDA for the year ended December 31, 2013, had we met certain conditions set by the board with regard to revenue and EBITDA. We did not meet those conditions and, therefore, Mr. Nakar was not entitled to, and did not receive, such bonus for 2013.

The terms of Mr. Nakar's compensation for 2013 other than the options and conditional bonus were approved in accordance with Israeli law as it existed prior to the 2012 Amendment (see "Approval of Terms of Office and Employment"). Under the transitional provisions of that amendment, the approval remains effective. The conditional bonus was approved by the compensation committee and then the board of directors on August 29, 2013 and then by the Shareholders at the Company's annual general meeting on October 15, 2013.

Until December 31, 2013, Dr. Ido Schechter served as our Chief Executive Officer. Our agreement with him provided for a base salary of $279,000 (denominated in NIS) per year and to an automobile allowance, pension, retirement, severance, vacation or similar benefits. During 2013, Dr. Schechter was paid $530,000. That amount included his base salary, a bonus of $176,000 for the Company's performance during 2012, and $85,000 paid or reserved for automobile allowance, pension, retirement, severance, vacation or similar benefits. For a description of Dr. Schechter's terms of severance see "Compensation." During 2013, Dr. Ido Schechter was awarded options to acquire 30,000 Ordinary Shares of the Company. Half of the options vested on December 31, 2013, but – as a result of the cessation of Dr. Schechter's service, the remainder will not vest (with acceleration in the event of an earlier change of control). The exercise price per share of the options is $3.86 per share.

For 2013, Dr. Schechter would have been entitled to receive a payment equal to 4% of the Company's EBITDA for the year ended December 31, 2013, had the Company met certain conditions set by the board with regard to revenue and EBITDA. We did not meet those conditions and, therefore, Dr. Schechter was not entitled to a bonus for 2013.

The terms of Dr. Schechter's compensation for 2012 were approved in accordance with Israeli law. The Audit Committee approved the terms of compensation for 2013 and thereafter the Board approved the above terms of compensation on August 29, 2013 and the Shareholders approved the foregoing on the Company's annual general meeting on October 15, 2013.

Our agreement with Mr. Schrader, the Chief Operating Officer of the Company, provides for a base salary of $253,000 (denominated in EURO) per year and to an automobile allowance, pension, retirement, severance, vacation or similar benefits. During 2013 Mr. Schrader was paid $310,000. That amount included his base salary, a bonus of $103,000 for the Company's performance during 2013 and $20,000 paid or reserved for automobile allowance, pension, retirement, severance, vacation or similar benefits.

Mr. Schrader shall also be entitled to receive an amount equal 3% of the Company's EBITDA for the year ended December 31, 2014, provided, however that Company meets certain criteria set by the board in regard to revenue and EBITDA.

From time to time, as new members join our Board of Directors, they become parties to our letter of indemnification to be given to our directors and officers. This letter was approved by our shareholders at a shareholders meeting held on November 15, 2005 and amended by our shareholders at a shareholders meeting held on December 22, 2011. The aggregate indemnification amount that the Company will pay to all its officers and directors pursuant to these letters of indemnification shall not exceed $5,000,000.

ITEM 8. FINANCIAL INFORMATION

Consolidated statements and other financial information

Consolidated Financial Statements

See Item 18.

Other Financial Information

The amount of export revenues constitutes a significant portion of our total revenues. The following is a table giving details of our export revenues, as well as the breakdown of revenues between products and services.

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	2011		2012		2013	
			$ Thousands			
Export Revenues						
Export Revenues	28,499		31,153		28,928	
Total Revenues	28,673		31,330		29,057	
Percentage of Total Revenues	99	%	99.5	%	99.6	%
Breakdown of Revenues						
Product Revenues	49	%	49	%	43	%
Service Revenues	51	%	51	%	57	%

Legal Proceedings

On September 25, 2012, TIS America Inc. and Top Image Systems, Ltd. were named as defendants in Case Number 1:12-cv-01208-UNA, filed by Mitek Systems, Inc. for alleged infringement on five United States patents in the United States District Court for the District of Delaware. Mitek filed a First Amended Complaint on January 11, 2013. An answer to the First Amended Complaint was filed on January 28, 2013 adding one additional patent. A scheduling order was entered on February 21, 2013. Discovery is underway a trial is scheduled for December 8, 2014.

The lawsuit relates to technology used in our MobiCHECK software. Mitek is seeking a declaration of infringement, an injunction, damages, and enhanced damages, costs, expenses including reasonable attorneys' fees, pre-judgment and post-judgment interest and any other relief, in law and in equity, to which the Court finds Mitek is justly entitled.

While we believe that Mitek’s claim is without merit, we cannot assure you that the suit will be dismissed or that we will prevail. If Mitek is successful, or if we agree to settle the lawsuit, we might be unable to pursue, or severely limited in, our marketing and sale of MobiCHECK and possibly other products might be restricted or be subject to significant obligations to pay royalties. Further, even if we prevail in the lawsuit, intellectual property litigation is expensive and tends to divert management attention from our business. Accordingly, if any of the foregoing risks are realized, the lawsuit could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Dividend Policy

To date, we have not paid any dividends on our ordinary shares. The payment of dividends in the future, if any, is within the discretion of the Board of Directors and will depend upon our earnings, our capital requirements and financial condition and other relevant factors. We may not declare or pay any dividends in the future.

We obtained the status of Enterprise” (established plan) and "Benefited Enterprise "under the Law for the Encouragement of Capital Investments, 1959, and as amended, under which we may take advantage of certain tax exemptions. If we distribute a cash dividend from income which derived from the Approved and Benefited Enterprise during the tax exemption period, we would have to pay corporate tax at a rate of up to 25% on the amount equal to the amount distributed and on the amount of corporate tax which would have been due in the absence of the tax exemption, in addition to withholding tax on such dividends paid. For further description of the conditions limiting our ability to declare and pay dividends see “Israeli Taxation, Foreign Exchange Regulation and Investment Programs".

The distribution of dividends may also be limited by the Companies Law, which permits the distribution of dividends only out of retained earnings or earnings derived over the two most recent fiscal years, whichever is higher, provided that there is no reasonable concern that payment of a dividend will prevent a company from satisfying its existing and foreseeable obligations as they become due. Our articles of association provide that dividends will be paid at the

discretion of, and upon resolution by, our board of directors however, the board of directors at its discretion, may transfer the decision in this matter to the general meeting.

Significant Changes.

None.

ITEM 9. LISTING

Offer and Listing Details.

Effective November 1996, our ordinary shares have been quoted on the NASDAQ, under the symbol "TISAF." Effective April 29, 1999, the symbol for the ordinary shares was changed to "TISA" on the NASDAQ.

The following table sets forth, for the periods indicated, the high and low closing prices of our ordinary shares, as reported on the NASDAQ.

Stock price history

The annual high and low market prices (in USD) for the ordinary shares for the five most recent full financial years are set forth below:

Year Ending		NASDAQ Capital Market
December 31, 2013	Hi	6.04
	Lo	2.66
December 31, 2012	Hi	5.45
	Lo	2.19
December 31, 2011	Hi	2.91
	Lo	1.11
December 31, 2010	Hi	1.29
	Lo	0.74
December 31, 2009	Hi	0.90
	Lo	0.45

The high and low market prices for the ordinary shares for each full financial quarter over the two most recent full financial years and any subsequent period are set forth below:

Quarter Ending		NASDAQ Capital Market
December 31, 2013	Hi	6.04
	Lo	3.25
September 30, 2013	Hi	3.36
	Lo	2.66
June 30, 2013	Hi	3.77
	Lo	2.79
March 31, 2013	Hi	3.75
	Lo	3.07
December 31, 2012	Hi	4.01
	Lo	3.4
September 30, 2012	Hi	4.75
	Lo	3.82
June 30, 2012	Hi	5.45
	Lo	3.51
March 31, 2012	Hi	4.3
	Lo	2.19

For the most recent six months, the high and low market prices of the ordinary shares for each month are set forth below:

Month Ending		NASDAQ Capital Market
February 28, 2014	Hi	5.19
	Lo	4.92
January 31, 2014	Hi	5.85
	Lo	4.81
December 31, 2013	Hi	6.04
	Lo	5.13
November 30, 2013	Hi	5.22
	Lo	4.01
October 31, 2013	Hi	4.03

	Lo	3.25
September 30, 2013	Hi	3.36
	Lo	2.66

Our ordinary shares have been dually-listed for trading on the TASE since December 3, 2006. Since the date of listing on the TASE, there has been only limited and sporadic trading activity on that market.

Markets

Our ordinary shares were dual-listed on the TASE on December 3, 2006, in addition to being listed on the NASDAQ. Effective January 1, 2007, the TASE included our shares in the Tel Aviv Tel-Tech index, which tracks the performance of the top Israeli technology companies by market cap.

In December 2006 we completed a public offering of convertible debentures, which were listed on the TASE. Effective October 4, 2011, we repurchased the remaining outstanding principal balance of, and accrued interest on, the debentures and the debentures are no longer listed on the TASE.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

General

TIS is registered with the Israeli Registrar of Companies. The registration number issued to TIS by the Registrar of Companies is 52-004294-6. The objectives for which we were founded are set out in Section 2 of the Memorandum of Association as follows: "The Company is permitted to deal with any activity that is meant to advance the interests of the Company and to act in any field which the Company's management believes is beneficial to the Company." At our December 22, 2011 shareholders meeting, we adopted new Articles of Association to provide for changes in the Companies Law and in the Israeli Securities Law 1968-5728.

Directors and other Office Holders

General

A director's ability to vote on a proposal, arrangement or contract in which the director is materially interested is codified, along with the fiduciary duties of all "office holders," in the Israeli Companies Law. Under the Israeli Companies Law, the term "office holders," is defined to mean, a director, chief executive officer, chief business manager, deputy chief executive officer, vice chief executive officer, any person filling any of those roles in a company even if his title is different and any other manager directly subordinate to the chief executive officer. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care includes avoiding negligent acts and acting skillfully as a reasonable office holder would act. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder of the company.

The Israeli Companies Law requires that an office holder promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company.

In the case of a transaction in which an office holder has a personal interest, that is not an extraordinary transaction, as defined under Israeli law, and after the office holder complies with the above disclosure requirement, only board approval is required. Members of the board having a personal interest should not be present at the vote or exercise their vote unless a majority of the board has a personal interest. The transaction must not be adverse to the company's interest. If such transaction is an extraordinary transaction or if we intend to provide an undertaking to indemnify, exempt or insure an office holder, with regard to their duties, then, in addition to any approval required by the board of directors or by any other organ of the company according to its Articles of Association, it also must be approved by the audit committee or compensation committee (depending on the nature of the transaction) prior to the approval by the board of directors, and, under specified circumstances, by a meeting of the shareholders. An office holder who has a personal interest in the approval of a transaction brought before the board of directors, the compensation committee or the audit committee may not be present at this meeting or vote on this matter unless most of the members have a personal interest in approving the transaction or the occurrence of specific circumstances defined in the law.

Arrangements regarding the compensation of our directors (whether regarding in their capacity as directors or regarding the provision of other services) require audit committee, board of directors and shareholder approval.

External Directors

Under the Israeli Companies Law, public companies are required to appoint two external directors. Any committee having the power to act on behalf of a company's board (as opposed to an advisory committee) must have at least one external director as a member. All of the external directors must be members of the Audit Committee and the compensation committee, the chairman of the Audit Committee and the compensation committee must be an external director. An external director must be an individual resident of Israel, who is qualified to serve as a director. However, companies such as ours whose shares have been offered to the public outside of Israel may appoint external directors who are not residents of Israel. A person may not be appointed as an External Director if:

- Such person or his or her relative, partner, employer or any person to which they are directly or indirectly subordinate, or any entity under that person's control, has or had, on or within the two years preceding the date of such appointment as an external director, any affiliation with the Company, with a Controlling shareholder at the date of such appointment or their relative, or with an entity controlling, controlled by or under common control with the Company or, in a company that has no Controlling shareholder, an affiliation to a person who at the date of such appointment acts as the company's chairman of the board, CEO, a principal shareholder or the most senior officer in the financial field. The term "affiliation" includes an employment relationship, a regular business or professional relationship, control, and service as an office holder other than service as a director appointed as an external director in a company offering shares to the public for the first time;

- Such person's position or business activities create or may create a conflict of interests or interfere with such person's ability to serve in the capacity of an external director;

- Such person acts as a director of another company in which one of the external directors acts as a director in the Company;

- Such person is an employee of the securities authority or of the Tel Aviv Stock Exchange; or

- Such person or their relative, partner, employer or any person to which he or she is directly or indirectly subordinate, or any entity under that person's control, has a professional or business relationship with a person to whom affiliation is prohibited, even if such relationship is not maintained regularly, aside for negligible relationships.

Under the Companies Law and regulations promulgated under it, a person is qualified to serve as an external director only if he or she possesses accounting and financial expertise or professional competence. At least one of the external directors must have accounting and financial expertise.

A controlling shareholder means a shareholder who has the ability to direct the company's actions other than by virtue of being a director or an officer. A shareholder who holds more than 50% of the voting power in the company's general meeting of shareholders or any equivalent governing body or has the right to elect directors or to appoint the company's CEO is presumed to be a controlling shareholder.

No person may serve as an external director if the person's position or other business creates, or may create, a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. A director of one company may not be appointed as an external director in another, if at the same time, a director of the other company serves as an external director of the first. Other limitations exist

with regard to various types of memberships and positions, whose holders may not serve as external directors. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, then at least one external director must be of the other gender.

The election of the external director requires a simple majority of the total number of votes cast at the meeting, whether such votes are cast in person or by proxy, provided that either:

- — such majority includes at least the majority of the votes of non-controlling shareholders who are present in person or by proxy, where abstentions are not counted as votes; or
- — the total number of shares held by non-controlling shareholders who voted against the election of the external Director does not exceed two percent of the aggregate voting rights in the company.

The initial term of an external director under the law is three years (extendable for two additional three year terms). The approval of the general meeting shall require that the majority of votes include the majority of the non-controlling shareholders present at the meeting, or alternatively, that the total of opposing votes does not exceed 2% of the voting rights (and in the event that all Board members are of one gender, one of the external directors should be of the other), in accordance with the provisions of the Companies Law. External directors may be removed only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company.

An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly in connection with service provided as an external director or for any other service. Any external director who receives compensation in violation of such rules may not serve as an external director. Commencing May 2011, a company, a controlling shareholder and any other entity controlled by the controlling shareholder may not grant to such external director, its spouse or child, any benefits, directly or indirectly and the external director, its spouse or child may not be appointed to serve in any position, may not be employed by and may not, directly or indirectly render any professional services to the company such controlling shareholder or any other entity controlled by the controlling shareholder, during the first two years following such external director termination of services, and with respect to a relative who is not the external director's spouse or child during the first year following such termination.

Alternate Directors

Under the Israeli Companies Law, the Articles of Association of a company may entitle a director to appoint another person to serve as an alternate director. Our Articles entitle our directors by written notice to us to make such an appointment and to cancel any such appointment. Our Articles also provide that any person may act as an alternate director. The Israeli Companies Law now prohibits incumbent directors from acting as alternate directors and a single person from acting as an alternate director for more than one incumbent director.

The term of appointment of an alternate director may be for one meeting of the board of directors or for a specified period or until notice is given of the cancellation of the appointment. To our knowledge, no director currently intends to appoint any other person as an alternate director, except if the director is unable to attend a meeting of the board of directors.

Internal Auditor and Certified Public Accountant

Under the Israeli Companies Law, the board of directors must appoint an internal auditor, nominated by the Audit Committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may be an employee of the company but not an office holder (as defined above), nor an affiliate, nor a relative of an office

holder or affiliate, and he or she may not be the company's independent accountant or its representative. In addition, the internal auditor may not be a person who holds 5% or more of the company's outstanding share capital or voting rights, or a person who has the right to appoint one or more directors or the general manager. The Company's internal auditor is Mr. Doron Cohen of Fahn Kanne Control Management Ltd., a member firm of Grant Thornton International.

In addition, under the Israeli Companies Law, all companies must appoint a certified public accountant to audit the company's financial statements and to report to the chairman of the board of directors any material improprieties that it may discover with respect to the accounting control of the company. In our last shareholders meeting, October 15, 2013, we appointed Kost Forrer Gabbay and Kasierer, a member firm of Ernst & Young Global and certified public accountants in Israel, as our certified public accountant for auditing services, effective until the next shareholders meeting.

Indemnification of Directors and Officers

At a shareholders meeting held on December 22, 2011, following the amendment of the law in 2011, the shareholders approved the adoption of a new Articles of Association, which include, inter alia, an expansion of the insurance and indemnification given to office holders to the maximum extent permitted by law and in addition, the Shareholders approved the amendment of the indemnification letter currently in place with regard to the Company's directors and office holders. See "Major Shareholders and Related Party Transactions - Related Party Transactions."

Under the Israeli Companies Law, a company may indemnify an office holder against any monetary liability incurred in his or her capacity as an office holder whether imposed on him or her or incurred by him or her in favor of another person pursuant to a judgment, a settlement or an arbitrator's award approved by court. A company also can indemnify an office holder against reasonable litigation expenses including attorneys' fees, incurred, whether or not paid by him or her in his or her capacity as an office holder, in proceedings instituted against him or her by the company, on its behalf or by a third-party, in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for a crime that does not require proof of criminal intent, or in which an indictment was not brought against the office holder.

In addition, a company may indemnify an office holder against reasonable legal fees, including attorney's fees, incurred, whether or not paid by him, by him or her in consequence of an investigation or proceeding instituted against him or her by an authority that is authorized to conduct such investigation or proceeding, and that was resolved without an indictment against him or her and without imposing on him or her financial obligation as an alternative of a criminal proceeding, or that was resolved without filing an indictment against him or her but with the imposition on him or her of a financial obligation as an alternative to a criminal proceeding in respect of an offense that does not require the proof of criminal intent.

A company may indemnify an office holder in respect of these liabilities either in advance of an event or following an event. If a company undertakes to indemnify an office holder in advance of an event, the indemnification, other than litigation expenses, must be limited to foreseeable events in light of the company's actual activities when the company undertook such indemnification, and reasonable amounts or standards, as determined by the board of directors.

A company may obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder. These liabilities include a breach of duty of care to the company or a third-party, including a breach arising out of negligent conduct of the office holder, a breach of duty of loyalty and any monetary liability imposed on the office holder in favor of a third-party. A company may also exculpate an office holder from a breach of duty of care in advance of that breach. Our Articles provide for exculpation both in advance or retroactively, to the extent permitted under Israeli law. A company may not exculpate an office holder from a breach of duty of loyalty towards the company, from a breach of duty of care concerning dividend distribution or a purchase of the company's shares by the company or other entities controlled by the company or from procedures according to chapters H3, H4 or I1 of the Israeli Securities Law 1968-5728.

Under the Israeli Companies Law, a company may indemnify or insure an office holder against a breach of duty of loyalty only to the extent that the office holder acted in good faith and had reasonable grounds to assume that the

action would not prejudice the company. In addition, a company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly (excluding mere negligence), or committed with the intent to derive an unlawful personal gain, or against a fine or forfeit levied against the office holder in connection with a criminal offense In addition a Company may indemnify any person as permitted in Section 56H(b)(1) of the Israeli Securities Law.

Currently, we hold an insurance policy for our office holders that provides coverage limited to $15,000,000 in aggregate for the policy period ending on September 30, 2014.

Approval of Terms of Office and Employment

Pursuant to a recent amendment to the Companies Law which became effective on December 12, 2012 (the "2012 Amendment"), any arrangement between a public company and an office holder of the company as to such office holder's terms of office and employment, including exemption and release of the office holder from liability for breach of his or her duty of care to the company, an undertaking to indemnify the office holder, post factum indemnification or insurance; any grant, payment, remuneration, compensation, or other benefit provided in connection with termination of service; and any benefit, other payment or undertaking to provide any payment as aforesaid ("Terms of Office and Employment"), now generally require the approval of the company's compensation committee and the board of directors and, with respect to directors and the chief executive officer, also the company's shareholders. Notwithstanding the above, the amendment of existing Terms of Office and Employment of office holders (other than directors), requires the approval of the compensation committee only, if the committee determines that the amendment is not material in relation to its existing terms.

In addition, pursuant to the 2012 Amendment, the Terms of Office and Employment of office holders must be in accordance with the terms of a compensation policy adopted by the Company (a "Compensation Policy"). Under the Companies Law, the Compensation Policy must be based on those considerations, must include those provisions and needs to reference those matters detailed in the Companies Law. On August 29, 2013, our compensation committee, followed by our board of directors, adopted a Compensation Policy and the Compensation Policy was approved (with the required special majority) by our shareholders on October 15, 2013. A Compensation Policy generally must be brought for approval again in accordance with the procedures of the Companies Law once every three years.

The 2012 Amendment did not affect the validity of Terms of Office and Employment approved prior to the effective date of the amendment in accordance with the requirements of the Companies Law as at the time of approval. All current relevant Terms of Office and Employment that pre-date the adoption of the Compensation Policy and have not been changed since were approved by all required bodies of the Company.

Directors

Pursuant to the 2012 Amendment, any arrangement between a company and a director as to his or her Terms of Office and Employment must be in line with the Compensation Policy and requires the approval of the compensation committee, the board of directors and the shareholders by a simple majority. The compensation committee approved the terms of the directors' compensation for 2013 on August 29, 2013, and the board of directors approved such terms on the same day. The shareholders approved the terms on October 15, 2013.

External directors may receive compensation solely as provided for in certain regulations promulgated pursuant to the Companies Law governing the terms of compensation payable to external directors (the "Compensation Regulations").

Chief Executive Officer

Pursuant to the 2012 Amendment, any arrangement between a company and its chief executive officer as to his or her Terms of Office and Employment must be in line with the Compensation Policy and requires the approval of the compensation committee, the board of directors and the company's shareholders by simple majority. The compensation committee approved the terms of the CEO's compensation for 2013 on August 29, 2013 and the board of directors approved such terms on the same day. The shareholders approved the terms on October 15, 2013.

Other Office Holders

Pursuant to the 2012 Amendment, any arrangement between a company and an office holder (other than a director or the chief executive officer) as to his or her Terms of Office and Employment must be in line with the Compensation Policy and requires the approval of the compensation committee and the board of directors.

Rights, Preferences, Restrictions of Shares

Our authorized share capital consists of a single class of equity, our ordinary shares. Subject to Israeli law, dividends may be declared by a company's board of directors, unless authority is provided in the company's articles of association to transfer such powers to the company's shareholders, who may then declare dividends following a recommendation by the directors. Our articles of association grant the board the power to transfer the final decision regarding dividends to the shareholders. In such event, the shareholders may only declare a dividend in an amount that is equal or less than that recommended by the directors or not to declare a dividend at all, despite a directors' recommendation, but may not declare dividend in an amount which is in excess of the amount recommended by the directors. The directors may invest or use otherwise for our benefit, any dividends that are not demanded within one year of their being declared. The directors shall pay such un-demanded dividends upon receipt of a valid demand; however the company is not liable to pay any interest on such un-demanded dividends.

Each shareholder is entitled to one vote for each ordinary share held. Except for the external directors, each director is elected to serve until the next annual general meeting of shareholders and until his or hers successor has been elected. Our Articles do not grant shareholders any rights to share in our profits other than through dividends. In the event that we go into liquidation, any surplus is distributed to the shareholders in proportion to the amount paid by each on account of the nominal value of the shares paid. No account is taken of any premiums paid in excess of the nominal value.

We may issue and redeem redeemable shares and redeemable warrants. There are no sinking fund provisions recorded in our Articles. The directors may only make calls upon shareholders in respect of sums unpaid on their shares. Our Articles contain no provisions which discriminate against any existing or future shareholder as a result of said shareholder holding a substantial number of shares.

According to our Articles, any resolution on the change of the Company's share capital by way of the creation of new shares, or cancellation of unissued registered shares, with preferred or qualified rights is deemed a change of our Articles of Association and as such requires the vote of a majority of 75% of the shareholders participating in the general meeting. If at any time our share capital is divided into different classes of shares, we may change the rights of shareholders by way of a resolution of the general meeting, subject to the consent of the shareholders of the class whose rights are being impaired by the proposed change.

Meetings of Shareholders

An annual general meeting must be held once in each year and not later than fifteen months after the preceding annual general meeting. All shareholders are entitled to attend and vote or vote by proxy at annual general meetings. Notice of annual general meetings may be sent by us by personal delivery, post, facsimile or telex to shareholders at the address recorded in our records. Any notice sent by post to a shareholder's address that is situated outside of Israel must be sent by airmail. Any general meeting that is not an annual general meeting is called an extraordinary general meeting. All shareholders are entitled to attend and vote or vote by proxy at extraordinary general meetings.

Our board of directors may convene an extraordinary general meeting when and as it sees fit. In addition the Board must, according to statute, convene an extraordinary general meeting if it receives a demand to do so from either (i) at least two directors, (ii) at least one quarter of the directors of the Board or (iii) one or more shareholders who hold (A) an aggregate of at least five percent of our issued share capital and one percent of all voting rights, or (B) at least five percent of all voting rights. Any demand by a person or persons, as described in (i), (ii) and/or (iii) of this paragraph, who wish to demand that an extraordinary general meeting be convened must be made in writing and sent to our registered office. The demand must detail the objects of the meeting and must be signed by all those making the demand.

Notice of an annual general meeting and of an extraordinary general meeting must be sent in advance to all shareholders recorded in our register of shareholders in accordance with the dates required according to the applicable law. Such notice must include the place, date and hour of the meeting, the agenda for the meeting, the proposed resolutions and instructions for proxy voting.

The determining date as to share ownership for purposes of attending and voting at a general meeting is as set forth in the decision to convene a general meeting but not earlier than 21 day before the scheduled general meeting date and not later than 4 days prior to such scheduled meeting date; Notwithstanding the foregoing, Israeli companies such as ours whose shares have been listed for trade both on the TASE and recognized foreign stock exchange, which issue proxy statements to their shareholders in conformity with the law of the country where such foreign exchange is located, are entitled to vary such determining date to not earlier than 21 day before the scheduled general meeting date and not later than 4 days prior to such scheduled meeting date, and are entitled to certain allowances as to issuing proxy statements to shareholders outside Israel, in accordance with the Companies Regulations (Allowances for Companies with Securities Listed on an Exchange Outside Israel), 2000.

Limitations of Shareholders

No limitations exist or are imposed by Israeli law or our constituent documents with regard to the right to own our shares, including any limitations upon the rights of non-resident or foreign shareholders to hold or exercise voting rights.

Limitations on Change of Control

There are no provisions in our Articles or other constituent documents other than as required by law that would have an effect of delaying, deferring or preventing a change in control of us. An Israeli company whose securities are listed on both the TASE and on a recognized foreign exchange, such as ours, enjoys certain allowances with regard to a special purchase offer having consideration to the requirements of the law of the country where such foreign exchange is located.

Provisions Relating to Major Shareholders

We are required by law to maintain a separate register of shareholders that hold 5%, or more of either our issued shares or voting rights.

The Israeli Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company, as it does to "office holders" in the context of a related party transaction. For the purposes of this definition, the law deems two or more shareholders who hold voting rights in the company and each of which has a personal interest in the approval of a transaction being brought to the company for approval, as jointly holding such shares. See the section entitled "Directors-General" in this report. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation terms of a controlling shareholder, require the approval of the audit committee or the compensation committee (depends on the nature of the transactions), the board of directors and the shareholders of the company.

The shareholder approval must either include majority of the shares held by disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than 2% of the voting rights in the company. In addition, a private placement of securities that grants 25% or more of the actual voting rights in the company prior to such private placement that its proceeds are not in cash or in registered securities or that is not in "market terms", that will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person, or that will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital, requires approval by the board of directors and then the shareholder of the company.

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards the company and the other shareholders and to refrain from abusing his power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the Articles of Association;

- an increase of the company's authorized share capital;
- a merger; or
- approval of interested party transactions that require shareholder approval.

In addition, any controlling shareholder who can determine the outcome of a shareholder vote and any shareholder who, under a company's Articles of Association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty.

The Companies Law, provides that in the event that a controlling shareholder breaches his duty of fairness then such breach shall be considered as a breach of contract, mutatis mutandis, while taking into account the special position of such controlling shareholder within the company.

Material Contracts

Other than as described below, neither we nor any of our subsidiaries has entered into any material contracts, other than contracts entered into in the ordinary course of business, during the two years immediately preceding publication of this document:

In February 2014, we closed on an underwritten public offering of 3,162,500 of our ordinary shares at $4.75 per share for gross proceeds of $15.0 million. The aggregate amount of ordinary shares sold reflects the exercise in full by the underwriters of their option to purchase up to 412,500 additional ordinary shares to cover over-allotments. We received net proceeds of approximately $13.7 million from the sale of ordinary shares, after deducting the underwriters' discounts and other estimated offering expenses. The net proceeds from the offering will be used for general corporate purposes, including potential acquisitions. Canaccord Genuity Inc. acted as the sole book-running manager for the offering, and Roth Capital Partners and The Benchmark Company, LLC acted as co-managers. In connection with the offering, we entered into an Underwriting Agreement, dated January 31, 2014, by and between the Registrant and Canaccord Genuity Inc., as representative for several underwriters. The agreement is included as Exhibit 1.1 to our Current Report on Form 6-K filed on January 31, 2014.

Israeli Taxation, Foreign Exchange Regulation and Investment Programs

The following is a summary of the principal Israeli tax laws applicable to us, the Israeli Government programs from which we benefit, and Israeli foreign exchange regulations. This section also contains a discussion of material Israeli tax consequences to our shareholders who are not residents or citizens of Israel. This summary does not discuss all aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances, or to some types of investors subject to special treatment under Israeli law. Examples of investors subject to special treatment under Israeli law include residents of Israel, traders in securities, or persons who own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.

To the extent that part of the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or the courts will accept the views expressed in this section.

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General corporate tax structure in Israel

Israeli companies were subject to corporate tax at the rate of 25% in 2010 2011. Pursuant to tax reform legislation that came into effect in 2009, the corporate tax rate is to undergo further staged reductions to 18% by the year 2016.

In December 2011, the Israeli Parliament ("Knesset") passed the Law for Socioeconomic Change (Legislative Amendments) (Taxes), 2011(the "Tax Burden Law") which prescribes, among others, to cancel, effective from 2012, the scheduled progressive reduction in the corporate tax rate and to raise the statutory corporate tax rate to 25% in 2012. In view of the increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate will also be increased. The Amendment was enacted effective as of January 1, 2012. The adoption of the amendment had no effect on the financial statements

However, as discussed below, the rate is effectively reduced for income derived from our Approved Enterprise and Benefited Enterprise plans.

As of December 31, 2013, we had business loss carry forwards for tax purposes in the amount of $3,671,000. The amount of our carry forward business losses will be offset against relevant taxable future income for an indefinite period.

As of December 31, 2013 the foreign subsidiaries had operating loss carry forwards for tax purposes in the amount of $9,037,000. A portion of such losses expires over a period from 2013 through 2022, and some of them can be carried forward indefinitely.

Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 5719-1959 (the “Investment Law”), provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, referred to as an “Approved Enterprise”, is entitled to benefits. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility in which the investment is made or the election of the grantee.

Our facilities in Israel have been granted Approved Enterprise status under the Investment Law. The Investments Law provides that an approved enterprise is eligible for tax benefits on taxable income derived from its approved enterprise programs. The tax benefits under the Investments Law also apply to income generated by a company from the grant of a usage right with respect to know-how developed by the approved enterprise, income generated from royalties, and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the approved enterprise’s ordinary course of business. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted average of the applicable rates. The tax benefits under the Investments Law are not, generally, available with respect to income derived from products manufactured outside of Israel. In addition, the tax benefits available to an approved enterprise are contingent upon the fulfillment of conditions stipulated in the Investments Law and regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that a company does not meet these conditions, it would be required to refund the amount of tax benefits, plus a consumer price index linkage adjustment and interest.

The Investments Law also provides that an approved enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved enterprise program.

Since we have not yet generated taxable income, the period of benefits to which we are entitled as an Approved Enterprise has not yet begun.

The Investment Law has been amended several times over the last years, with the two most significant changes effective as of April 1, 2005 (the "2005 Amendment"), and as of January 1, 2011 (the "2011 Amendment"). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment, yet companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 may choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead to forego such benefits and elect the benefits of the 2011 Amendment. The following discussion is a summary of the Investment Law prior to its amendments as well as the relevant changes contained in the new legislation.

Tax benefits for Approved Enterprises approved before April 1, 2005

Under the Investment Law prior to its 2005 amendment, a company that wished to receive benefits had to receive an approval from the Investment Center of the Israeli Ministry of Industry, Trade and Labor, which we refer to as the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

An Approved Enterprise may elect to forego any entitlement to the grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. Under the alternative benefits track, a company's undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending upon the geographic location within Israel of the Approved Enterprise. The benefits commence on the date in which that taxable income is first earned. Upon expiration of the exemption period, the Approved Enterprise is eligible for the reduced tax rates otherwise applicable under the Investment Law for any remainder of the otherwise applicable benefits period. The benefits period under Approved Enterprise status is limited to 12 years from commencement of production, or 14 years from the date of the approval, whichever ends earlier. If a company has more than one Approved Enterprise program or if only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise. Income derived from activity that is not integral to the activity of the Approved Enterprise will not enjoy tax benefits. Since we have not yet generated taxable income, the period of benefits to which we are entitled as an Approved Enterprise has not yet begun.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a Foreign Investors' Company, or FIC. A FIC eligible for benefits is essentially a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether or not a company qualifies as an FIC is made on an annual basis. A FIC that has an Approved Enterprise program will be eligible for an extension of the period during which it is entitled to tax benefits under its Approved Enterprise status (so that the benefit periods may be up to ten years) and for further tax benefits if the level of foreign investment exceeds 49%. If a company that has an Approved Enterprise program is a wholly owned subsidiary of another company, then the percentage of foreign investment is determined based on the percentage of foreign investment in the parent company.

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted Approved Enterprise status during the tax exemption period will be required to recapture the deferred corporate tax applicable to the amount distributed

(grossed up to reflect such tax) at the rate that would have been applicable had such income not been tax-exempted under the alternative route. This rate generally ranges from 10% to 25%, depending on the extent to which non-Israeli shareholders hold such company's shares. Such company may also be required to record a deferred tax liability with respect to such tax-exempt income prior to its distribution.

In addition, dividends paid out of income generated by an Approved Enterprise (or out of dividends received from a company whose income is generated by an Approved Enterprise) are generally subject to withholding tax at the rate of 15%, or at the lower rate provided under an applicable tax treaty. The 15% tax rate is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at the lower rate under an applicable tax treaty. In the case of a FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program. This benefit is an incentive granted by the Israeli government regardless of whether the alternative benefits program is elected.

The benefits available to an Approved Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval with respect thereto, as described above. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest.

The 2005 Amendment

On April 1, 2005, an amendment to the Investment Law came into effect. The 2005 amendment revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a Benefited Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the amendment provides tax benefits to both local and foreign investors and simplifies the approval process. The period of tax benefits for a new Benefited Enterprise commences in the “Year of Commencement.” This year is the later of (1) the year in which taxable income is first generated by a company, or (2) a year selected by the company for commencement, on the condition that the company meets certain provisions provided by the Investment Law (Year of Election). The amendment does not apply to investment programs approved prior to December 31, 2004. The new tax regime applies to new investment programs only. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. However, the 2005 Amendment limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise’s income be derived from export to specific markets with a population of at least 12 million.

The 2005 Amendment provides that the approval of the Investment Center is required only for Approved Enterprises that receive cash grants. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive tax benefits. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. A company that has a Benefited Enterprise may, at its discretion, approach the Israeli Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law. Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) that derive more than 25% of their business income from export to specific markets with a population of at least 12 million. In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all the conditions that are set out in the amendment for tax benefits and which exceeds a minimum amount specified in the Investment Law. Such investment entitles a company to a Benefited Enterprise status with respect to the investment, and may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Benefited Enterprise. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a Benefited Enterprise, and the company’s effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a Benefited Enterprise must exceed a certain percentage of the value of the company’s production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise are determined, among other things, by the geographic location of the Benefited Enterprise. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefit period, depending on the level of foreign investment in the company in each year, as explained above.

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the year of commencement, or 12 years from the first day of the Year of Election.

If a company distributes dividends from tax-exempt income, the company will be taxed on the otherwise exempt income at the same reduced corporate tax rate that would have applied to that income. Distribution of dividends derived from income that was taxed at reduced rates, but not tax-exempt, does not result in additional tax consequences to the company. Shareholders who receive dividends derived from Approved Enterprise or Benefited Enterprise income are generally taxed at a rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (the limitation does not apply to a Foreign Investors Company, which is a company that more than 25% of its shares owned by non-Israeli residents).

The tax benefits available under Approved Enterprise or Benefited Enterprise relate only to taxable income attributable to the specific Approved Enterprise or Benefited Enterprise, and our effective tax rate will be the result of a weighted combination of the applicable rates.

Percent of Foreign Ownership	Rate of Reduced Tax	Reduced Tax Period	Tax Exemption Period
0-25%	25%	5 years	2 years
25-49%	25%	8 years	2 years
49-74%	20%	8 years	2 years
74-90%	15%	8 years	2 years
90-100%	10%	8 years	2 years

The Company received approvals for an establishment program and three expansions during the years 1990, 1991, 1999 and 2000.

We believe that our Approved Enterprise and Benefited Enterprise programs currently operate in compliance with all applicable conditions and criteria, but we cannot assure you that they will continue to do so. If we do not fulfill these conditions, in whole or in part, the benefits can be cancelled and we may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest.

The Company elected 2009 as a year of election under the Amendment.

To date, the Company has not utilized the benefits of the Investment Law, as amended subsequent to April 1, 2005, because of utilizing carry forward losses from previous years for tax purposes.

The 2005 amendment to the Investment Law treats the repurchase of shares out of Benefited Enterprise tax exempt income as deemed dividend.

As a result of the 2005 amendment, tax-exempt income attributed to Benefited Enterprise will subject us to taxes also upon complete liquidation.

Reform of the Investments Law – “2011 Amendment”

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its Preferred Enterprise (as such term is defined in the Investment Law) effective as of January 1, 2011 and onward. A Preferred Company is defined as either (i) a company incorporated in Israel and not fully owned by a

governmental entity or (ii) a limited partnership (a) that was registered under the Israeli Partnerships Ordinance and (b) all limited partners of which are companies incorporated in Israel, but not all of them are governmental entities, which, in the case of the company and companies referenced in clauses (i) and (ii)(b), have, among other things, Preferred Enterprise status and are controlled and managed from Israel. According to the 2011 amendment, the benefit tracks in the Investment Law were modified and a flat tax rate would apply to the Company's entire preferred income. We will be able to choose to apply the amendment (the waiver is non-recourse) and from then the uniform corporate tax rate will be 7 % in areas in Israel designated as Development Zone A and 12.5% elsewhere in Israel during 2013, 9% in development Zone A and 16% elsewhere in Israel, respectively, in 2014.

A dividend distributed from income which is attributed to a Preferred Enterprise/Special Preferred Enterprise will be subject to withholding tax at source at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 15% in 2013 and 20% as of 2014 (iii) non-Israeli resident - 15% in 2013 and 20% as of 2014 subject to a reduced tax rate under the provisions of an applicable double tax treaty.

We may choose not to apply the 2011 amendment, in which case the Company will remain subject to the Investment Law as in effect prior to the 2011 amendment until the expiration of the Company's current investment programs. We are examining the possible effect of the amendment on the financial statements, if at all.

Law for the Encouragement of Industry (Taxes), 1969

We believe that we currently qualify as an Industrial Company within the meaning of the Law for the Encouragement of Industry (Taxes), 1969 (the "Industrial Encouragement Law"). The Industrial Encouragement Law defines an "Industrial Company" as a company that is resident in Israel and that derives at least 90% of its income in any tax year, other than income from defense loans, capital gains, interest and dividends, from an enterprise whose major activity in a given tax year is industrial production.

The following are the principal corporate tax benefits that are available to an Industrial Company:

§ Amortization of the cost of purchased know-how patents used for the development or promotion of the Industrial Enterprise over an eight-year period commencing on the year in which such rights were first exercised for tax purposes..

§ Accelerated depreciation rates on equipment and buildings.

§ Under specified conditions, an election to file consolidated tax returns with related Israeli Industrial Companies.

§ Expenses related to a public offering are deductible in equal amounts over three years commencing on the year of offering.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. We cannot assure you that we qualify or will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Tax Benefits for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for research and development expenditures, including capital expenditures, for the year in which they are incurred. Such expenditures must relate to scientific research and development projects, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved by the relevant Israeli government ministry, but otherwise qualifying for deduction, are deductible over a three-year period.

Taxation of our Shareholders

The following is a short summary of the material provisions of the tax environment to which shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new

tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts.

The summary does not address all of the tax consequences that may be relevant to all purchasers of our common shares in light of each purchaser's particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our common shares should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of common shares. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in Israeli resident companies, unless a specific exemption is available or unless a treaty between Israel and the country of the non-resident provides otherwise. The Ordinance distinguishes between the "Real Capital Gain" and the "Inflationary Surplus". The Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index (CPI) or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

On January 1, 2006, an amendment to the Israeli tax regime became effective (the "2006 Tax Reform"). The 2006 Tax Reform significantly changed the tax rates applicable to income derived from shares. According to the 2006 Tax Reform, an individual is subject to a 20% tax rate on real capital gains derived from the sale of shares, unless such shareholder claims a deduction for financing expenses in connection with such shares in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "substantial shareholder" (generally a shareholder who holds directly or indirectly 10% or more of the right to profits, right to nominate a director or voting rights) of the company issuing the shares, the tax rate is 25%. Individual shareholders dealing with securities in Israel are taxed at their marginal tax rates applicable to business income.

Notwithstanding the foregoing, pursuant to the Tax Burden Law, the capital gain tax rate applicable to individuals was raised from 20% to 25% from 2012 and onwards (or from 25% to 30% if the selling individual shareholder is a Substantial Shareholder at any time during the 12-month period preceding the sale). With respect to assets (not shares that are listed on a stock exchange) purchased on or after January 1, 2003, the portion of the gain generated from the date of acquisition until December 31, 2011 will be subject to the previous capital gains tax rates (20% or 25%) and the portion of the gain generated from January 1, 2012 until the date of sale will be subject to the new tax rates (25% or 30%).

The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding this date he had been a substantial shareholder.

Taxation of Israeli Shareholders on Receipt of Dividends

Israeli Resident Individuals. Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our common shares (other than bonus shares or share dividends) at 20%, or 25% if the recipient of such dividend is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. Pursuant to the Tax Burden Law, as of 2012 such tax rate is 25%, or 30% if the dividend recipient is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Benefited Enterprise or Preferred Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after that period. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Benefited/ Preferred income).

Israeli Resident Corporations. Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on our common shares.

Israeli Resident Corporations. Under present Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described above, recent changes in the law abolished the scheduled progressive reduction of the corporate tax rate and set the corporate tax rate at 25% from 2012 and onwards.

Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain derived by a company is generally subject to tax at the corporate tax rate (24% in 2011 and 25% as of 2012) or, if derived by an individual, at the rate of 20% (25% as of 2012), or 25% (30% as of 2012), if generated from an asset purchased on or after January 1, 2003. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income.

Taxation of Non-Israeli Shareholders on Receipt of Dividends

Non-residents of Israel, including corporations, will generally be exempt from any capital gains tax from the sale of shares traded on a recognized stock exchange outside of Israel (including NASDAQ), provided that such shareholders did not acquire their shares prior to an initial public offering and that the gains are not derived through a permanent establishment that the non-resident maintains in Israel. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. In any case, these tax rates are subject to the provisions of any applicable tax treaty. On January 2009, an amendment to the Israeli tax regime became effective all the non-residents of Israel will generally be exempt from any capital gains tax from the sales of shares traded on a recognized stock exchange outside of Israel.

In addition, pursuant to the Convention Between the U.S. Government and the Government of Israel with Respect to Taxes on Income, as amended (the "United States-Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the United States-Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the United States-Israel Tax Treaty (a "United States Treaty Resident") generally will not be subject to the Israeli capital gains tax unless such United States Treaty Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions. However, under the United States-Israel Tax Treaty, such United States Treaty Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to U.S. state or local taxes.

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income, including dividends, royalties and interest. On the distribution of dividends by a publicly traded company, income tax is withheld at source, at the rate of 20 % (25% as of 2012) for dividends paid to an individual or foreign corporation, and 15% for dividends generated by an Approved Enterprise, unless in each case a different rate is provided in a treaty between Israel and shareholder's country of residence. Under the U.S.-Israel tax treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a U.S. resident will be 25%. However, the maximum tax rate on dividends not generated by an approved enterprise paid to a U.S. corporation holding at least 10% of our voting power is 12.5%.

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

A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

Foreign Exchange Regulations

An Israeli company calculates its tax liability in US dollars according to certain orders. The tax liability, as calculated in US dollars is translated into NIS according to the exchange rate as of December 31st of each year.

Dividends, if any, paid to the holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency. If these amounts are paid in Israeli currency, they may be converted into freely repatriable U.S. dollars at the rate of exchange prevailing at the time of conversion. In addition, the statutory framework for the potential imposition of exchange controls has not been eliminated, and may be restored at any time by administrative action.

Singapore tax

As a result of change of control at Asiasoft Singapore the carry forward losses are subject to the approval of the Internal Revenue Authority of Singapore (“IRAS”). Based on the facts and circumstances, the Company believes that the tax loss carry forwards of AsiaSoft Singapore can be substantiated without any restrictions over the utilization of these tax losses against future taxable profits. In February 2009, The IRAS approved the request filed by Asiasoft Singapore for waiver which demonstrates the nature of the change in the share capital of AS Sin.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

THE DISCUSSION BELOW IS BASED UPON THE SECTIONS OF THE INTERNAL REVENUE CODE, TREASURY REGULATIONS, PUBLISHED INTERNAL REVENUE SERVICE RULINGS, PUBLISHED ADMINISTRATIVE POSITIONS OF THE INTERNAL REVENUE SERVICE AND COURT DECISIONS THAT ARE CURRENTLY APPLICABLE, ANY OR ALL OF WHICH COULD BE MATERIALLY AND ADVERSELY CHANGED AT ANY TIME, POSSIBLY ON A RETROACTIVE BASIS. THE FOLLOWING DISCUSSION IS FOR GENERAL INFORMATION ONLY AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY HOLDER OR PROSPECTIVE HOLDER OF ORDINARY SHARES AND NO OPINION OR REPRESENTATION WITH RESPECT TO THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO ANY SUCH HOLDER OR PROSPECTIVE HOLDER IS MADE. ACCORDINGLY, HOLDERS AND PROSPECTIVE HOLDERS OF ORDINARY SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF ORDINARY SHARES.

The following is a discussion of material United States Federal income tax consequences generally applicable to U.S. Holders (as defined below) who acquire our ordinary shares and hold them as capital assets. This discussion does not address all potentially relevant United States Federal income tax matters, and it does not address consequences peculiar to persons subject to special provisions of United States Federal income tax law, such as, for example, tax-exempt organizations, qualified retirement plans, persons subject to alternative minimum tax, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers and shareholders who acquired their shares through the exercise of employee share options or otherwise as compensation. In addition, this discussion only applies to common shares held by U.S. Holders as capital assets within the meaning of Section 1221 of the Internal Revenue Code, and does not cover any state, local or foreign tax consequences.

As used herein, the term “U.S. Holder” means a person, with the exception of those subject to special provisions of Federal income tax law, that holds our common shares that is (i) an individual who is a citizen or resident of the United States, (ii) a corporation organized under the laws of the United States, (iii) an estate, the income of which is subject to United States Federal income tax without regard to its source and (iv) a trust if (A) a United States court is able to exercise primary supervision over administration of the trust and one or more United States persons have authority to control all substantial decisions of the trust or (B) the trust has in effect a valid election under applicable United States Treasury Regulations to be treated as a U.S. person.

If a partnership or an entity treated as a partnership for United States Federal income tax purposes holds common shares, the United States Federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships or a partner in a partnership holding common shares should consult their own tax advisor regarding the consequences of the ownership and disposition of common shares by the partnership.

The term "Non-U.S. Holder" means a beneficial owner of an ordinary share who is not a U.S. Holder. The tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder. Certain aspects of U.S. federal income tax relevant to a Non-U.S. Holder also are discussed below.

Taxation of ordinary shares

Taxation of Dividends Paid On Ordinary Shares

Subject to the discussion under “Tax Consequences if the Company is a Passive Foreign Investment Company” below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares, including any Israeli taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. In general, distributions in excess of such earnings and profits will be applied against and will reduce (but not below zero) the U.S. Holder’s tax basis in the ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of ordinary shares.

A non-corporate U.S. Holder that meets certain eligibility requirements may qualify for a 20% or lower rate of U.S. federal income taxation on dividends paid if the Company is a “qualified foreign corporation” for U.S. federal income tax purposes, although the actual rates may be higher due to the phase out of certain tax deductions, exemptions and credits.

The Company generally will be treated as a “qualified foreign corporation” if (i) the Company is eligible for benefits under the income tax treaty between the United States and Israel (the “Treaty”) which contains an exchange of information program, or (ii) the ordinary shares are readily tradable on an established securities market in the United States. Because the Treaty has been identified by the U.S. Treasury as a qualifying treaty and the Company should be eligible for benefits under the Treaty, the Company should currently be treated as a qualified foreign corporation. However, no assurance can be given that a change in circumstances will not affect the Company’s treatment as a qualified foreign corporation for U.S. federal income tax purposes in any taxable year. In addition, a non-corporate U.S. Holder will generally not be eligible for the reduced rate (a) if such U.S. Holder has not held the ordinary shares for at least 61 days of the 121-day period beginning on the date which is 60 days before the ex-dividend rate, (b) to the extent the U.S. Holder is under an obligation to make related payments on substantially similar or related property, or (c) with respect to any portion of a dividend that the U.S. Holder elects to treat as investment income under Section 163(d)(4)(B) of the Code. Any days during which the U.S. Holder has diminished its risk of loss with respect to the ordinary shares (for example, by holding an option to sell the ordinary shares), are not counted towards meeting the 61-day holding period. Non-corporate U.S. Holders should consult their own tax advisors concerning whether dividends received by them qualify for the reduced rate of tax.

U.S. Holders will generally include in their gross income any dividend paid in NIS, including the amount of any Israeli taxes withheld, in an amount equal to the U.S. dollar value of the NIS received, calculated by reference to the exchange rate in effect on the date the dividends are received, regardless of whether the dividend payments are actually converted into U.S. dollars. U.S. Holders will have a tax basis in any NIS distributed by the Company equal to the U.S. dollar value of the NIS on the date of receipt. Generally, any gain or loss resulting from exchange rate fluctuations during the period from the date the U.S. Holder includes the dividend payment in income to the date the

payment is converted into U.S. dollars will be treated as ordinary income or loss and will be U.S. source income or loss for U.S. foreign tax credit purposes.

U.S. Holders may have the option of claiming the amount of any Israeli income taxes withheld at source either (1) as a deduction from gross income but only for a year in which the U.S. Holder elects to do so with respect to all foreign income taxes, or (2) subject to the foreign tax credit limitation, as a dollar-for-dollar credit against the U.S. Holder's U.S federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld, but such amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of foreign income taxes which may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each U.S. Holder, and may further be impacted by the provisions of the Treaty. The total amount of allowable foreign tax credits in any year cannot exceed regular U.S. tax liability for the year attributable to foreign source taxable income. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. In addition, distributions of current or accumulated earnings and profits will be foreign source passive income for U.S. foreign tax credit purposes and will not qualify for the dividends received deduction available to certain corporations.

Taxation of the Disposition of Ordinary Shares

Upon the sale, exchange or other disposition of ordinary shares, subject to the discussion under "Tax Consequences if the Company is a Passive Foreign Investment Company" below a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's adjusted basis in the ordinary shares, which is usually the cost of such shares, and the amount realized on the disposition. Capital gain from the sale, exchange or other disposition of ordinary shares held for more than one year is long-term capital gain. Long-term capital gain of a non-corporate U.S. Holder is eligible to be taxed at reduced rates. However, given the uncertain economic conditions in the United States and the size of the federal deficit, tax rates are subject to change and U.S. Holders should consult their tax advisors. Gains and losses recognized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares will be treated as U.S source income or loss for U.S foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Tax Consequences if the Company is a Passive Foreign Investment Company

The Company will be a passive foreign investment company, or PFIC, if 75% or more of its gross income in a taxable year, including the pro rata share of the gross income of any company, U.S. or foreign, in which it is considered to own 25% or more of the shares by value, is passive income. Alternatively, the Company will be considered to be a PFIC if at least 50% of its assets in a taxable year, determined quarterly and averaged over the year including the pro rata share of the assets of any company in which it is considered to own 25% or more of the shares by value, are held for the production of, or produce, passive income. Passive income includes amounts derived by reason of the temporary investment of funds raised in the Company's public offerings.

If the Company is a PFIC, and a U.S. Holder does not make one of the elections described below with respect to such shares, the U.S. Holder would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the U.S. Holder on the ordinary shares in a taxable year in excess of 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years, or, if shorter, the U.S. Holder's holding period for the ordinary shares), and (2) any gain realized on the sale, exchange or other disposition of the ordinary shares. Under these special rules:

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the excess distribution or gain would be allocated ratably to each day over the U.S. Holders' aggregate holding period for the ordinary shares

· the amount allocated to the current taxable year and any taxable year before the Company became a PFIC would be taxed as ordinary income; and

· the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

In addition, if a U.S. Holder who is an individual dies while owning ordinary shares, such holder's successor generally would not receive a step-up in tax basis with respect to such ordinary shares.

The special PFIC rules described above will not apply to a U.S. Holder if the U.S. Holder makes a timely and effective election to treat the Company as a "qualified electing fund" ("QEF"), which election generally must be made in the first year in the U.S. Holder's holding period for the ordinary shares in which the Company was a PFIC, and if the Company complies with certain reporting requirements. Instead, a U.S. Holder that makes a QEF election is required for each taxable year to include in its income a pro rata share of (1) the "ordinary earnings" of the Company, which will be taxed as ordinary income and (2) the "net capital gain" of the Company, which will be taxed as long-term capital gain to such U.S. Holder. A U.S. Holder that makes a QEF election will be subject to U.S. federal income tax on such amounts for each taxable year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, a U.S. Holder that makes a QEF election may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge.

A U.S. Holder that makes a QEF election with respect to the Company generally (1) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF election and (2) will adjust such U.S. Holder's tax basis in its ordinary shares to reflect the amount included in income (resulting in an increase in basis) or allowed as a tax-free distribution (resulting in a decrease in basis) because of the QEF election. In addition, a U.S. Holder that makes a QEF election generally will recognize capital gain or loss on the sale or other taxable disposition of Company ordinary shares.

The Company has agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election in the event that the Company is classified as PFIC. The QEF election is made on a U.S. Holder-by-U.S. Holder basis and can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed United States federal income tax return. Even if a QEF election is not made, a U.S. Holder in a PFIC generally must file a completed IRS Form 8621 every year.

As an alternative to making a QEF election, a U.S. Holder of PFIC stock which is publicly traded may, in certain circumstances, elect to mark the stock to market annually (a "mark-to-market election"), recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the U.S. holder's fair market value of the PFIC stock and its adjusted basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. This election is available provided that the Company ordinary shares constitute "marketable stock," which includes stock of a PFIC that is "regularly traded" on a "qualified exchange or other market," as specifically defined in the Code. If a U.S. Holder makes a mark-to-market election with respect to ordinary shares for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) theordinary shares and for which the Company is determined to be a PFIC, such U.S. Holder generally will not be subject to the PFIC rules described above with respect to its ordinary shares. A mark-to-market election applies to the tax year for which the election is made and to each subsequent year, unless theordinary shares cease to be marketable, or the IRS consents to revocation of the election.

The Company believes that it was not a PFIC in 2013. However, the tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of future income and assets which are relevant to this determination. Accordingly, we cannot be certain whether we will be treated as a PFIC for any taxable year. Absent one of the elections described above, U.S. Holders who hold ordinary shares during a period when the Company is a PFIC will be subject to the foregoing rules, regardless of whether the Company ceases to be a PFIC in one or more subsequent years. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to the Company's ordinary shares, in the event that the Company qualifies as a PFIC.

Legislation regarding Medicare Tax

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which, in the case of individuals, will be between $125,000 and $250,000 depending on the individual's circumstances). A U.S. Holder's "net investment income" will generally include its dividend income and its net gains from the disposition of shares, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the shares.

Tax Consequences for Non-U.S. Holders of Ordinary Shares

Except as described in the section entitled "Information Reporting and Back-up Withholding", a Non-U.S. Holder of ordinary shares generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

- such item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, such item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States;

- the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met; or

- the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. tax law applicable to U.S. expatriates.

Information Reporting and Back-up Withholding

In general, U.S. Holders may be subject to certain information reporting requirements under the Code relating to their purchase and/or ownership of stock of a foreign corporation such as the Company. Failure to comply with these information reporting requirements may result in substantial penalties.

For example, recently enacted legislation generally requires certain individuals who are U.S. Holders to file Form 8938 to report the ownership of specified foreign financial assets for tax years beginning after March 18, 2010 if the total value of those assets exceeds an applicable threshold amount (subject to certain exceptions). For these purposes, a specified foreign financial asset includes not only a financial account (as defined by the Code and applicable Treasury Regulations) maintained by a foreign financial institution, but also any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity, provided that the asset is not held in an account maintained by a U.S. financial institution. The minimum applicable threshold amount is generally $50,000 in the aggregate, but this threshold amount varies depending on whether the individual lives in the U.S., is married, files a joint income tax return with his or her spouse, etc. Certain domestic entities that are U.S. Holders may also be required to file Form 8938 in the near future. U.S. Holders are urged to consult with their tax advisors regarding their reporting obligations, including the requirement to file IRS Form 8938.

Information reporting requirements will generally apply to payments with respect to ordinary shares paid to a U.S. Holder other than certain exempt recipients (such as corporations). Backup withholding will apply to such payments if

such U.S. Holder fails to provide a taxpayer identification number or certification of other exempt status or fails to comply with the applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against such U.S. Holder's United States Federal income tax liability provided the required information is furnished by such U.S. Holder to the Internal Revenue Service. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the Internal Revenue Service.

Unless otherwise provided by the IRS, if the Company is a PFIC, a U.S. Holder is generally required to file an informational return annually to report its ownership interest in the PFIC.

Non-U.S. Holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the disposition of, ordinary shares, provided that such non-U.S Holder certifies to its foreign status, or otherwise establishes an exemption.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the SEC. You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Certain of our SEC filings are also available to the public at the SEC's website at http://www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, all corporate documents filed with the SEC must be available to the public by law and are available for review at our headquarters, 2 Ben Gurion St, Ramat Gan, 52573, Israel.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we generally publicly announce our quarterly and year-end results periodically, and furnish certain periodic information with the SEC under cover of Form 6-K.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in the value of our financial instruments caused by fluctuations in interest rates, foreign exchange rates and equity prices. We do not engage in trading market-risk instruments or purchase hedging or "other than trading" instruments that are likely to expose us to market risk, whether interest rate, commodity price or equity price risk. We have not purchased options or entered into swaps or forward or futures contracts and do not use derivative financial instruments for speculative trading purposes.

We maintain operations and generate revenues in a number of countries. The results of operations and the financial position of our local operations are generally reported in the relevant local currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements, exposing us to currency translation risk.

In addition, we are exposed to currency transaction risk because some of our expenses are incurred in a different currency from the currency in which our revenues are received. Our most significant currency exposures are to the Euro, New Israeli Shekel, British Pound and Singapore dollars. In periods when the U.S. dollar fluctuates against these other currencies, our reported results of operations may be adversely affected. Although from time to time we purchase forward exchange contracts to reduce currency transaction risk, these purchases will not eliminate translation risk or all currency risk.

As an example, a decrease of 10% in the value of the Euro relative to the U.S. dollar in 2013 would have resulted in an increase in the U.S. dollar reporting value of our operating income of $218,000 for that period, while an increase of 10% in the value of the Euro relative to the U.S. dollar in 2013 would have resulted in a decrease in the U.S. dollar reporting value of our operating income of $218,000 for that period.

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Our management evaluated, with the participation of our principal executive officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2013. Based on this evaluation, our principal executive officer and our Chief Financial Officer concluded that our disclosure controls and procedures as of such date were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Report of Management on Internal Control Over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management assessed the effectiveness of internal control over financial reporting as of December 31, 2013 based on the criteria in "Internal Control- Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on that assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2013 under those criteria.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can only provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) Not applicable

(d) There has been no change in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Asael Karfiol, a member of our audit committee, is an audit committee financial expert and is independent pursuant to the rules of the NASDAQ Stock Market. Asael Karfiol is an independent director as defined by the NASDAQ listing standards.

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ITEM 16B. CODE OF ETHICS

We have in place a Code of Business Conduct and Ethics that applies to all directors, officers and employees. This code, as applied to our principal financial officers (i.e. our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions), is our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. This code is also our "code of conduct" within the meaning of NASDAQ Rule 5610. The full text of the Code of Business Conduct and Ethics is available at our Internet website at http://www.topimagesystems.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

In 2012 and 2013, we engaged the services of Kost Forer Gabbay and Kasierer, an independent registered accounting firm (a member of Ernst & Young Global) ("EY"), to audit our financial statements. The aggregate fees billed by EY for professional services rendered for the audit of our annual financial statements included in this Annual Report and other services in connection with statutory and regulatory filings or engagements for the fiscal year ended December 31, 2013 and 2012 were $207,000 and $192,000, respectively.

Tax Fees

For the fiscal years ended December 31, 2013 and 2012 the aggregate fees billed for tax compliance, tax advice and tax planning by EY were $16,000 and $30,000, respectively.

Other services

For the fiscal year ended December 31, 2013 and 2012, no fees were paid to EY for non-audit services.

Before EY is engaged by our subsidiaries or us to render any auditing or permitted non-audit related service, the engagement must be :

- approved by our audit committee; or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee has considered the nature and amount of the fees billed by EY, and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining Ernst & Young's independence.

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

Not applicable.

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

Not applicable.

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ITEM 16E. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANTS

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Not applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has elected to provide Financial Statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-34.

ITEM 19. EXHIBITS

Number	Description
1.1	Amended and restated Articles of Association of the Company dated October 27, 2003 and amended December 22, 2011(incorporated by reference to exhibit 99.1 to the Company's 6-K Form filed on November 16, 2011).
1.2	Memorandum of Association of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form F-1 (registration number 333-05718).
2.1	Form of Ordinary Shares Purchase Warrant of the Company (incorporated by reference to Exhibit 99.3 to the Company's Form 6-K filed on June 14, 2011).
4.1	Employee Agreement between the Company and Izhak Nakar
4.2	Employee Agreement between the Company and Ido Schechter (incorporated by reference to Exhibit 10.4(f) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
4.3	Top Image Systems Ltd. 2003 Amended Option Plan (2013) (incorporated by reference to Exhibit 99.4 to the Company's Form 6-K filed on September 3, 2013).
4.4	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 4.12 to the Company's annual report on Form 20-F for the year ended December 31, 2006).
4.5	Securities Purchase Agreement, dated June 6, 2011, among the Company and the purchasers identified on the signature pages thereto (incorporated by reference to Exhibit 99.1 to the Company's Form 6-K filed on June 14, 2011).
4.6	Registration Rights Agreement, dated June 13, 2011, among the Company and the purchasers identified on the signature pages thereto (incorporated by reference to Exhibit 99.2 to the Company's

	Form 6-K filed on June 14, 2011).
4.7	Underwriting Agreement, dated January 31, 2014, by and between the Registrant and Canaccord Genuity Inc., as representative for several underwriters (incorporated by reference to Exhibit 1.1 to Company's Form 6-K filed on January 31, 2014)

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Number	Description
8	List of Subsidiaries.
12.1	Certification of the principal executive officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Kost Forer Gabbay & Kasierer– member of Ernst & Young Global.
15.2	Audit Committee Charter (incorporated by reference to exhibit 14.3 to Company's annual report on Form 20-F for the year ended December 31, 2003).
101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011; (ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and (v) Notes to the Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of the Company.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

TOP IMAGE SYSTEMS LTD.

By: /s/ Izhak Nakar
Izhak Nakar
Active Chairman of the Board

Date: March 27, 2014

TOP IMAGE SYSTEMS LTD

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

U.S. DOLLARS IN THOUSANDS

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Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

TOP IMAGE SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of Top Image Systems Ltd. ("the Company") and its subsidiaries, as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and the related consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 26, 2014

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

TOP IMAGE SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2012	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2,223	$3,203
Restricted deposit (Note 8c)	212	347
Trade receivables (net of allowance for doubtful accounts of $ 49 and $76 at December 31, 2012 and 2013, respectively)	8,618	7,111
Deferred tax assets (Note 9)	785	913
Other accounts receivable and prepaid expenses (Note 3)	737	901
Total current assets	12,575	12,475
LONG-TERM ASSETS:		
Severance pay fund	1,577	1,775
Restricted cash (Note 8c)	381	374
Non-current Deferred tax assets	438	515
Long-term deposits and long-term assets (Note 8a)	66	80
Property and equipment, net (Note 4)	377	260
Goodwill (Note 5)	6,121	6,168
Total long-term assets	8,960	9,172
Total assets	$21,535	$21,647

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

TOP IMAGE SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2012	December 31, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 684	$ 359
Deferred revenues	1,467	2,284
Accrued expenses and other accounts payable (Note 6)	2,750	1,334
Total current liabilities	4,901	3,977
LONG-TERM LIABILITIES:		
Accrued severance pay	1,808	1,956
Total long-term liabilities	1,808	1,956
COMMITMENTS, CONTINGENCIES LIBILITIES AND CHARGES (Note 8)		
SHAREHOLDERS' EQUITY (Note 10):		
Share capital -		
Ordinary shares of NIS 0.04 par value -		
Authorized: 125,000,000 shares at December 31, 2012 and 2013; Issued and outstanding: 11,641,758 and 12,088,049 shares at December 31, 2012 and 2013, respectively	129	133
Additional paid-in capital	36,033	37,114
Accumulated other comprehensive loss	(1,530)	(1,540)
Accumulated deficit	(19,806)	(19,993)
Total shareholders' equity	14,826	15,714
Total liabilities and shareholders' equity	$ 21,535	$ 21,647

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

March 26, 2014		
Date of approval of the financial statements	Gili Shalita Chief Financial Officer	Izhak Nakar Active Chairman of the Board

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TOP IMAGE SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Year ended December 31,		
	2011	2012	2013
Revenues (Note 11):			
Products	$14,049	$15,303	$12,528
Services	14,624	16,027	16,529
Total revenues	28,673	31,330	29,057
Cost of revenues:			
Products	1,670	1,218	2,740
Services	9,514	10,771	9,076
Total cost of revenues	11,184	11,989	11,816
Gross profit	17,489	19,341	17,241
Operating costs and expenses:			
Research and development, net	1,976	2,609	3,377
Selling and marketing	7,748	8,733	9,498
General and administrative	4,383	5,087	4,637
Total operating costs and expenses	14,107	16,429	17,512
Operating income (loss)	3,382	2,912	(271)
Financial expenses , net (Note 13)	911	191	286
Other income, net (Note 2j)	4	-	369
Income (loss) before taxes on income	2,475	2,721	(188)
Taxes on income (expenses) (Note 9)	(125)	1,122	1
Net income (loss)	$2,350	$3,843	$(187)
Net earnings (loss) per share (Note 12):			
Basic	$0.23	$0.34	$(0.02)
Diluted	$0.21	$0.31	$(0.02)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	$(275)	$(80)	$(10)

Comprehensive income (loss)	$2,075	$3,763	$(197)

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

TOP IMAGE SYSTEMS LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Ordinary shares Number	Ordinary shares Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance at January 1, 2011	9,400,638	$103	$31,363	$ (1,175)	$ (25,999)	$4,292
Exercise of stock options	47,920	1	61	-	-	62
Issuance of Ordinary shares and Warrants , net **) (Note 10b)	1,425,000	17	2,480	-	-	2,497
Change in foreign currency translation adjustments, net *)	-	-	-	(275)	-	(275)
Net profit	-	-	-	-	2,350	2,350
Stock-based compensation expenses	-	-	214	-	-	214
Balance at December 31, 2011	10,873,558	121	34,118	(1,450)	(23,649)	9,140
Exercise of Warrants and stock options	518,200	5	759	-	-	764
Issuance of Ordinary shares in conjunction with consulting services (Note 10e)	250,000	3	810	-	-	813
Change in foreign currency translation adjustments, net *)	-	-	-	(80)	-	(80)
Net profit	-	-	-	-	3,843	3,843
Stock-based compensation expenses	-	-	346	-	-	346
Balance at December 31, 2012	11,641,758	129	36,033	(1,530)	(19,806)	14,826
Exercise of stock options	446,291	4	725	-	-	729
Other comprehensive income *)	-	-	-	(10)	-	(10)
Net loss	-	-	-	-	(187)	(187)
Stock-based compensation expenses	-	-	356	-	-	356
Balance at December 31, 2013	12,088,049	$133	$37,114	$ (1,540)	$ (19,993)	$15,714

*) As of December 31, 2011, 2012 and 2013 includes only foreign currency translation adjustments balances.
**) Net of issuance expenses in the amount of $ 353

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

TOP IMAGE SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2011	2012	2013
Cash flows from operating activities:			
Net income (loss)	$2,350	$3,843	$(187)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation expenses	214	346	356
Stock-based compensation expenses in relation to shares granted to consultant	-	813	-
Depreciation and amortization	253	240	198
Accrued severance pay, net	26	(13)	(50)
Erosion of non-dollar linked restricted cash and long term assets	(1)	17	(49)
Increase in deferred tax assets	-	(1,223)	(205)
Decrease (increase) in trade receivables, net	(247)	(4,190)	1,457
Increase in fair value of convertible debentures	741	-	-
Increase in other accounts receivable and prepaid expenses	(116)	(73)	(111)
Increase (decrease) in trade payables	38	323	(325)
Increase (decrease) in deferred revenues	526	(694)	770
Increase (decrease) in accrued expenses and other accounts payable	585	202	(1,440)
Net cash provided by (used in) operating activities	4,369	(409)	414
Cash flows from investing activities:			
Increase in restricted deposits	(261)	(65)	(92)
Purchase of property and equipment	(250)	(119)	(76)
Increase in long-term deposits	(6)	-	-
Net cash used in investing activities	(517)	(184)	(168)

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

TOP IMAGE SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2011	2012	2013
Cash flows from financing activities:			
Proceeds from exercise of Warrants and stock options	62	764	729
Proceeds from Issuance of Ordinary shares, net of issuance expenses	2,521	-	-
Payment of accrued issuance expenses	-	(20)	(4)
Payment for repurchase convertible debentures tender	(551)	-	-
Repurchase of convertible debenture	(3,569)	-	-
Repayment of convertible debentures	(1,945)	-	-
Net cash provided by (used in) financing activities	(3,482)	744	725
Effect of exchange rate on cash and cash equivalent balances	(43)	(18)	9
Increase in cash and cash equivalents	327	133	980
Cash and cash equivalents at the beginning of the year	1,763	2,090	2,223
Cash and cash equivalents at the end of the year	$2,090	$2,223	$3,203
Supplemental disclosure of cash flows activities:			
Cash paid during the year for:			
Tax	$66	$152	$143
Interest	$4	$-	$29
Non- cash activities:			
Accrued ordinary shares issuance expenses	$24	$4	$-

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

TOP IMAGE SYSTEMS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. Business and organization:

Top Image Systems Ltd. and its subsidiaries (collectively the "Company" or "TIS") are engaged in the development and marketing of a variety of information recognition systems and technologies and automated document capture solutions for the efficient flow of information within and between organizations. The Company's software minimizes the need for manual data entry by automatically capturing, reading, understanding, identifying, processing, classifying and routing the information contained in documents, increasing data capture accuracy and the rate of information processing.

The Company operates in one reportable segment and its revenues are mainly derived from the sale of its products, professional services, maintenance and technical support.

As for information regarding the major customers of the Company see Note 11c.

The Company's shares are traded on The NASDAQ Stock Market LLC in the United States and on the Tel-Aviv Stock Exchange ("TASE").

b. The Company's main marketing and sales activities are conducted through its wholly owned subsidiaries in the United States, the United Kingdom, Germany, Japan and Singapore.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"), applied on a consistent basis, as follows:

a. Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company 's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. As applicable to these consolidated financial statements, the most significant estimated and assumptions are employed in estimates used in determining values of stock-based compensation costs, financial instruments with no observable market quotes, as well as in estimates used in applying the revenue recognition policy, allowance for doubtful accounts, income taxes and valuation allowance and contingent liabilities . Actual results could differ from those estimates.

b. Principles of consolidation:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial statements in United States dollars:

A substantial portion of the Company's costs is incurred in U.S. dollars ("dollars"). Some of the revenues of the Company are generated in dollars. The majority of the Company's financing is in dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and certain of its subsidiaries is dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses of the remeasurement of monetary balance sheet items are reflected in the consolidated statement of comprehensive income (loss) as financial income or expenses, as appropriate.

For those subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Related translation adjustments are recorded as a separate component of accumulated other comprehensive income in changes in shareholders' equity.

d. Cash equivalents:

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

e. Restricted cash:

Restricted cash is primarily invested in short term and long term deposits. For more information refer to Note 8c.

f. Long-term assets:

Consist mainly of long-term prepaid expenses for motor vehicle and office leasing.

g. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	Years
Computers and peripheral equipment	3
Office furniture and equipment	7 - 10 (mainly 10 years)
Leasehold improvements	Over the shorter of the lease term or useful economic life

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360 "Property, Plant and Equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the asset (asset group). If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The loss is allocated to the long-lived assets of the Company on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the Company will not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable.

During 2011, 2012 and 2013, no impairment losses had been identified for property and equipment.

i. Goodwill:

Goodwill is measured as the excess of the cost of an acquired company over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Goodwill is not amortized, but rather reviewed for impairment at least annually at the reporting unit level. The Company has elected to perform its analysis of goodwill at the end of the fourth quarter of the year, or more frequently if impairment indicators are present. The goodwill impairment test under ASC 350, "Intangible, Goodwill and Other", involves a two-step approach. Under the first step, the Company determines the fair value of each reporting unit to which goodwill has been assigned. The Company operates in one operating segment, and this segment comprises its only reporting unit.

The Company estimates the fair value of the reporting unit by using market capitalization. Significant estimates used in the evaluation include estimates of future cash-flows, future short-term and long-term growth rates, and weighted average cost of capital for the reporting unit.

In accordance with ASC 350, if the fair value of the reporting unit exceeds the carrying value, no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is considered potentially impaired and it is reduced to its implied fair value through an adjustment to the goodwill balance, resulting in an impairment charge. During 2011, 2012 and 2013, no impairment losses were identified.

j. Investments in affiliates:

The Company uses the cost method of accounting for its investments in investees over which it does not exercise significant influence. Under the cost method of accounting, investments are carried at cost and are only adjusted for other-than-temporary declines in fair value and distributions of earnings.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's investment in the affiliated company is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable.

The Company, through Top Image Systems (Asia Pacific) Pte. Ltd. held 23.7% an investment in affiliated company, Asiasoft Hong Kong Ltd ("AS HK"). During 2010 AS HK sold its business to another company. In December 2010, the Company received an advance in the amount of $ 369 as a result of such sale. On July 2013 the sell was completed and it was determined that no additional payment will be received and accordingly the Company recognized the advance payment in the amount of $ 369 as other income.

k. Revenue recognition:

The Company derives its revenues mainly from sales of products and services. Product revenues include mainly sales of software. Revenues from services include maintenance and technical support, consulting and training.

The Company accounts for the sale of perpetual software in accordance with ASC 985-605, "Software Revenue Recognition ". ASC 985-605 generally requires revenues earned from software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements determined by the vendor's specific objective evidence ("VSOE") of fair value. VSOE is based on the price charged when an element is sold separately or renewed. Revenues are allocated under the "residual method" when VSOE of fair value exists for all undelivered elements and VSOE of fair value does not exist for all of the delivered elements, and when all ASC 985-605 criteria for revenue recognition are met.

Revenue from license fees is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable.

Maintenance and support revenue are deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement.

TOP IMAGE SYSTEMS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For non-typical hardware sales, included in software arrangements, the Company recognizes revenues in accordance to Accounting Standards Update ("ASU") No. 2009-13, Topic 605 - Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"). ASU 2009-13 requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price.
Deferred revenues represent unearned amounts received for technical support and maintenance arrangements that are paid by customers and not yet recognized as revenues.

The Company generally does not grant a right of return to its customers.

l. Research and development costs:

Research and development costs are charged to the statement of operations as incurred. ASC 985-20 requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the products are ready for general releases were insignificant. Therefore, all research and development costs have been expensed.

m. Royalty and non-royalty bearing grants:

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a reduction in research and development costs.

Grants are only recognized once there is reasonable assurance that the Company will comply with conditions attached to the grant and the grant will be received. Such grants are recorded as a reduction on related research and development costs since, when received, those are not probable to be repaid.

n. Accounting for share-based compensation:

At December 31, 2013, the Company has one stock-based employee compensation plan, which is described extensively in Note 10.

The Company accounts for equity-based compensation in accordance with FASB ASC No. 718, "Stock Compensation" ("ASC 718"). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of Comprehensive income.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognizes compensation expenses for the value of its awards (that carry no market or performance conditions), which have graded vesting based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company estimates the fair value of stock options granted using the Monte-Carlo option-pricing model. The Monte-Carlo Simulation for option pricing requires a number of assumptions, of which the most significant are the suboptimal exercise factor and expected stock price volatility. The suboptimal exercise factor is estimated using historical option exercise information. The suboptimal exercise factor is the ratio by which the stock price must increase over the exercise price before employees are expected to exercise their stock options. The expected life of employee stock options is a derived output of this assumption from the Monte-Carlo Simulation.

Expected volatility is based upon actual historical stock price movements over the most recent periods. Expected volatility is calculated as of the grant dates for different periods, since the Monte-Carlo Simulation is used for different expected volatilities for different periods.

The Company has historically not paid dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term and calculated for different periods that are in line with the expected volatility periods.

The fair value of the Company's stock options granted to employees and directors was estimated using the following assumptions:

	Year ended December 31,		
	2011	2012	2013
Dividend yield	0.08%	0%	0%
Expected volatility	67.8%-68.13%	64.1%	40%-77%
Risk-free interest rate	1.89%-1.97%	1%	0.13%-3.04%
Contractual term of up to	10 years	10 years	10 years
Suboptimal exercise multiple- employees	1.62	1.62	1.09
Suboptimal exercise multiple- management	2.35	-	1.36-1.39

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

During the years ended December 31, 2011, 2012 and 2013, the Company recognized share-based compensation expense related to employee stock options in the amount of, $ 214,$ 346 and $356, respectively, as follows:

	Year ended December 31,		
	2011	2012	2013
Cost of revenues	$ -	$ 64	$ 64
Research and development, net	6	23	23
Selling and marketing	28	57	57
General and administrative	180	202	212
Total share-based compensation expense	$ 214	$ 346	$ 356

The Company applies ASC 718 and ASC 505-50, "Equity-Based Payments to Non-Employees" with respect to options and warrants issued to non-employees. Accordingly, the Company uses Geometric Brownian Motion Model valuation in a Monte Carlo simulations measure the fair value of the options and warrants at the measurement date as defined in ASC 505-50.

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

Basic net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year, plus the dilutive potential of Ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share".

Part of the outstanding stock options has been excluded from the calculation of the diluted net earnings (loss) per share because such securities are anti-dilutive for 2011 and 2012. The weighted average number of shares related to the outstanding options excluded from the calculations of diluted net earnings (loss) per share was, 246,662, 19,500 for the years ended December 31, 2011, 2012 and 2013, respectively. In 2013, all outstanding stock options were anti-dilutive and accordingly excluded from the calculation of the diluted net loss per share.

p. Income taxes:

The Company account for income taxes in accordance with ASC 740, "Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company accounts for uncertain tax positions in accordance with the provisions of ASC No. 740 "Income Taxes". This accounting guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements, under which a Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Accordingly, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

q. Concentrations of credit risk:

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and trade receivables.

The Company's cash, cash equivalents and restricted deposits are invested primarily in deposits with major banks worldwide; however, such cash and cash equivalents in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, low credit risk exists with respect to these investments.

Trade receivables of the Company are derived from sales to customers located primarily in the U.S., Europe, Japan, and the Far East. The Company performs ongoing credit evaluations of its customers. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection.

r. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israel's Severance Pay Law, based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees in Israel is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

TOP IMAGE SYSTEMS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Severance expenses for the years ended December 31, 2011, 2012 and 2013 amounted to approximately $ 229, $ 167 and $ 218, respectively.

s. Fair value of financial instruments:

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

The carrying amounts of cash and cash equivalents, trade receivables and other accounts receivable, short-term bank credit, trade payables and other accounts payable approximate their fair value due to the short-term maturity of these instruments.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering such assumptions, ASC 820, "Fair Value Measurements and Disclosures" establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data

Level 3 - Unobservable inputs which are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs

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

t. Comprehensive income:

The Company accounts for comprehensive income (loss) in accordance with ASC 220 "Comprehensive Income". ASC 220 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its item of comprehensive income (loss) relate to foreign currency translation adjustments.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company presents total comprehensive income (loss) in accordance with ASU No. 2011-05, Topic 220 - Presentation of Comprehensive Income ("ASU 2011-05") and ("ASU") No. 2011-12, Topic 220 - Comprehensive Income ("ASU 2011-12"). The Company chose to present the components of net income and other comprehensive income in a single continuous statement of comprehensive income.

During the year ended December 31, 2013, the Company adopted ASU. 2013-02, Topic 350, "Comprehensive Income", which amends Topic 220 to improve the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. The adoption of ASU 2013-02, Topic 350 did not have a material impact on the consolidated financial statements.

u. Contingent liabilities

The Company accounts for its contingent liabilities in accordance with ASC 450. A provision is recorded when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

With respect to legal matters, provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. As of December 31, 2012 and 2013, the Company is not a party to any ligation that could have a material adverse effect on the Company’s business, financial position, results of operations or cash flows. Described extensively in note 8.

v. Doubtful accounts:

The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management bases its determination, among other factors, on information available about the debtors' financial situation, the volume of their operations and evaluation of the security received from them. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Doubtful account expenses for the years ended December 31, 2011, 2012 and 2013 amounted to approximately $ 0, $ 0 and $ 21, respectively.

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2012	December 31, 2013
Government authorities	$ 134	$ 218
Prepaid expenses	438	558
Rent and motor leasing deposits	71	47
Others	94	78
	$ 737	$ 901

NOTE 4:- PROPERTY AND EQUIPMENT

	December 31, 2012	December 31, 2013
Cost:		
Computers and peripheral equipment	$ 1,456	$ 1,420
Office furniture and equipment	1,041	789
Leasehold improvements	92	69
	2,589	2,278
Accumulated depreciation:		
Computers and peripheral equipment	1,316	1,323
Office furniture and equipment	820	631
Leasehold improvement	76	64
	2,212	2,018
Depreciated cost	$ 377	$ 260

Depreciation expenses amounted to $ 207, $ 229 and $ 198 for the years ended December 31, 2011, 2012 and 2013, respectively.

During 2012 and 2013, the Company recorded a reduction of $ 578 and $ 386, respectively, to the cost and accumulated depreciation of fully depreciated equipment no longer in use.

As to charges, see Note 8b.

NOTE 5:- GOODWILL

The changes in the carrying amount of goodwill for the year ended December 31, 2013 are as follows:

Balance as of January 1, 2012	$5,842
Foreign currency translation adjustments	279
Balance as of December 31, 2012	6,121
Foreign currency translation adjustments	47
Balance as of December 31, 2013	$6,168

NOTE 6:- ACCRUED EXPENSES AND OTHER ACCOUNTS PAYABLE

	December 31,	
	2012	2013
Employees and payroll accruals	$ 342	$ 480
Government authorities	303	82
Accrued vacation pay	169	170
Advance on account of sale of an affiliate	369	-
Accrued expenses	1,418	418
Factoring advance payments	149	151
Other	-	33
	$ 2,750	$ 1,334

NOTE 7:- CONVERTIBLE DEBENTURES

In December 2006, the Company issued an aggregate amount of $ 14,780 in convertible debentures at a discount of 4% by way of public offering on the Tel-Aviv Stock Exchange ("TASE"). The convertible debenture terms include an offering of 112,500 units of NIS 528 par value each, linked to U.S. dollar with a floor on the NIS/U.S. dollar exchange rate (i.e., if the exchange rate were to be lower than the rate at issuance date, the liability would be the NIS amount at the issuance date) and carry an annual interest rate of 6 months LIBOR minus 0.3% ("Original Rate").

The debentures could be converted into Ordinary shares of the Company at a ratio of NIS 20.3 par value for each Ordinary share (subject to adjustments). The Company had the right to force the conversion on the debenture holders, when and if its share fair market value reached NIS 25.5 in the last 30 trading on the TASE on or after October 1, 2009.

As a result of adopting the Fair Value option of ASC 825 for measuring financial instruments, starting January 1, 2008, the Company recorded financial expenses in the amount of $ 741, $ 0 and $ 0 for the years ended December 31, 2011, 2012 and 2013, respectively.

In September 2011, the Company offered repayment of the entire remaining outstanding amount of debentures (NIS 3,786 thousands par value) at the full value of the debenture, which is equivalent to 1 NIS par value. On October 2, 2011, the Company paid to all the remaining debenture holders 1 NIS par value, equivalent to 100% of the debentures' value.

As of December 31, 2011, 2012 and 2013 there is no outstanding amount with respect to the above mentioned debenture.

In accordance to ASC 825, the Company measured the convertible debentures at their fair value and recorded financial expenses in the amount of $741 for the year ended on December 31, 2011.

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NOTE 8:- COMMITMENTS, CONTINGENCIES AND CHARGES

a. Commitments:

1. With respect to the participation of the Israeli Government in software research and development costs, the Company is committed to pay to the Government royalties at the rate of 3%-3.5% of revenues from sale of its iCMR software, up to a maximum of 100% of the amount of participation received, linked to the dollar, plus interest at the LIBOR rate.

The Company's total outstanding obligation in respect of royalty-bearing Government participation received or accrued, net of royalties paid or accrued, amounted to $183 and $ 397 as of December 31, 2012 and 2013 respectively.

2. The Company has entered into non cancelable operating lease agreements for the lease of motor vehicles. The leasing deposits are presented in the long-term deposits and other account receivables.

The Company's facilities are leased under non cancelable operating lease agreements, which expire on various dates, the latest of which is in 2016.

As of December 31, 2013, the Company is required to make the following minimum lease payments under operating leases for its motor vehicles and facilities:

2014	$936
2015	595
2016	304
Total	$1,835

Rental expenses for motor vehicles and facility rental expenses amounted to $ 1,060, $ 1,167 and $ 1,323 for the years ended December 31 2011, 2012 and 2013, respectively.

3. Starting from 2011, the Company has a revolving line of credit with an Israeli bank ("the bank") for total borrowing of up to $ 600, based on several conditions and financial covenants. On July 2013, the company increased the line of credit up to $2,000.

During the year ended December 31, 2013, from time to time The Company used the line of credit and recorded interest expenses in the amount of $29. The short-term line of credit bears interest rate of Libor + 4%. The actual Libor interest rate at December 31, 2013 was 0.08%. Any indebtedness under this credit line is secured by a floating charge on The Company's assets. As of December 31, 2013, there were no amounts outstanding under the credit line.

NOTE 8:- COMMITMENTS, CONTINGENCIES AND CHARGES (Cont.)

The terms of the credit line provide, as a condition precedent to borrowing that our annual consolidated earnings before interest, taxes depreciation and amortization commencing from the year ended December 31, 2012 and thereafter be no less than $1,500. This covenant is to be tested annually by reference to the consolidated financial statements as of the end of each calendar year. As of December 31, 2013, the Company did not meet this condition. Accordingly, while the foregoing did not result in any default and as of December 31, 2013 there were no amounts outstanding under the credit line, unless we receive a waiver from the bank, the Company would not be able to borrow under the credit line.

b. Charges:

1. To secure compliance with the conditions related to the Company's "Approved Enterprise" status, the Company registered a floating charge on equipment and other assets. The charge is unlimited in amount and it may not be further pledged or transferred without the prior consent of the beneficiaries.

2. To secure revolving credit facilities and guarantees from a bank, the Company recorded a floating charge on its plant, assets and rights and fixed charges on its unpaid share capital and its goodwill in favor of this bank (see also note 8a).

c. Guarantees:

1. The Company has secured some of its lease agreements by a bank guarantee in the amount of $ 227.

2. The Company provided certain customers and vendors with a $ 494 bank guarantee.

d. Legal proceedings:

On September 25, 2012, a lawsuit have been lodged against the Company and one of its subsidiary by Mitek Systems, Inc ("Mitek"). for alleged infringement on United States patents. No discovery has been taken and a trial is scheduled for December 8, 2014.

The lawsuit relates to technology used in by the Company's MobiCHECK software (one of the Company mobile products). Mitek is seeking a declaration of infringement, damages, and other amounts.

The Company believes that Mitek's claim is without merit and intends to defend itself against this lawsuit. Management cannot predict the outcome of the lawsuit nor can they make any estimate of the amount of damages, therefore, no provision has been made with respect to the lawsuits.

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

NOTE 9:- TAXES ON INCOME

a. Israeli income taxes:

1. Measurement of taxable income:

The Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Accordingly, results for tax purposes are measured in terms of earnings in dollars.

2. The Law for the Encouragement of Capital Investments, 1959 ("the Investment Law"):

In 1990, the production facilities of the Company were granted the status of an "Approved Enterprise" under the Investment Law. In 1991, 1999, 2000, expansion programs were granted the status of "Approved Enterprise" (established plan). According to the provisions of the Law, the Company has elected the alternative package of benefits - and has waived Government grants in return for tax benefits.

According to the provisions of the Investment Law, the Company's income is tax-exempt for a period of two years commencing with the year it first earns taxable income, and subject to corporate taxes at the reduced rate of 10% to 25%, for an additional period of five to eight years depending upon the level of foreign ownership of the Company.

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a "Benefited Enterprise", such as provisions generally requiring that at least 25% of the "Privileged Enterprise's" income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

However, the Amendment provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the Investment law as they were on the date of such approval. Therefore, investment programs that obtained approval for Approved Enterprise status prior to enactment of the Amendment will continue to be subject to the old provisions of the Investment Law.

The period of tax benefits for a new Benefited Enterprise commences in the "Year of Commencement," which is the later of: (1) the year in which taxable income is first generated by the Company, or (2) the year of election.

NOTE 9:- TAXES ON INCOME (Cont.)

The entitlement to the above benefits is contingent upon the fulfillment of the conditions stipulated in the Amendment and regulations published there under. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest and linked to changes in the Israeli CPI. As of December 31, 2013, management believes that the Company is meeting the aforementioned conditions.

The Company elected 2009 as a year of election under the Amendment. The Amendment entitles the Company to a corporate tax exemption for a period of two years and to a reduced corporate tax rate of 10% - 25% (based on the percentage of foreign ownership) for an additional period up to eight years from the first year it has taxable income.

If the Company pays a dividend out of income derived from the Approved and Privileged Enterprise during the tax exemption period, it will be subject to corporate tax in respect of the gross amount distributed, including any taxes thereon, at the rate which would have been applicable had it not enjoyed the alternative benefits, generally 10%-25%, depending on the percentage of the Company's Ordinary shares held by foreign shareholders. As of December 31, 2012, the accumulated deficit of the Company does not include tax-exempt profits earned by the Company's "Approved Enterprise" and "Benefited Enterprise".

Income from sources other than the Approved and Benefited Enterprises during the benefit period will be subject to tax at the regular corporate tax rate.

In January 2011, the Knesset passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, for amendment of the Investment Law. The amendment became effective as of January 1, 2011. According to the amendment, the benefit tracks in the Investment Law were cancelled and a flat tax rate would apply to the Company's entire preferred income. The Company will be able to opt to apply the amendment (the waiver is non-recourse) and from then the uniform corporate tax rate will be 7 % in areas in Israel designated as Development Zone A and 12.5% elsewhere in Israel during 2013, 9% in development Zone A and 16% elsewhere in Israel, respectively, in 2014.

A dividend distributed from income which is attributed to a Preferred Enterprise/Special Preferred Enterprise will be subject to withholding tax at source at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 15% in 2013 and 20% as of 2014 (iii) non-Israeli resident - 15% in 2013 and 20% as of 2014 subject to a reduced tax rate under the provisions of an applicable double tax treaty.

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

NOTE 9:- TAXES ON INCOME (Cont.)

The Company may choose not to apply the above amendment, in which case the Company will remain subject to the Investment Law as in effect prior to the 2011 amendment until the expiration of the Company's current investment programs. The Company is examining the possible effect of the amendment on the financial statements, if at all.

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

The Company believes it meets all the criteria to be classified as an "industrial company", as defined by the Encouragement law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, as prescribed by regulations published under the Inflationary Adjustments Law, the right to claim public issuance expenses and amortization of patents and other intangible property rights as a deduction for tax purposes.

4. Corporate tax rates:

Taxable income of Israeli companies is subject to tax at the rate of 24% in 2011 25% in 2012 2013. Starting January 1, 2014, the Company will be subjected to tax at the rate of 26.5%.

5. According to section 145 of the Israeli Tax Ordinance the Company's tax assessments till and include the year 2009 are considered as final assessments.

b. Carryforward losses:

As of December 31, 2013, Top Image systems Ltd. has accumulated net operating losses and capital losses in the amount of $ 3,671 and $ 1,890, respectively. The losses can be carryforward against relevant taxable income for an indefinite period. As of December 31, 2013, the Company recorded a deferred tax asset of $ 972 for its entire carry forward net operating losses.

As of December 31, 2013, the subsidiaries had operating losses carryforwards for tax purposes in the amount of $ 9,037.

As of December 31, 2013, the U.S. subsidiary had U.S. Federal and State net operating losses carryforwards of approximately $ 2,861, which can be carried forward and offset against taxable income for 4 to 9 years. Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state law provisions. As a result Company's management believes that annual limitations may result in the expiration of net operating losses before utilization.

Operating losses carryforwards of its subsidiaries in Singapore, Japan and UK in the total amount of $ 2,694, $ 2,623 and $ 859, respectively, as of December 31, 2013, can be carried forward indefinitely since the company does not expect to utilize them in the near future.

NOTE 9:- TAXES ON INCOME (Cont.)

c. Non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence. The Company has not made any provisions relating to undistributed earnings of the Company's foreign subsidiaries since the Company has no current plans to distribute such earnings. If earnings are distributed to Israel in the form of dividends or otherwise, the Company may be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

d. Income (loss) before taxes on income is comprised as follows:

	Year ended December 31,		
	2011	2012	2013
Domestic	$ 1,223	$ 1,670	$ (829)
Foreign	1,252	1,051	641
	$ 2,475	$ 2,721	$ (188)

e. Taxes on income are comprised as follows:

	Year ended December 31,		
	2011	2012	2013
Current taxes	$ (125)	$ (101)	$ (204)
Deferred taxes	-	1,223	205
	$ (125)	$ 1,122	$ 1
Domestic	$ -	$ 1,223	$ 205
Foreign	(125)	(101)	(204)
	$ (125)	$ 1,122	$ 1

TOP IMAGE SYSTEMS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- TAXES ON INCOME (Cont.)

f. Deferred taxes:

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

	December 31, 2012	December 31, 2013
Carryforward losses (1)	$ 3,891	$ 3,405
Intangible assets	31	13
Research and development expenses	124	596
Accrued severance pay	28	22
Accrued vacation pay	38	41
Net deferred tax assets before valuation allowance	4,112	4,077
Valuation allowance	(2,889)	(2,649)
Net deferred tax assets	$ 1,223	$ 1,428

(1) Inclusive of the effect of enacted changes in tax rates in accordance with Israeli Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2010, 2011 and 2013).

	December 31, 2012	December 31, 2013
Domestic:		
Current deferred tax asset, net	$ 785	$ 913
Non-current deferred tax asset, net	438	515
	$ 1,223	$ 1,428

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are utilized.

Based on a consideration of these factors, the Company has established a valuation allowance of $ 2,889 and $2,649 at December 31, 2012 and 2013, respectively.

The Company does not have a provision for Israeli income taxes on the undistributed earnings of its international subsidiaries since the Company intends to indefinitely reinvest these earnings outside Israel.

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

NOTE 9:- TAXES ON INCOME (Cont.)

g. Reconciliation of the theoretical tax expenses:

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

	Year ended December 31,		
	2011	2012	2013
Income (loss) before taxes, as reported in the consolidated statements of operations	$ 2,475	$ 2,721	$ (188)
Statutory tax rate	24 %	25 %	25 %
Theoretical tax expenses (benefits) on the above amount at the Israeli statutory tax rate	$ 594	$ 680	$ (47)
Income tax at rate other than the Israeli statutory tax rate	29	4	46
Tax advances and non-deductible expenses including equity based compensation expenses	278	349	215
Deferred taxes on losses and other temporary differences	-	(1,223)	-
Difference between financial statements measurement of income and tax basis	(165)	(347)	(55)
Utilization of operating losses carry forward from prior years for which deferred taxes were not created	(625)	(636)	(97)
Tax adjustment in respect of different tax rates	-	-	(95)
Taxes in respect to prior years	14	43	32
Other individually immaterial income tax item	-	8	-
Actual tax expense (benefit)	$ 125	$ (1,122)	$ (1)

The main reconciling item between the statutory tax rate of the Company and the effective tax rate is the recognition of valuation allowances in respect of deferred taxes relating to accumulated net operating losses carried forward among the various subsidiaries worldwide due to the uncertainty of the realization of such deferred taxes, the effect of the "Approved Enterprise" and undetectable expenses related to option expenses and other equity benefits.

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NOTE 9:- TAXES ON INCOME (Cont.)

h. A reconciliation of the beginning and ending amounts of unrecognized tax benefits in the years ended December 31, 2012 and December 31, 2013 are as follows:

Gross unrecognized tax benefits as of January 1, 2012	$ -
Increase in tax position for current year	204
Gross unrecognized tax benefits as of December 31, 2012	204
Increase in tax position for current year	-
Gross unrecognized tax benefits as of December 31, 2013	$ 204

There was $204 of unrecognized income tax benefits that, if recognized, would impact the effective tax rate in the period in which each of the benefits is recognized. The Company includes interest and penalties related to unrecognized tax benefits in an immaterial amounts within the provision for income taxes on the consolidated statements of operations. The total amounts of penalties and interest are not significant as of December 31, 2012 and 2013.

NOTE 10:- SHAREHOLDERS' EQUITY SHAREHOLDERS' EQUITY

a. Dividends:

Dividends may be paid by the Company only out of the Israeli company's earnings and other surpluses in Israeli currency as defined in the Companies Law as of the end of the most recent fiscal year or as accrued over a period of the last two years whichever is higher. Such dividends will be declared and paid in NIS. No dividends were declared in the periods presented.

b. Private placement transaction

On June 6, 2011, the Company entered into a Securities Purchase Agreement (the "SPA") with several shareholders (the "Investors"), pursuant to which the Company issued to the investors 1,425,000 ordinary shares of NIS 0.04 par value each, at a price per share of $ 2.00 each, for proceed of $2,497, net of issuance expenses in the amount of $353.

As part of private placement transaction under the SPA, the Company granted its Investors and its agents, for no additional consideration, warrants to purchase additional 441,750 of the Company's Ordinary shares of NIS 0.04 par value each. The warrants may be exercisable on or after six months from June 13, 2011 for a period of five years thereafter at an exercise price of $2.20 per share.

During 2011 no warrants has been exercises.

As of December 31, 2012 112,500 warrants had been exercised into 112,500 shares of the Company and additional 55,575 warrants had been converted into 26,533 shares.

During 2013 no warrants has been exercises.

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NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

c. Employee Stock Option Plan (2003):

The Employee Stock Option Plan (2003) ("the ESOP 2003") is designed to benefit from, and is made pursuant to, the provisions of Section 102 of the Israeli Income Tax Ordinance.

In May 2004, in December 2006 and in October 2013, the Board of Directors and the shareholders of the Company approved the additional pool of options to purchase additional 650,000, 700,000 and 1,100,000 Ordinary shares, respectively, pursuant to the ESOP 2003.

As of December 31, 2013, 1,363,848 options are outstanding. All the options have an exercise price between $ 1.30 and $ 6.04 per share.

As of December 31, 2013, an aggregate amount of 857,782 options is still available for future grant under of the above mentioned plan.

d. Options to employees, management and directors:

1. On October 15, 2013, the shareholders of the Company approved the grant of options to purchase 135,000 Ordinary shares to members of the board, at an exercise price of $ 3.86 with a vesting term of two years.

2. On November 19, 2013, the board of directors approved the grant of options to purchase 50,000 Ordinary shares to member of the management, at an exercise price of $ 4.45 with a vesting term of two years.

3. On December 15, 2013, the board of directors approved the grant of options to purchase 377,300 Ordinary shares to several officers and employees, at an exercise price of $ 6.04. One third will be exercisable in one year, one third will be exercisable in two years, and one third will be exercisable in three years.

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

The following is a summary of the Company's stock options granted among the various plans:

	Year ended December 31, 2013			
	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding at the beginning of the year	1,290,841	1.93	7.86	-
Granted	562,300	5.38	-	-
Exercised	(456,959)	1.65	-	-
Forfeited	(32,334)	2.25	-	-
Outstanding at the end of the year	1,363,848	3.44	8.05	3,544
Exercisable at the end of the year	754,043	2.21	6.85	2,889
Vested and expected to vest at end of year	754,043	2.21	6.85	2,889

The aggregate intrinsic value in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the last date of the exercise period. Total intrinsic value of options exercised for the year ended December 31, 2013 was $ 2,889, respectively. As of December 31, 2013 there was $ 1,275 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2003 Stock Plan. This cost is expected to be recognized over a period of approximately 2.6 years.

The weighted average grant date fair values of options granted during 2012 and 2013 were $ 1.85 and $ 2.38, respectively.

The options outstanding as of December 31, 2013, have been separated into ranges of exercise price as follows:

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NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

Range of exercise price	Options Outstanding as of December 31, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2013	Weighted average exercise price of options exercisable
$ 1.30	131,709	3.49	1.30	131,709	1.30
$ 2.11 - $ 2.64	650,339	7.38	2.19	540,334	2.17
$ 3.84 - $ 6.04	581,800	9.82	5.33	82,000	3.91
	1,363,848	8.05	3.44	754,043	2.21

e. In April, May and August 2012, the Company issued 250,000 of its Ordinary shares to one of its consultant for services received during 2012. The shares were fully vested when granted. The shares were locked up for a period of nine months from the date they were issued. In connection with the grants, the Company recorded during 2012, compensation expenses in the amount of $ 813.

f. Subsequent to year end we closed a public offering, refer to note 15.

NOTE 11:- GEOGRAPHICAL INFORMATION AND MAJOR CUSTOMERS DATA

a. Business segment, geographical areas and foreign operations:

The Company applies ASC 280, "Segment Reporting". The Company manages its business on the basis of one reportable segment (see Note 1 for a brief description of the Company's business). Total revenues are attributed to geographic areas based on the location of the customers.

b. Geographical information:

1. Revenues:

	Year ended December 31,		
	2011	2012	2013
Product sales			
Far East	$ 1,060	$ 1,534	$ 2,362
Europe	10,370	9,146	4,934
North and South America	1,635	2,442	4,407

Africa and Middle East	984	2,181	825
	14,049	15,303	12,528
Service revenues			
Far East	3,109	3,482	3,220
Europe	10,111	10,790	11,632
North and South America	1,247	1,595	1,131
Africa and Middle East	157	160	546
	14,624	16,027	16,529
Total revenues	$ 28,673	$ 31,330	$ 29,057

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NOTE 11:- GEOGRAPHICAL INFORMATION AND MAJOR CUSTOMERS DATA (Cont.)

2.The following is a summary of long-lived assets within geographic areas based on the assets' locations:

	Year ended December 31,		
	2011	2012	2013
UK	$ 4,009	$ 4,192	$ 4,297
Israel	2,135	2,135	2,017
Other	194	171	114
Total Long-lived assets:	$ 6,338	$ 6,498	$ 6,428

c. Major customers' data:

In 2011, 2012 the Company had no customer who accounted for more than 10% of the total revenues. During 2013 one customer accounted for 10.2% of the total revenues.

NOTE 12:- BASIC AND DILUTED NET EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net earnings (loss) per share:

	Year ended December 31,		
	2011	2012	2013
Numerator for basic net earnings (loss) per share - net income (loss) available to shareholders	$ 2,350	$ 3,843	$ (187)
Effect of dilutive securities:			
Interest expenses subject to convertible debentures	4	-	-
Net income (loss) used for the computation of diluted net earnings (loss) per share	$ 2,354	$ 3,843	$ (187)
Weighted average Ordinary shares outstanding	10,207,111	11,403,596	11,718,960
Effect of dilutive securities:			
Employees stock options	206,030	774,914	*) -
Warrants	3,106	138,992	*) -
Convertible debentures	684,407	-	-
	893,543	913,906	-

Diluted weighted average Ordinary shares outstanding		11,100,654		12,317,502		11,718,960
Basic net earnings (loss) per share	$	0.23	$	0.34	$	(0.02)
Diluted net earnings (loss) per share	$	0.21	$	0.31	$	(0.02)

*) Anti-dilutive.

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NOTE 13:- FINANCIAL INCOME (EXPENSE), NET

	Year ended December 31,		
	2011	2012	2013
Interest income	$ 16	$ 3	$ -
Interest expenses	-	-	(29)
Exchange rate loss and bank charges	(182)	(194)	(257)
Expenses in respect of convertible debentures, including interest *)	(745)	-	-
	$ (911)	$ (191)	$ (286)

*)See also Note 7.

NOTE 14:- RELATED PARTY TRANSACTION

According to the Company's agreement with the chairman of the board, in consideration for his services to the Company worldwide, the chairman of the board will be entitled to compensation in the amount of US $ 28.1 plus VAT per month ("the consulting fees"). In addition, as approved annually by the Company's general meeting of the shareholders, the chairman is entitled to a bonus of 4% of the Company's adjusted EBITDA, under certain conditions with regard to revenue and EBITDA, as defined in the minutes of the Company's board of Directors.

During 2011, 2012, 2013 the chairman of the board has been entitled to compensation, including the bonus, on the amount of $ 498, $ 494 and $ 324, respectively for his services as a board member and for the consulting fees.

NOTE 15:- SUBSEQUENT EVENT (UNAUDITED)

In February 2014, the Company closed an underwritten public offering of 3,162,500 ordinary shares at $4.75 per share for net proceeds of $13,700.The aggregate amount of ordinary shares sold reflects the exercise in full by the underwriters of their option to purchase up to 412,500 additional ordinary shares to cover over-allotments.