

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

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

For the fiscal year ended December 31, 2021

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: 0-19415

**MAGIC SOFTWARE ENTERPRISES LTD.**

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

**Israel**

(Jurisdiction of incorporation or organization)

**Yahadut Canada 1 Street, Or Yehuda 6037501, Israel**

(Address of principal executive offices)

**Asaf Berenstin; +972 (3) 538 9243; asafb@magicsoftware.com**

**Yahadut Canada 1 Street, Or Yehuda 6037501, Israel**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 0.1 Par Value	MGIC	Nasdaq Global Select Market

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

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

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

**As of December 31, 2021, the Registrant had 49,073,055 Ordinary Shares, par value NIS 0.1 per share, outstanding**

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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

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

Item 17  Item 18

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

Yes  No

This annual report on Form 20-F is incorporated by reference into the registrant's Registration Statements on Form S-8, File Nos. 333-113552, 333-132221 and 333-149553.

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## INTRODUCTION

Our legal and commercial name is Magic Software Enterprises Ltd., and we were organized and registered in Israel on February 10, 1983 and began operations in 1986. We are a global provider of: (i) software services and Information Technologies (“IT”) outsourcing software services; (ii) proprietary application development and business process integration platforms; (iii) selected packaged vertical software solutions, as well as (iv) cloud based services for end to end digital transformation.

Our software technology is used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, our technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment.

As part of our software services and IT outsourcing services, we offer an extensive portfolio of professional services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, integration projects, project management, software testing and quality assurance, engineering consulting (including supervision of engineering projects), support services, cloud, cyber, digital, data and DevOps, all according to the specific needs of the customer, and in accordance with the professional expertise required in each case with the goal to create significant value for our clients in managing, streamlining, accelerating and helping their businesses thrive.

In addition, we offer a variety of proprietary comprehensive packaged software solutions through certain of our subsidiaries for (i) enterprise-wide and fully integrated medical platform (“Clicks”), specializing in the design and management of patient-file oriented software solutions for managed care and large-scale health care providers. This platform aims to allow providers to securely access an individual’s electronic health record at the point of care, and it organizes and proactively delivers information with potentially real time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front and back-office professionals and consumers; (ii) enterprise management system for both hubs and traditional air cargo ground handling operations from physical handling and cargo documentation through customs, seamless electronic data interchange, or EDI communications, dangerous goods, special handling, track and trace, security to billing (“Hermes”); (iii) enterprise human capital management, or HCM, solutions, to facilitate the collection, analysis and interpretation of quality data about people, their jobs and their performance, to enhance HCM decision making (“HR Pulse”); (iv) revenue management and monetization solutions in mobile, wireline, broadband and mobile virtual network operator/enabler, or MVNO/E (“Leap”); (v) comprehensive system for managing broadcast channels in the area of TV broadcast management through cloud-based on-demand service or on-premise solutions; (vi) comprehensive solution for sales and distribution field activities, such as order taking, route accounting, trade marketing, retail execution, proof of deliveries and B2B E-commerce (“Mobisale”); and (vii) comprehensive solution for efficient management of all types of rehabilitation centers (“Nativ”). Selected by many of the largest rehabilitation and treatment centers in Israel, Nativ serves as a comprehensive solution, the largest and most specialized and equipped system in Israel, with all the capabilities required for operating all aspects of organizations engaged in rehabilitation and treatment. Nativ enables control of all levels of rehabilitation bodies, including monitoring detailed rehabilitation plans, finance, collection, account management, recruitment, working hours, asset management, employment, medical files and management of large organization.

Based on our technological capabilities and our specialists, our software solutions and software services enable our clients to respond to rapidly evolving market needs and regulatory changes, while improving the efficiency of their core operations. We have approximately 3,677 employees, who serve our clients at any given time and whose skills and specialization are a significant source of competitive differentiation. We operate through a network of over 3,000 independent software vendors, or ISVs, who we refer to as Magic Software Providers, or MSPs, and hundreds of system integrators, distributors, resellers, and consulting and OEM partners. Thousands of enterprises in approximately 50 countries use our products and services.

Our application development and business process integration platforms consist of:

- **Magic xpa** – a proprietary low-code application platform for developing and deploying business applications.
- **AppBuilder** – a proprietary low-code application platform for building, deploying, and maintaining high-end, mainframe-grade business applications.
- **Magic xpi** – a proprietary low-code platform for on premises application integration.

- **FactoryEye** – a cloud-based platform for manufacturers enabling smooth migration to Industry 4.0 smart factories. Real-time factory floor visibility and optimization is provided as part of the end-to-end visibility to maximize production performance.
- **BusinessEye** – a cloud-based platform for all verticals enabling smooth end-to-end digital transformation and full organizational business intelligence.
- **Magic SmartUX** – a proprietary low-code enterprise mobile development application platform for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.

Our vertical packaged software solutions include:

- **Clicks™** – a proprietary comprehensive core software solution for medical record information management system, used in the design and management of patient-files for managed care and large-scale healthcare providers. The platform is connected to each provider's clinical, administrative and financial data base system, residing at the provider's central computer, and allows immediate analysis of complex data with potentially real-time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.
- **Leap™** – a proprietary comprehensive core software solution for Business Support Systems, or BSS, including convergent charging, billing, customer management, policy control, mobile money and payment software solutions for the telecommunications, content, Machine to Machine/Internet of Things or M2M/IoT, payment and other industries.
- **Hermes Cargo** – Hermes Air Cargo Management System is a proprietary, state-of-the-art, packaged software solution for managing air cargo ground handling. Our Hermes Solution covers all aspects of cargo handling, from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods and special handling, tracking and tracing, security and billing. Customers benefit through faster processing and more accurate billing, reporting and ultimately enhanced revenue. the system also features the Hermes Business Intelligence (HBI) solution, adding unprecedented data analysis capabilities and management-decision support tools. The Hermes Solution is delivered on a licensed or fully hosted basis.
- **HR Pulse** – A customizable single-tenant SaaS tool that helps organizations to monitor employee performance, progress and potential through a menu of templates that can create new HCM solutions, complement existing processes, and/or integrate with legacy HR systems already in use by organizations.
- **MBS Solution** – a proprietary comprehensive core system for TV broadcast management for use in managing broadcast channels.
- **Nativ** – a proprietary comprehensive core system for management of rehabilitation centers
- **Mobisale** – a proprietary comprehensive core system for sales and distribution field activities for consumer goods manufacturers and wholesalers

Our software solutions and software services enable our clients to improve their business performance and return on investment by supporting cost-effective and rapid delivery integration of business applications, systems and databases. Using our platforms and our specialists, enterprises and MSPs can achieve fast time-to-market by rapidly building integrated solutions and deploy them in multiple environments while leveraging existing IT resources. In addition, our software solutions are scalable and platform-agnostic, enabling our clients to build software applications by specifying their business logic requirements in a high-level language rather than in computer code, and to benefit from seamless platform upgrades and cross-platform functionality without the need to re-write their applications. Our platforms also support the development of mobile applications that can be deployed on a variety of mobile devices, and in a cloud environment. In addition, we continuously evolve our platforms to include the latest technologies to meet the demands of our customers and the markets in which they operate.

We sell our platforms and our services globally through a broad channel network, including our own direct sales representatives and offices, independent country distributors, MSPs that use our technology to develop and sell solutions to their customers, and system integrators. We also offer software maintenance, support, training and consulting services to supplement with our products, thus aiding in the successful implementation of Magic xpa, AppBuilder, Magic xpi, Magic BusinessEye, Magic Smart UX and FactoryEye projects, and assuring successful operation of the platforms once installed.

In addition, we provide on an increasingly global basis a broad range of advanced software professional services and IT outsourcing services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, support services, DevOps (Development & Operations), Mobile, Big Data and Analytical BI, M/F, cloud computing for deployment of highly available and massively-scalable applications and APIs and supplemental IT outsourcing services to a wide variety of companies, including Fortune 1000 companies, all in accordance with the professional expertise required in each case with our goal to create significant value for our clients in managing, streamlining, accelerating and helping their businesses thrive. We have extensive and proven experience with virtually all types of telecom infrastructure technologies in wireless and wire-line as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services.

We have substantial experience in end-to-end development of tailored high-end software solutions, beginning with collection and analysis of system requirements, continuing with architecture specifications and setup, to software implementation, component integration and testing. From concept to implementation, from application of the ideas of startups requiring the early development of an application or a device, to somewhat larger, more established enterprises, vendors or system houses who need our team of experts to take full responsibility for the development of their systems and products. With our ability to draw on our pool of resources, comprised of hundreds of highly trained, skilled, educated and flexible engineers, we adhere to timelines and budget and work in full transparency with our customers every step of the way to create a tailor-made and cost-effective solution to answer our customers' unique needs.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with United States generally accepted accounting principles, or U.S. GAAP.

We have obtained trademark registrations for SmartUX® in the United States and for Magic® in the United States, Canada, Israel, the Netherlands (Benelux), Switzerland, Thailand and the United Kingdom. All other trademarks and trade names appearing in this annual report are owned by their respective holders.

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

### ***Definitions***

In this annual report, unless the context otherwise requires:

- References to “Magic Software” the “Company,” the “Registrant,” “our company,” “us,” “we” and “our” refer to Magic Software Enterprises Ltd. and its consolidated subsidiaries;
- References to “our shares,” “Ordinary Shares” and similar expressions refer to Magic’s Ordinary Shares, par value NIS 0.1 per share;
- References to “dollars”, “U.S. dollars”, “U.S. \$” and “\$” are to United States Dollars;
- References to “Euro” or “€” are to the Euro, the official currency of the Eurozone in the European Union;
- References to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- References to the “Articles” are to our Amended Articles of Association, as currently in effect;
- References to the “Securities Act” are to the Securities Act of 1933, as amended;
- References to the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- References to “Nasdaq” are to the Nasdaq Stock Market;
- References to the “TASE” are to the Tel Aviv Stock Exchange; and
- References to the “SEC” are to the United States Securities and Exchange Commission.

### Cautionary Note Regarding Forward-Looking Statements

Certain matters discussed in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our beliefs, assumptions and expectations, as well as information currently available to us. Such forward-looking statements may be identified by the use of the words “anticipate,” “believe,” “estimate,” “expect,” “may,” “will,” “plan” and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. There are important factors that could cause our actual results, levels of activity, performance, or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to:

- the degree of our success in our plans to leverage our global footprint to grow our sales;
- the degree of our success in integrating the companies that we have acquired through the implementation of our M&A growth strategy;
- the lengthy development cycles for our solutions, which may frustrate our ability to realize revenues and/or profits from our potential new solutions;
- our lengthy and complex sales cycles, which do not always result in the realization of revenues;
- the degree of our success in retaining our existing customers and competing effectively for greater market share;
- difficulties in successfully planning and managing changes in the size of our operations;
- the frequency of the long-term, large, complex projects that we perform that involve complex estimates of project costs and profit margins, which sometimes change mid-stream;
- the challenges and potential liability that heightened privacy laws and regulations pose to our business;
- occasional disputes with clients, which may adversely impact our results of operations and our reputation;
- various intellectual property issues related to our business;
- potential unanticipated product vulnerabilities or cybersecurity breaches of our or our customers’ systems, particularly in the current work-from-home environment;
- the unknown further duration of the global COVID-19 pandemic and the extent of its impact on our operations, financial position and cash flows, and those of our customers and suppliers;
- risks associated with our global sales and operations, such as changes in regulatory requirements, wide-spread viruses and epidemics like the recent novel coronavirus outbreak, or fluctuations in currency exchange rates; and
- risks related to our principal location in Israel.

While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those expressed or implied by the forward-looking statements. Please read the risks discussed in Item 3 – “Key Information” under the caption “Risk Factors” and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this annual report, to conform these statements to actual results or to changes in our expectations.

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## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. [RESERVED]

#### B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

#### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

#### D. RISK FACTORS

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

#### **Risks Related to Our Business and Our Industry**

- The implementation of our M&A growth strategy, which requires the integration of our multiple acquired companies and their respective businesses, operations and employees with our own, involves significant risks.
- Our business depends on generating and maintaining ongoing, profitable client demand for our services and solutions, including through the adaptation and expansion of our services and solutions in response to ongoing changes in technology and offerings.
- We may encounter difficulties in realizing the potential financial or strategic benefits of recent business acquisitions.

- We are dependent on a limited number of core product families and services and a decrease in revenues from these products and services would adversely affect our business, results of operations and financial condition.
- Adapting to evolving technologies can require substantial financial investments, distract management and adversely affect the demand for our existing products and services.
- Our products have a lengthy sales cycle that could adversely affect our revenues.
- If we are unable to keep our supply of skills and resources in balance with client demand around the world, our business, the utilization rate of our professionals and our results of operations may be materially adversely affected.
- Our existing customers may not be satisfied with our solutions and services and might not make subsequent purchases from us.
- If we fail to meet our customers' performance expectations, our reputation may be harmed, causing us to lose customers or exposing us to legal liability.
- We enter from time to time into fixed-price contracts that could subject us to losses in the event we fail to properly estimate our costs.
- We face intense competition in the markets in which we operate and we might not be able to compete effectively.
- Unfavorable national and global economic conditions could adversely affect our business, operating results and financial condition.
- Geopolitical and other challenges and uncertainties due to the ongoing military conflict between Russia and Ukraine could have a material adverse effect.
- We are exposed to economic and market conditions that impact the communications industry.
- A reduction of government spending in Israel on IT services may reduce our revenues and profitability.
- The increasing amount of identifiable intangible assets and goodwill recorded on our balance sheet may lead to significant impairment charges in the future.
- If we fail to manage our growth, our business could be disrupted and our profitability will likely decline.
- We have a history of quarterly fluctuations in our results of operations and expect these fluctuations to continue.
- Changes in the ratio of our revenues generated from different revenue elements may adversely affect our gross profit margins.
- We may encounter difficulties with our international operations and sales that could adversely affect our business, results of operations and financial condition.
- Our international operations expose us to risks associated with fluctuations in currency exchange rates that could adversely affect our business.
- Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.
- Regulation of the internet and telecommunications, privacy and data security may adversely affect sales of our products and result in increased compliance costs.
- Errors or defects in our software solutions could inevitably arise and would harm our profitability and our reputation with customers, and could even give rise to claims against us.

- Third parties have in the past, and may in the future, claim that we infringe upon their intellectual property rights and such claims could harm our business.
- Although we apply measures to protect our intellectual property rights and our source code, there can be no assurance that the measures that we employ to do so will be successful.
- We and our customers rely on technology and intellectual property of third-parties, the loss of which could limit the functionality of our products and disrupt our business.
- We could be required to provide the source code of our products to our customers.
- Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.
- Any unauthorized, and potentially improper, actions of our personnel could adversely affect our business, operating results and financial condition.
- Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.
- Our business may be materially affected by changes to fiscal and tax policies.
- Certain of our credit facility agreements with banks and other financial institutions are subject to a number of restrictive covenants that, if breached, could result in acceleration of our obligation to repay our debt.
- Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance, or ESG, policies may impose additional costs on us or expose us to additional risks.
- If we are unable to maintain effective internal control over financial reporting in accordance with Sections 302 and 404(a) of the Sarbanes-Oxley Act of 2002, the reliability of our financial statements may be questioned and our share price may suffer.
- Breaches or significant disruptions of our information technology systems may occur.
- Security vulnerabilities in our software solutions could lead to reduced revenue or to liability claims.

#### **Risk Related to Our Ordinary Shares**

- Our Ordinary Shares are traded on more than one market and this may result in price variations.
- There is relatively limited trading volume for our shares, which reduces liquidity for our shareholders, and may cause the share price to be volatile, all of which may lead to losses by investors.
- We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act.
- Our controlling shareholder has a controlling influence over matters requiring shareholder approval, which could delay or prevent a change of control that may benefit our public shareholders.
- Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company or as a “controlled foreign corporation.”

## Risks Related to Our Location in Israel

- Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.
- Our results of operations may be adversely affected by the obligation of our personnel to perform military service.
- We currently have the ability to benefit from certain government tax benefits, which may be cancelled or reduced in the future.
- Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.
- Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.
- 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.

## Risks Related to Our Business and Our Industry

***The global COVID-19 pandemic may continue to negatively impact the global economy in a significant manner for an extended period of time and may also adversely affect our operating results in a material manner.***

Any recurrence of the COVID-19 pandemic may have a significant impact on global economic activity, and governments around the world may again intermittently close or restrict office spaces, public transportation, schools, and travel, with some governments already engaging in such practices. These closures and restrictions, if continued for a sustained period, could trigger a global recession that could negatively impact our business in a material manner. Most importantly, our customers may reduce the amount of work for which they retain our services if they experience a slowdown in their businesses.

Prolonged economic uncertainties or downturns in certain regions or industries could adversely affect our business materially. Our business depends on our current and prospective customers' ability and willingness to invest money in IT, which in turn is dependent upon their overall economic health. Negative economic conditions in the global economy or certain regions such as the U.S., Israel or Europe, including conditions resulting from financial and credit market fluctuations, could cause a decrease in corporate spending on products and services that we sell. Wide-spread viruses and epidemics like the novel coronavirus outbreak that began in January 2020, could also negatively affect our customers' spending on our products and services. In 2021, 53% of our revenues generated from North America, 38% of our revenues were generated from Israel, and 9% from the rest of the world. Negative economic conditions may cause our clients to reduce their IT spending. Clients may delay or cancel projects, choose to focus on in-house development efforts or seek to lower their costs by renegotiating maintenance and support agreements. Additionally, clients may be more likely to make late payments in worsening economic conditions, which could require us to increase our collection efforts and incur additional associated costs to collect expected revenues. To the extent that the purchase of licenses for our software solutions are perceived by either our current or potential clients to be discretionary, our revenues may be disproportionately affected by delays or reductions in general IT spending. If economic conditions generally, or in the industries in which we operate specifically, worsen from present levels, the results of our operations could be adversely affected.

***The implementation of our M&A growth strategy, which requires the integration of multiple acquired companies and their respective businesses, operations and employees with our own, involves significant risks, and the failure to integrate successfully may adversely affect our future results.***

In the past decade we have completed a significant number of important acquisitions. Most recently, during 2021, we acquired EnableIT, Menarva, and Soft IT. During 2020, we acquired Aptonet Inc and Stockell Information Systems, Inc within addition to two small acquisitions. These acquisitions are part of our integrated M&A growth strategy, which is centered on three key factors: growing our customer base, expanding geographically and adding complementary solutions and services to our portfolio—all while we seek to ensure our continued high quality of services and product delivery. Any failure to successfully integrate the business, operations and employees of our acquired companies, or to otherwise realize the anticipated benefits of these acquisitions, could harm our results of operations. Our ability to realize these benefits will depend on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between these companies and their personnel. Integration of these businesses will be complex and time consuming, will involve additional expense and could disrupt our business and divert management's attention from ongoing business concerns. The challenges involved in integrating the acquired companies include:

- Preserving customer, supplier and other important relationships
- Integrating complex, core products and services that we acquire with our existing products and services
- Integrating financial forecasting and controls, procedures and reporting cycles
- Combining and integrating information technology, or IT, systems
- Integrating employees and related HR systems and benefits, maintaining employee morale and retaining key employees
- Potential confusion that we may have in our dealings with customers and prospective customers as to the products we are offering to them and potential overlap among those products
- Investment of significant management time and attention towards the integration process

The benefits we expect to realize from these acquisitions are, necessarily, based on projections and assumptions about the combined businesses of our company, and assume, among other things, the successful integration of these acquired entities into our business and operations. Our projections and assumptions concerning our acquisitions may be inaccurate, however, and we may not successfully integrate the acquired companies and our operations in a timely manner, or at all. We may also be exposed to unexpected contingencies or liabilities of the acquired companies. If we do not realize the anticipated benefits of these transactions, our growth strategy and future profitability could be adversely affected.

***Our business depends on generating and maintaining ongoing, profitable client demand for our services and solutions, including through the adaptation and expansion of our services and solutions in response to ongoing changes in technology and offerings, and a significant reduction in such demand or an inability to respond to the evolving technological environment could materially affect our results of operations.***

Our revenue and profitability depend on the demand for our services and solutions with favorable margins, which could be negatively affected by numerous factors, many of which are beyond our control and unrelated to our work product. As described above, volatile, negative, or uncertain global economic and political conditions and lower growth or contraction in the markets we serve have adversely affected and could in the future adversely affect client demand for our services and software solutions. Our success depends, in part, on our ability to continue to develop and implement services and software solutions that anticipate and respond to rapid and continuing changes in technology and offerings to serve the evolving needs of our clients. Examples of areas of significant change include digital-, cloud- and security-related offerings, which are continually evolving, as well as developments in areas such as artificial intelligence, augmented reality, automation, Internet of Things, network engineering, digital engineering and manufacturing, and as-a-service solutions. As we expand our services and solutions into these new areas, we may be exposed to operational, legal, regulatory, ethical, technological and other risks specific to such new areas, which may negatively affect our reputation and demand for our services and solutions.

Technological developments may materially affect the cost and use of technology by our clients and, in the case of cloud and as-a-service solutions, could affect the nature of how we generate revenue. Some of these technological developments have reduced and replaced some of our historical services and solutions and may continue to do so in the future. This has caused, and may in the future cause, clients to delay spending under existing contracts and engagements and to delay entering into new contracts while they evaluate new technologies. Such technological developments and spending delays can negatively impact our results of operations if we are unable to introduce new pricing or commercial models that reflect the value of these technological developments or if the pace and level of spending on new technologies are not sufficient to make up any shortfall.

Developments in the industries we serve, which may be rapid, also could shift demand to new services and solutions. If, as a result of new technologies or changes in the industries we serve, our clients demand new services and solutions, we may be less competitive in these new areas or need to make significant investment to meet that demand. Our growth strategy focuses on responding to these types of developments by driving innovation that will enable us to expand our business into new growth areas. If we do not sufficiently invest in new technology and adapt to industry developments or evolve and expand our business at sufficient speed and scale, or if we do not make the right strategic investments to respond to these developments and successfully drive innovation, our services and solutions, our results of operations, and our ability to develop and maintain a competitive advantage and to execute on our growth strategy could be adversely affected.

We operate in a rapidly evolving environment in which there currently are, and we expect will continue to be, new technology entrants. New services or technologies offered by competitors or new entrants may make our offerings less differentiated or less competitive when compared to other alternatives, which may adversely affect our results of operations. In addition, companies in the industries we serve sometimes seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If one of our current clients merges or consolidates with a company that relies on another provider for the services and solutions we offer, we may lose work from that client or lose the opportunity to gain additional work if we are not successful in generating new opportunities from the merger or consolidation.

Many of our consulting contracts are less than 12 months in duration, and these contracts typically permit a client to terminate the agreement with as little as 30 days' notice. Longer-term, larger and more complex contracts, generally require a longer notice period for termination and often include an early termination charge to be paid to us, but this charge might not be sufficient to cover our costs or make up for anticipated ongoing revenues and profits lost upon termination of the contract. Many of our contracts allow clients to terminate, delay, reduce or eliminate spending on the services we provide. Additionally, a client could choose not to retain us for additional stages of a project, try to renegotiate the terms of its contract or cancel or delay additional planned work. When contracts are terminated or not renewed, we lose the anticipated revenues, and it may take significant time to replace the level of revenues lost. Consequently, our results of operations in subsequent periods could be materially lower than expected.

***We may encounter difficulties in realizing the potential financial or strategic benefits of recent business acquisitions. We expect to make additional acquisitions in the future that could disrupt our operations and harm our operating results.***

A significant part of our business strategy is to pursue acquisitions and other initiatives based on strategy centered on three key factors: growing our customer base, expanding geographically and adding complementary solutions to our portfolio— all while we seek to ensure our continued high quality of services and product delivery. In the past five years we made numerous acquisitions.

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

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

***We are dependent on a limited number of core product families and a decrease in revenues from these products would adversely affect our business, results of operations and financial condition; our future success will be largely dependent on the acceptance of future releases of our core product offerings and if we are unsuccessful with these efforts, our business, results of operations and financial condition will be adversely affected.***

We derive a significant portion of our revenues and profits from sales of application and integration platforms and vertical software solutions and from related professional services, software maintenance and technical support. Our future growth depends heavily on our ability to effectively develop and sell new products developed by us or acquired from third parties as well as add new features to existing products and new software service offerings. A decrease in revenues from our principal products and related services would adversely affect our business, results of operations and financial condition.

Our future success depends in part on the continued acceptance of our application platforms and integration products primarily under our Magic xpa, Magic xpi, AppBuilder, Leap, FactoryEye, Magic BusinessEye and Magic SmartUX brands and our vertical packaged software solutions, primarily Clicks, Leap™, the Hermes solution and HR Pulse, Mobisale and Nativ. The continued acceptance of these platforms and software solutions will be dependent in part on the continued acceptance and growth of the cloud market, including rich internet applications, or RIAs, mobile and software as a service, or SaaS, for which certain of them are particularly useful and advantageous. We will need to continue to enhance our products to meet evolving requirements and if new versions of such products are not accepted, our business, results of operations and financial condition may be adversely affected.

***Rapid technological changes may adversely affect the market acceptance of our products and services, and our business, results of operations and financial condition could be adversely affected.***

We compete in a market that is characterized by rapid technological changes. Other companies are also seeking to offer integration solutions, low-code development solutions, enterprise mobility solutions, internet-related solutions, such as cloud computing, and complementary services to generate growth. These companies may develop technological or business model innovations or offer services in the markets that we seek to address that are, or are perceived to be, equivalent or superior to our software solutions and services. In addition, our customers' business models may change in ways that we do not anticipate and these changes could reduce or eliminate our customers' needs for our products and services. Our operating results depend on our ability to adapt to market changes and develop and introduce new products and services into existing and emerging markets.

The introduction of new technologies and devices could render existing products and services obsolete and unmarketable and could exert price pressures on our products and services. Our future success will depend upon our ability to address the increasingly sophisticated needs of our customers by:

- Supporting existing and emerging hardware, software, databases and networking platforms; and
- Developing and introducing new and enhanced software development technology and applications that keeps pace with such technological developments, emerging new product markets and changing customer requirements.

***Adapting to evolving technologies can require substantial financial investments, distract management and adversely affect the demand for our existing products and services.***

Because our software solutions are complex and require rigorous testing, development cycles can be lengthy, taking us up to two years to develop and introduce new, enhanced or modified solutions. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. In addition, adapting to evolving technologies may require us to invest a significant amount of resources, time and attention into the development, integration, support and marketing of those technologies. The acceptance and growth of cloud computing and enterprise mobility are examples of rapidly changing technologies, which we have adapted into our products, packaged software solution and software service offerings. This required us to make a substantial financial investment to develop and implement cloud computing and enterprise mobility into our software solution models and has required significant attention from our management to refine our business strategies to include the delivery of these solutions. As the market continues to adopt new technologies, we expect to continue to make substantial investments in our software solutions, system integrations and professional services related to these changing technologies. Even if we succeed in adapting to a new technology by developing attractive products and services and successfully bringing them to market, there is no assurance that the new product or service will have a positive impact on our financial performance and could even result in lower revenue, lower margins and higher costs and therefore could negatively impact our financial performance. If release dates of any future products or enhancements are delayed our business, financial condition and results of operations could be adversely affected.

***Our products have a lengthy sales cycle that could adversely affect our revenues.***

The typical sales cycle for our solutions and services is lengthy and unpredictable, sometimes requires pre-purchase evaluation by a significant number of persons in our clients' organizations, and often involves a significant operational decision by our customers as they typically use our software solutions and services to develop and deploy as well as to integrate applications that are critical to their businesses. Our sales efforts involve educating our clients, partners and consultants about the use and benefits of our solutions, including the technical capabilities of our solutions and the efficiencies achievable by organizations deploying our solutions. Because of the long approval process that typically accompanies strategic initiatives or capital expenditures by companies, our sales process is often delayed, with little or no control over any delays encountered by us. Our sales cycle, which generally ranges from three to twelve months, can be further extended for sales made through third party distributors. We spend substantial time, effort and money in our sales efforts without any assurance that such efforts will produce any sales.

***If we are unable to keep our supply of skills and resources in balance with client demand around the world and attract and retain professionals with strong leadership skills, our business, the utilization rate of our professionals and our results of operations may be materially adversely affected.***

Our success is dependent, in large part, on our ability to keep our supply of market-leading skills and capabilities in balance with client demand around the world and our ability to attract and retain personnel with the knowledge and skills to lead our business globally. We must hire or reskill, retain and motivate appropriate numbers of talented people with diverse skills in order to serve clients across the globe, respond quickly to rapid and ongoing changes in demand, technology, industry and the macroeconomic environment, and continuously innovate to grow our business. For example, if we are unable to hire or retrain our employees to keep pace with the rapid and continuous changes in technology and the industries we serve, we may not be able to innovate and deliver new services and solutions to fulfill client demand. There is competition for scarce talent with market-leading skills and capabilities in new technologies, and our competitors have directly targeted our employees with these highly sought-after skills and will likely continue to do so. As a result, we may be unable to cost effectively hire and retain employees with these market-leading skills, which may cause us to incur increased costs, or be unable to fulfill client demand for our services and solutions.

We are particularly dependent on retaining members of our leadership with critical capabilities. If we are unable to do so, our ability to innovate, generate new business opportunities and effectively lead large and complex transformations and client relationships could be jeopardized. We depend on identifying, developing and retaining top talent to innovate and lead our businesses. This includes developing talent and leadership capabilities. Our ability to expand in the markets we operate depends, in large part, on our ability to attract, develop, retain and integrate both leaders for the local business and people with critical capabilities.

Similarly, our profitability depends on our ability to effectively source and staff people with the right mix of skills and experience to perform services for our clients, including our ability to transition employees to new assignments on a timely basis. The costs associated with recruiting and training employees are significant. If we are unable to effectively deploy our employees globally and remotely on a timely basis to fulfill the needs of our clients, our profitability could suffer. If our utilization rate is too low, our profitability and the engagement of our employees could suffer. If the utilization rate of our professionals is too high, it could have an adverse effect on employee engagement and attrition, the quality of the work performed as well as our ability to staff projects.

Our incentive compensation plans are designed to reward high-performing individuals for their contributions and provide incentives for them to remain with us. If the anticipated value of such incentives does not materialize or if our total compensation package is not viewed as being competitive, our ability to attract and retain the personnel we need could be adversely affected.

There is a risk that at certain points in time, we may have more personnel than we need in certain skill sets or at compensation levels that are not aligned with skill sets. In these situations, we have engaged, and may in the future engage, in actions to rebalance our resources, including reducing the rate of new hires and increasing involuntary terminations as a means to keep our supply of skills and resources in balance with client demand. At certain times, we will find it difficult to hire and retain a sufficient number of employees with the skills or backgrounds to meet current and/or future demand. In these cases, we might need to redeploy existing personnel or increase our reliance on subcontractors to fill certain labor needs, and if not done effectively, our profitability could be negatively impacted. Additionally, as demand for our services and solutions has escalated at a high rate, to hire and retain people with the skills necessary to meet demand we have and may continue to adjust compensation, which puts upward pressure on our costs and may adversely affect our profitability if we are unable to recover these increased costs. If we are not successful in these initiatives, our results of operations could be adversely affected



Moreover, Our research and development, product delivery, and general and administrative, activities are conducted at locations where the competition for skilled professionals is particularly intense. While there has been strong competition for qualified human resources in the high-tech industry historically, the industry experienced record growth and activity in 2021, both at the earlier stages of venture capital and growth equity financings, and at the exit stage of initial public offerings and mergers and acquisitions. This flurry of growth and activity has caused a sharp increase in job openings in both high-tech companies and research and development centers, as well as the intensification of competition between employers to attract qualified employees in those jurisdictions. Employee attrition— for all fields and professions, and for all levels of management— has accompanied this strong competition, and hi-tech companies such as ours that are based in Israel and these other jurisdictions are currently facing a severe shortage of skilled human capital, including engineering, research and development, sales and customer support personnel. Many of the companies with which we compete for qualified personnel may have greater resources than we do, and we may not succeed in recruiting additional experienced or professional personnel, retaining personnel or effectively replacing current personnel who may depart with qualified or effective successors.

***If we fail to meet our clients' performance expectations, our reputation may be harmed, causing us to lose customers or exposing us to legal liability.***

We depend heavily on repeated software and service revenues from our base of existing clients. Two of our largest clients accounted together for 19.0% and 21.2% of our revenues in the years ended December 31, 2020 and 2021, respectively and five of our largest clients accounted for 26.0% and 27.5% of our revenues in the years ended December 31, 2020 and 2021, respectively. If our existing clients are not satisfied with our solutions and services, they may not enter into new project contracts with us or continue using our services. A significant decline in our revenue stream from existing clients, including due to termination of agreement(s), would have a material adverse effect on our business, results of operations and financial condition.

Our ability to attract and retain clients depends to a large extent on our relationships with our clients and our reputation for high quality solutions, professional services and integrity. As a result, if a customer is not satisfied with our services or solutions, including those of subcontractors we engage, our reputation may be damaged. Our failure to meet these goals or a customer's expectations may result in a less profitable or an unprofitable engagement. Moreover, if we fail to meet our customers' expectations, we may lose customers and be subject to legal liability, particularly if such failure adversely affects our customers' businesses.

In addition, a portion of our projects may be considered critical to the operations of our clients' businesses. Our exposure to legal liability may be increased in the case of contracts in which we become more involved in our customers' operations. While we typically strive to include provisions designed to limit our exposure to legal claims relating to our services and the solutions we develop, these provisions may not adequately protect us or may not be enforceable in all cases. The general liability insurance coverage that we maintain, including coverage for errors and omissions, is subject to important exclusions and limitations. We cannot be certain that this coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our profitability.

***We enter from time to time into fixed-price contracts that could subject us to losses in the event we fail to properly estimate our costs.***

We enter from time to time into firm fixed-price contracts where our delivery requirements sometimes span more than one year. If our initial cost estimates are incorrect, it may cause losses on these contracts. Because many of these contracts involve new technologies and applications, unforeseen events, such as technological difficulties and other cost overruns, can result in the contract pricing becoming less favorable or even unprofitable to us and have an adverse impact on our financial results.

Similarly, delays in implementation projects (whether fixed price or not) may affect our revenue and cause our operating results to vary widely. Payment terms are generally based on periodic payments or on the achievement of milestones. Any delays in payment or in the achievement of milestones may have a material adverse effect on our results of operations, financial position or cash flows.

For non-fixed price contracts, we generally provide our customers with up-front estimates regarding the duration, budget and costs associated with the implementation of our services. However, we may not meet those upfront estimates and/or the expectations of our customers, which could lead to a dispute with a client.

***We face intense competition in the markets in which we operate and we might not be able to compete effectively. This could adversely affect our business, results of operations and financial condition.***

The markets in which we offer our services and solutions are highly competitive. Our competitors include:

- multinational IT service providers, including the services arms of global technology providers;
- off-shore IT service providers in lower-cost locations such as India and Eastern Europe;
- accounting firms and consultancies that provide consulting and other IT services and solutions;
- solution or service providers that compete with us in a specific geographic market, industry or service area, including advertising agencies, engineering services providers and technology start-ups and other companies that can scale rapidly to focus on or disrupt certain markets and provide new or alternative products, services or delivery models; and
- in-house IT departments that use their own resources, rather than engage an outside firm.

Some of our existing and potential competitors are larger companies, have greater financial, marketing or other resources than we do and, therefore, may be better able to compete for new work and skilled professionals, may be able to innovate and provide new services and solutions faster than we can or may be able to anticipate the need for services and solutions before we do. Some of our competitors may also team together to create competing offerings. Even if we have potential offerings that address client needs, competitors may be more successful at selling similar services they offer, including to companies that are our clients. Some competitors may be more established in certain markets and may make executing our growth strategy to expand in these markets more challenging. Additionally, competitors may also offer more aggressive contractual terms, which may affect our ability to win work. Our future performance is largely dependent on our ability to compete successfully and expand in the markets we currently serve. If we are unable to compete successfully, we could lose clients to competitors, which could materially adversely affect our results of operations. In addition, we may face greater competition due to consolidation of companies in the technology sector through strategic mergers, acquisitions or teaming arrangements. Consolidation activity may result in new competitors with greater scale, a broader footprint or offerings that are more attractive than ours. The technology companies described above, including many of our alliance partners, are increasingly able to offer services related to their software, platform, cloud migration and other solutions, or are developing software, platform, cloud migration and other solutions that require integration services to a lesser extent. These more integrated services and solutions may represent more attractive alternatives to clients than some of our services and solutions, which may materially adversely affect our competitive position and our results of operations.

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

Global macroeconomic and geopolitical conditions affect our clients' businesses and the markets they serve. During periods of slowing economic activity, our customers may reduce their demand for our products, technology and professional services, which would reduce our sales, and our business, operating results and financial condition may be adversely affected. Economic challenges may develop, including threatened sovereign defaults, credit downgrades, restricted credit for businesses and consumers and potentially falling demand for a variety of products and services. These developments, or the perception that any of them could occur, could result in longer sales cycles, slower adoption of new technologies and increased price competition for our products and services. We could also be exposed to credit risk and payment delinquencies on our accounts receivable, which are not covered by collateral. In particular, there is currently significant uncertainty about the future relationship between the U.S. and various other countries, with respect to trade policies, treaties, government regulations, and tariffs. Major developments in trade relations, including the imposition of new or increased tariffs by the U.S. and/or other countries, and any emerging nationalist trends in specific countries could alter the trade environment and consumer purchasing behavior which, in turn, could have a material effect on our financial condition and results of operations. If such actions impacting our international distribution and sales channels result in increased costs for us or our international partners, such changes could result in higher costs to us, adversely affecting our operations, particularly as we expand our international presence.

If global economic and market conditions, or economic conditions in the United States, Europe or Asia or other key markets, remain uncertain or weaken, our business, operating results and financial condition may be adversely affected.

***Geopolitical and other challenges and uncertainties due to the ongoing military conflict between Russia and Ukraine could have a material adverse effect on the global economy, certain material and commodity prices and our business.***

Global markets are currently operating in a period of economic uncertainty, volatility and disruption following Russia's full-scale invasion of Ukraine on February 24, 2022. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine and any other geopolitical tensions could have an adverse effect on the economy and business activity globally and lead to:

- credit and capital market disruptions;
- significant volatility in commodity prices (such as grains, fertilizer inputs and oil and gas);
- increased expenses related to direct and indirect materials used in our production process (i.e., packaging, logistics and inputs, among others);
- increased costs of resources (such as energy, natural gas and coal) for our operations;
- slowdown or disruption of the global and local supply chain, which may lead to shortages and lack of critical materials, commodities and products in the market;
- potential appreciation of the U.S. dollar;
- increase in interest rates and inflation in the markets in which we operate, which may contribute to further increases in the prices of energy, oil and other commodities; and
- lower or negative global growth.

Any such event may increase our costs and adversely affect our business if we are not able to pass such increased costs onto our customers.

Additionally, Russia's prior annexation of Crimea, recent recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military interventions in Ukraine have led to sanctions and other penalties being levied by the United States, European Union and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic, and the so-called Luhansk People's Republic, including the agreement to remove certain Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication, or SWIFT, payment system. Additional potential sanctions and penalties have also been proposed and/or threatened. Russian military actions, the resulting sanctions and Russian counter measures or retaliatory actions (including cyberattacks and espionage) could adversely affect the global economy and financial markets and lead to further instability and lack of liquidity in capital markets.

The impact of these measures, as well as potential responses to them by Russia, is currently unknown and, while we currently didn't have any significant impact over our business we do employ approximately 220 employees in Russia and 104 employees in Ukraine and current and future measures could significantly and adversely affect our business, financial condition and results of operations, including, for example, increase in costs of exporting to Europe for our halal products, potential sanctions in the marketing of our products to Russia and threats to the safety of our employees in locations close to the conflict. Geopolitical and economic risks have also increased over the past few years as a result of trade tensions between the United States and China, Brexit, and the rise of populism. Growing tensions may lead, among others, to a deglobalization of the world economy, an increase in protectionism or barriers to immigration, a general reduction of international trade in goods and services and a reduction in the integration of financial markets, any of which could materially and adversely affect our business, financial condition, and results of operations.

We are continuing to monitor the situation in Russia, Ukraine and globally and assess its potential impact on our business. Any of the abovementioned factors could adversely affect our business, prospects, financial condition, and operating results. The extent and duration of the military action, sanctions and resulting market disruptions are impossible to predict, but could be substantial. Any such disruptions may also magnify the impact of other risks described elsewhere in this annual report.

***We are exposed to economic and market conditions that impact the communications industry.***

We provide packaged software and software services to service providers in the telecom industry, and our business may therefore be highly dependent upon conditions in that industry. Developments in the telecom industry, such as the impact of global economic conditions, industry consolidation, emergence of new competitors, commoditization of voice, video and data services and changes in the regulatory environment, at times have had, and could continue to have, a material adverse effect on our existing or potential customers. In the past, these conditions reduced the high growth rates that the communications industry had previously experienced and caused the market value, financial results and prospects and capital spending levels of many telecom companies to decline or degrade. Industry consolidation involving our customers may place us at risk of losing business to the incumbent provider to one of the parties to the consolidation or to new competitors. During previous economic downturns, the telecom industry experienced significant financial pressures that caused many in the industry to cut expenses and limit investment in capital intensive projects and, in some cases, led to restructurings and bankruptcies. Continuing uncertainty as to economic recovery in recent years may have adverse consequences for our customers and our business.

Downturns in the business climate for telecom companies have previously resulted in slower customer buying decisions and price pressures that adversely affected our ability to generate revenue. Adverse market conditions may have a negative impact on our business by decreasing our new customer engagements and the size of initial spending commitments under those engagements, as well as decreasing the level of discretionary spending by existing customers. In addition, a slowdown in buying decisions may extend our sales cycle period and may limit our ability to forecast our flow of new contracts. If such adverse business conditions arise in the future, our business may be harmed.

***As some of our revenues are derived from the Israeli government sector, a reduction of government spending in Israel on IT services may reduce our revenues and profitability; and any delay in the annual budget approval process may negatively impact our cash flows.***

We perform work for a wide range of Israeli governmental agencies and related subcontractors. Any reduction in total Israeli government spending or elimination for political or economic reasons (such as in the case of COVID-19) may reduce our revenues and profitability. In addition, the Government of Israel has experienced significant delays in the approval of its annual budget in recent years. Such delays in the future could negatively affect our cash flows by delaying the receipt of payments from the government of Israel for services performed.

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

The amount of goodwill and identifiable intangible assets on our consolidated balance sheet has increased significantly over the last five years from approximately \$147 million as of December 31, 2016 to \$198 million as of December 31, 2021 because of our acquisitions and may increase further following future acquisitions. We regularly review our long-lived assets, including identifiable intangible assets and goodwill, for impairment. Goodwill and indefinite life intangible assets are subject to impairment review at least annually. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Impairment testing under U.S. GAAP, subject to downturns in our operating results and financial condition, may lead to impairment charges in the future. Any significant impairment charges could have a material adverse effect on our results of operations.

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

We have experienced rapid growth during recent years, through both acquisitions and organically. The number of our employees over the last five years increased from 1,699 as of December 31, 2016 to 3,677 as of December 31, 2021 and may increase further as we aim to enhance our businesses. This increase may significantly strain our management and other operational and financial resources. In particular, continued headcount growth increases the integration challenges involved in:

- Recruiting, training and retaining skilled technical, marketing and management personnel;
- Maintaining high quality standards;

- Preserving our corporate culture, values and entrepreneurial environment;
- Developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal controls; and
- Maintaining high levels of customer satisfaction;

The rapid execution necessary to exploit the market for our business model requires an effective planning and management process. Our systems, procedures or controls may not be adequate to support the growth in our operations, and our management may not be able to achieve the rapid execution necessary to exploit the market for our business model. Our future operating results will also depend on our ability to expand our development, sales and marketing organizations. If we are unable to manage growth effectively, our profitability will likely decline.

***Changes in the ratio of our revenues generated from different revenue elements may adversely affect our gross profit margins.***

We derive our revenues from the sale of software licenses, related professional services, maintenance and technical support as well as from other IT professional services. In recent years the decline in our gross margin was mainly affected by the change in proportion of our revenues generated from the sale of each of those elements of our revenues. Our revenues from the sale of our software licenses, related professional services, maintenance and technical support have significantly higher gross margins than our revenues from IT professional and outsourcing services. Our software licenses revenues also include the sale of third-party software licenses, which have a lower gross margin than sales of our proprietary software products. Any increase in the portion of third-party software license sales out of total license sales will decrease our gross profit margin. If the relative proportion of our revenues from the sale of IT professional services continues to increase as a percentage of our total revenues, our gross profit margins may continue to decline in the future.

***We may encounter difficulties with our international operations and sales that could adversely affect our business, results of operations and financial condition.***

While our principal executive offices are located in Israel, 62%, 60% and 62% of our sales in the years ended December 31, 2019, 2020 and 2021, respectively, were generated in other regions and countries including, but not limited to the Americas, Europe, Japan, Asia-Pacific, India, and Africa. Our success in becoming a stronger competitor in the sale of development application platforms, integration solutions, packaged software solutions and professional services is dependent upon our ability to increase our sales in all our markets. Our efforts to increase our penetration into these markets are subject to risks inherent to such markets, including the high cost of doing business in such locations. Our efforts may be costly and they may not result in profits, which could adversely affect our business, results of operations and financial condition.

Our current international operation and our plans to further expand our international operations subjects us to many risks inherent to international business activities, including:

- Limitations and disruptions resulting from the imposition of government controls;
- Compliance with a wide variety of foreign regulatory standards;
- Compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, particularly in emerging market countries;
- Import and export license requirements, tariffs, taxes and other trade barriers;
- Political, social and economic instability abroad, terrorist attacks and security concerns in general. For example, our operations in India may be adversely affected by future political and other events in the region;
- Trade restrictions;

- Changes in tariffs;
- Increased exposure to fluctuations in foreign currency exchange rates;
- Complexity in our tax planning, and increased exposure to changes in tax regulations in various jurisdictions in which we operate, which could adversely affect our operating results and limit our ability to conduct effective tax planning;
- Increased financial accounting and reporting requirements and complexities;
- Weaker protection of intellectual property rights in some countries;
- Greater difficulty in safeguarding intellectual property;
- Increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- Longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;
- The need to localize our products and licensing programs for international customers;
- Lack of familiarity with and unexpected changes in foreign regulatory requirements;
- The burden of complying with a wide variety of foreign laws and legal standards;
- The potential worsening of the coronavirus outbreak on a global scale, which may cause customers to cancel projects with us, prevent potential future opportunities for our business and harm our ability to maintain a healthy workforce that can implement our services and solutions offerings; and
- Multiple and possibly overlapping tax regimes.

As we continue to expand our business globally, our success will depend, largely, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

***Our international operations expose us to risks associated with fluctuations in currency exchange rates that could adversely affect our business.***

Our financial statements are stated in U.S. dollars, our functional currency. However, in the years ended December 31, 2019, 2020 and 2021, approximately 51%, 52% and 47% of our revenues, respectively, were derived from sales outside the United States, particularly, Israel, Europe, Japan and Asia-Pacific, and Africa. We also maintain substantial non-U.S. dollar balances of assets, including cash and accounts receivable, and liabilities, including accounts payable and debts to banks and financial institutions. Similarly, a significant portion of our expenses, primarily salaries, related personnel expenses, subcontractors expenses, interest expenses and the leases of our offices and related administrative expenses, were incurred outside the United States. Therefore, fluctuations in the value of the currencies in which we do business relative to the U.S. dollar, primarily NIS, euros and Japanese yen, may adversely affect our business, results of operations and financial condition, by decreasing the U.S. dollar value of assets held in other currencies and increasing the U.S. dollar amount of liabilities payable in other currencies, or by decreasing the U.S. dollar value of our revenues in other currencies and increasing the U.S. dollar amount of our expenses in other currencies. Even if we use derivatives or engage in any currency-hedging transactions intended to reduce the effect of fluctuations of foreign currency exchange rates on our financial position and results of operations, there can be no assurance that any such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected.

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

Cyber-attacks or other breaches of network or IT security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access, which could also impact the operation of our products and services. The potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other competitors in the defense electronics market. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. We have experienced and defended against certain threats to our systems and security (such as phishing attempts), none of which have had a material adverse effect on our business or operations to date. However, we could incur significant costs in order to investigate and respond to future attacks, to respond to evolving regulatory oversight requirements, to upgrade our cybersecurity systems and controls, and to remediate security compromise or damage. In response to past threats and attacks, we have implemented further controls and planned for other preventative actions to further strengthen our systems against future attacks. However, we cannot assure you that such measures will provide absolute security, that we will be able to react in a timely manner, or that our remediation efforts following past or future attacks will be successful. Consequently, our financial performance and results of operations would be materially adversely affected.

Maintaining the security of our products, computers and networks is a critical issue for our customers and us. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures. In addition, hackers also develop and deploy viruses, worms and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Additionally, outside parties may attempt to fraudulently induce our employees or users of our products to disclose sensitive information in order to gain access to our data or our customers' data. These potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability or fines for us, damage our brand and reputation or otherwise harm our business. These risks are persistent and likely will increase as we continue to grow our cloud offerings and services and store and process increasingly large amounts of our customers' confidential information and data. We also may acquire companies, products, services and technologies and inherit such risks when we integrate these acquisitions within our company. Further, as regulatory focus on privacy issues continues to increase and become more complex, these potential risks to our business will intensify. Changes in laws or regulations associated with the enhanced protection of certain types of sensitive data could greatly increase our cost of providing our products and services.

Outside parties have furthermore in the past, and may also in the future, attempt to fraudulently induce our employees to disclose sensitive, personal or confidential information via illegal electronic spamming, phishing or other tactics. This existing risk has somewhat increased given the COVID-19 pandemic, as we shifted a portion of our workforce to more frequent work-from-home arrangements. Unauthorized parties may also attempt to gain physical access to our facilities in order to infiltrate our information systems or attempt to gain logical access to our products, services, or information systems for the purpose of exfiltrating content and data. These actual and potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees or our customers to a risk of loss or misuse of this information. This may result in litigation and liability or fines, our compliance with costly and time-intensive notice requirements, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our business or damage our brand and reputation, thereby requiring time and resources to mitigate these impacts.

We have invested in advanced detection, prevention and proactive systems to reduce these risks and we believe that our level of protection is in keeping with the industry standards of peer technology companies. We also maintain a disaster recovery solution, as a means of assuring that a breach or cyber attack does not necessarily cause the loss of our information. We furthermore review our protections and remedial measures periodically in order to ensure that they are adequate. We devote resources to address security vulnerabilities through enhancing security and reliability features in our systems, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities, providing resources such as mandatory security training for our workforce and improving our incident response time, but security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our operating margins.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our preventative measures will be successful in preventing compromise and/or disruption of our information technology systems and related data. We furthermore cannot be certain that our remedial measures will fully mitigate the adverse financial consequences of any cyber-attack or incident. If we do not make the appropriate level of investment in our technology systems or if our systems become out-of-date or obsolete and we are not able to deliver the quality of data security that meet our independent security control certification requirements, our business could be adversely affected.

***Security vulnerabilities in our software solutions could lead to reduced revenue or to liability claims.***

Maintaining the security of the software solutions and related services that we offer is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate our customers' end points, information systems and network security measures. Cyber threats are constantly evolving and becoming increasingly sophisticated and complex, making it increasingly difficult to detect and successfully defend against them. Unauthorized parties have, in the past, infiltrated our internal IT systems, gaining access to certain proprietary information. If they were to similarly breach the security related to, and misuse, software solutions that we offer, they might access the authentication, payment and personal information of our customers. In addition, cyber-attackers (which may include individuals or groups, as well as sophisticated groups such as nation-state and state-sponsored attackers, who can deploy significant resources to plan and carry out exploits) also develop and deploy viruses, worms, credential stuffing attack tools and other malicious software programs, some of which may be specifically designed to attack the solutions and services that we offer.

Software and operating system applications that we develop have contained and may contain defects in design or manufacture, including bugs, vulnerabilities and other problems that could unexpectedly compromise the security of the software or impair a customer's ability to operate or use our solutions. The costs to prevent, eliminate, mitigate, or alleviate cyber-attacks or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems, including notifying affected parties, may not be successful or may be delayed and could result in interruptions, delays, cessation of service and loss of existing or potential customers. It is impossible to predict the extent, frequency or impact these problems may have on us.

Actual and potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose our customers to a risk of loss or misuse of this information. This may result in litigation and liability or fines, our compliance with costly and time-intensive notice requirements, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our business or damage our brand and reputation, thereby requiring time and resources to mitigate these impacts.

From time to time we have identified, and in the future we may identify other, vulnerabilities in some of our solutions and services. We devote significant resources to address security vulnerabilities through engineering more secure solutions, enhancing security and reliability features in our solutions and services, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities, regularly reviewing our solutions' security controls, reviewing and auditing our solutions against independent security control frameworks (such as ISO 27001, SOC 2 and PCI), providing resources such as security training for our customers' workforces and improving our incident response time, but security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our operating margins, and we may be unable to implement these measures quickly enough to prevent cyber-attackers from gaining unauthorized access into our solutions. Despite our preventative efforts, actual or perceived security vulnerabilities in our solutions may harm our reputation or lead to claims against us (and have in the past led to such claims) and could lead some customers to stop using certain systems or services, to reduce or delay future purchases of solutions or services, or to use competing solutions or services. If we do not make the appropriate level of investment in our solutions or if our solutions become out-of-date or obsolete and we are not able to deliver the quality of data security our customers require, our business could be adversely affected. Customers may also adopt security measures designed to protect their existing computer systems from attack, which could delay their adoption of our new solutions. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks and implementation of preventative measures could adversely affect our financial results, share price and reputation.



***Regulation of the internet and telecommunications, privacy and data security may adversely affect sales of our products and result in increased compliance costs.***

As internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies and industry groups becomes more likely. For example, we believe increased regulation is likely with respect to the solicitation, collection, processing or use of personal, financial and consumer information as regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, privacy and data security. In addition, the interpretation and application of consumer and data protection laws and industry standards in the United States, Europe and elsewhere are often uncertain and in flux.

Many jurisdictions continue to consider the need for greater regulation or reform to the existing regulatory framework. In the U.S., all 50 states have now passed laws to regulate the actions that a business must take in the event of a data breach, such as prompt disclosure and notification to affected users and regulatory authorities. In addition to the data breach notification laws, some states have also enacted statutes and rules requiring businesses to reasonably protect certain types of personal information they hold or to otherwise comply with certain specified data security requirements for personal information. The U.S. federal and state governments will likely continue to consider the need for greater regulation aimed at restricting certain uses of personal data for targeted advertising. Additionally, California recently enacted the California Consumer Privacy Act, or CCPA, it creates new individual privacy rights for consumers (as that word is broadly defined in the law) and places increased privacy and security obligations on entities handling personal data of consumers or households. The CCPA, which went into effect on January 1, 2020, requires covered companies to provide new disclosures to California consumers, and provides such consumers new ways to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., which could increase our potential liability and adversely affect our business.

In particular, our European activities are subject to the European Union General Data Protection Regulation, or GDPR, which create additional compliance requirements for us. GDPR broadens the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches within 72 hours and be bound by more stringent rules for obtaining the consent of individuals on how their data can be used. GDPR took effect on May 25, 2018 and non-compliance may expose entities such as our company to significant fines or other regulatory claims. While we have invested in, and intend to continue to invest in, reasonably necessary resources to comply with these new standards, to the extent that we fail to adequately comply, that failure could have an adverse effect on our business, financial conditions, results of operations and cash flows.

In China, the PRC Cybersecurity Law, which became effective in June 2017, leaves substantial uncertainty as to the circumstances and standard under which the law would apply and violations would be found.

The application of existing laws to cloud-based solutions is particularly uncertain and cloud-based solutions may be subject to further regulation, the impact of which cannot be fully understood at this time. Moreover, these laws may be interpreted and applied in a manner that is inconsistent with our data and privacy practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data and privacy practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, any new regulation, or interpretation of existing regulation, imposing greater fees or taxes on internet-based services, or restricting information exchange over the Web, could result in a decline in the use and adversely affect sales of our products and our results of operations.

***Errors or defects in our software solutions could inevitably arise and would harm our profitability and our reputation with customers, and could even give rise to claims against us.***

The quality of our solutions, including new, modified or enhanced versions thereof, is critical to our success. Since our software solutions are complex, they may contain errors that cannot be detected at any point in their testing phase. While we continually test our solutions for errors or defects and work with customers to identify and correct them, errors in our technology may be found in the future. Testing for errors or defects is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use, and our solutions themselves are increasingly complex. Errors or defects in our technology have resulted in terminated work orders and could result in delayed or lost revenue, diversion of development resources and increased services, termination of work orders, damage to our brand and warranty and insurance costs in the future. In addition, time-consuming implementations may also increase the number of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

In addition, since our customers rely on our solutions to operate, monitor and improve the performance of their business processes, they are sensitive to potential disruptions that may be caused by the use of, or any defects in, our software. As a result, we may be subject to claims for damages related to software errors in the future. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Regardless of whether we prevail, diversion of key employees' time and attention from our business, the incurrence of substantial expenses and potential damage to our reputation might result. While the terms of our sales contracts typically limit our exposure to potential liability claims and we carry errors and omissions insurance against such claims, there can be no assurance that such insurance will continue to be available on acceptable terms, if at all, or that such insurance will provide us with adequate protection against any such claims. A significant liability claim against us could have a material adverse effect on our business, results of operations and financial position. Our standard license agreement with our customers contains provisions designed to limit our exposure to potential product liability claims that may not be effective or enforceable under the laws of some jurisdictions. In addition, the professional liability insurance that we maintain may not be sufficient against potential claims. Accordingly, we could fail to realize revenues and suffer damage to our reputation as a result of, or in defense of, a substantial claim.

***Third parties have in the past, and may in the future, claim that we infringe upon their intellectual property rights and such claims could harm our business.***

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure you that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation or result in us being unable to use certain intellectual property. We cannot assure you that we are not infringing or otherwise violating any third-party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

Any intellectual property infringement or misappropriation claim or assertion against us, our customers or partners, and those from whom we license technology and intellectual property could have a material adverse effect on our business, financial condition, reputation and competitive position regardless of the validity or outcome. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed on a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Any of these events could seriously harm our business, results of operations and financial condition. In addition, any lawsuits regarding intellectual property rights, regardless of their success, could be expensive to resolve and divert the time and attention of our management and technical personnel.

***Although we apply measures to protect our intellectual property rights and our source code, there can be no assurance that the measures that we employ to do so will be successful.***

In accordance with industry practice, since we have no registered patents on our software solution technologies, we rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, copyright protection is less significant than factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services. We seek to protect the source code of our products as trade secret information and as unpublished copyright works. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, while we attempt to protect trade secrets and other proprietary information through non-disclosure agreements with employees, consultants and distributors, not all of our employees have signed invention assignment agreements. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful. Our failure to protect our rights, or the improper use of our products by others without licensing them from us could have a material adverse effect on our results of operations and financial condition.

***We and our customers rely on technology and intellectual property of third-parties, the loss of which could limit the functionality of our products and disrupt our business.***

We use technology and intellectual property licensed from unaffiliated third-parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. The loss of the right to license and distribute this third-party technology could limit the functionality of our products and might require us to redesign our products.

Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use and distribute, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations.

***We could be required to provide the source code of our products to our customers.***

Some of our customers have the right to require the source code of our products to be deposited into a source code escrow. Under certain circumstances, our source code could be released to our customers. The conditions triggering the release of our source code vary by customer. A release of our source code would give our customers access to our trade secrets and other proprietary and confidential information that could harm our business, results of operations and financial condition. A few of our customers have the right to use the source code of some of our products based on the license agreements signed with such clients (mostly with respect to older versions of our solutions), although such use is limited for specific matters and cases, these clients are exposed to some of our trade secrets and other proprietary and confidential information which could harm us.

***Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.***

Some of our services and technologies may incorporate software licensed under so-called “open source” licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

***Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.***

We generally enter into non-competition agreements with our employees. These agreements prohibit our employees from competing directly with us or working for our competitors or clients for a limited period after they cease working for us. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work and it may be difficult for us to restrict our competitors from benefiting from the expertise that our former employees or consultants developed 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 the protection of its intellectual property. If we cannot demonstrate that such interests will be harmed, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or consultants and our ability to remain competitive may be diminished.

***Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.***

As a multinational corporation, we are subject to income taxes, withholding taxes and indirect taxes in numerous jurisdictions worldwide. Significant judgment and management attention and resources are required in evaluating our tax positions and our worldwide provision for taxes. In the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles and interpretations. This may include recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, changes in foreign currency exchange rates, or changes in the valuation of our deferred tax assets and liabilities.

We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. If we experience unfavorable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made. Additionally, we are subject to transfer pricing rules and regulations, including those relating to the flow of funds between us and our affiliates, which are designed to ensure that appropriate levels of income are reported in each jurisdiction in which we operate.

***Certain of our credit facility agreements with banks and other financial institutions are subject to a number of restrictive covenants that, if breached, could result in acceleration of our obligation to repay our debt.***

In the context of our engagements with banks and other financial institutions for receiving various credit facilities, we have undertaken to maintain a number of conditions and limitations on the manner in which we can operate our business, including a negative pledge and limitations on our ability to distribute dividends. These credit facilities agreements also contain various financial covenants that require us to maintain certain financial ratios related to shareholders' equity, total rate of financial liabilities and minimum outstanding balance of total cash and short-term investments. These limitations and covenants may force us to pursue less than optimal business strategies or forego business arrangements that could have been financially advantageous to us and, by extension, to our shareholders. A breach of the restrictive covenants could result in the acceleration of our obligations to repay our debt. As of December 31, 2021, we were in compliance with all of our financial covenants to banks and other financial institutions. See Note 12 to our consolidated financial statements for additional information on liabilities to banks and other financial institutions.

***Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance, or ESG, policies may impose additional costs on us or expose us to additional risks.***

Companies across all industries are facing increasing scrutiny relating to their ESG policies. Investors, lenders and other market participants are increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. The increased focus and activism related to ESG may hinder our access to capital, as investors and lenders may reconsider their capital investment allocation as a result of their assessment of our ESG practices. If we do not adapt to or comply with investor, lender or other industry shareholder expectations and standards, which are evolving, or if we are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition and the price of our company's shares could be materially and adversely affected.

***If we are unable to maintain effective internal control over financial reporting in accordance with Sections 302 and 404(a) of the Sarbanes-Oxley Act of 2002, the reliability of our financial statements may be questioned and our share price may suffer.***

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and on our executives and directors. To comply with this statute, we are required to document and test our internal control over financial reporting, and our independent registered public accounting firm must issue an attestation report on our internal control procedures, and our management is required to assess and issue a report concerning our internal control over financial reporting. Our efforts to comply with these requirements have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal controls over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities, and could adversely affect our operating results, investor confidence in our reported financial information and the market price of our Ordinary Shares.

#### **Risks Related to Our Ordinary Shares**

***Our Ordinary Shares are traded on more than one market and this may result in price variations.***

Our Ordinary Shares are traded primarily on the NASDAQ Global Select Market and on the TASE. Trading of our Ordinary Shares on these markets is made in different currencies (U.S. dollars on the NASDAQ Global Select Market and NIS 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 may differ. 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.

***There is a relatively limited trading volume for our shares, which reduces liquidity for our shareholders, and may cause the share price to be volatile, all of which may lead to losses by investors.***

There has historically been limited trading volume in our Ordinary Shares, both on the NASDAQ Global Select Market and the TASE, which results in reduced liquidity for our shareholders. As a further result of the limited volume, our Ordinary Shares have experienced significant market price volatility in the past and may experience significant market price and volume fluctuations in the future, in response to factors such as announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results and general conditions in the industry in which we compete.

***We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting company, which reduces the level and amount of disclosure that you receive.***

As a foreign private issuer under the Exchange Act, we are exempt from certain rules under the Exchange Act, including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act; and are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our Ordinary Shares. Accordingly, you receive less information about our company than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

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

***As of April 1, 2022 our controlling shareholder, Formula Systems (1985) Ltd., beneficially owns approximately 45.58% of our outstanding Ordinary Shares and therefore has a controlling influence over matters requiring shareholder approval, which could delay or prevent a change of control that may benefit our public shareholders.***

Formula Systems (1985) Ltd., or Formula Systems (symbol: FORTY), an Israeli company whose shares trade on the NASDAQ Global Select Market and the TASE, directly owned 22,374,434 or 45.58%, of our outstanding Ordinary Shares as of April 1, 2022. Asseco Poland S.A., or Asseco, a Polish company listed on Warsaw Stock Exchange, owns 25.6% of the outstanding shares of Formula Systems. Guy Bernstein, our Chief Executive Officer who is also the Chief Executive Officer of Formula Systems, owns as of April 1, 2022 approximately 11.74% of the outstanding shares of Formula Systems. In addition, on October 4, 2017 Asseco entered into a shareholders agreement, which was amended on September 7, 2020, with Mr. Bernstein, under which agreement Asseco has been granted an irrevocable proxy to vote an additional 1,797,973 Ordinary Shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 37.3% of Formula’s outstanding ordinary share. Therefore, based on the foregoing beneficial ownership by each of Formula and Asseco, each of Formula and Asseco may be deemed to directly or indirectly (as appropriate) control us.

Although transactions between us and our controlling shareholders are subject to special approvals under Israeli law, Formula and Asseco may exercise their controlling influence over our operations and business strategy and use their sufficient voting power to control the outcome of various matters requiring shareholder approval. These matters may include:

- The composition of our board of directors, which has the authority to direct our business and to appoint and remove our officers;
- Approving or rejecting a merger, consolidation or other business combination;
- Raising future capital; and
- Amending our Articles, which govern the rights attached to our Ordinary Shares.

This concentration of ownership of our Ordinary Shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our Ordinary Shares that might otherwise give one the opportunity to realize a premium over the then-prevailing market price of our Ordinary Shares. This concentration of ownership may also adversely affect our share price.

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

U.S. holders of our Ordinary Shares may face income tax risks. Based on the composition of our income, assets (including the value of our goodwill, going-concern value or any other unbooked intangibles, which may be determined based on the price of the ordinary shares), and operations, we believe we will not be classified as a “passive foreign investment company”, or PFIC, for the 2021 taxable year. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our current taxable year or future taxable years until after the close of the applicable taxable year. Moreover, we must determine our PFIC status annually based on tests that are factual in nature, and our status in the current year and future years will depend on our income, assets and activities in each of those years and, as a result, cannot be predicted with certainty as of the date hereof. Furthermore, fluctuations in the market price of our ordinary shares may cause our classification as a PFIC for the current or future taxable years to change because the aggregate value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, generally will be determined by reference to the market price of our shares from time to time (which may be volatile). The IRS or a court may disagree with our determinations, including the manner in which we determine the value of our assets and the percentage of our assets that are passive assets under the PFIC rules. Therefore, there can be no assurance that we will not be a PFIC for the current taxable year or for any future taxable year. Our treatment as a PFIC could result in a reduction in the after-tax return to U.S. Holders (as defined below under Item 10E. “Additional Information – Taxation”) of our Ordinary Shares and would likely cause a reduction in the value of such shares. A foreign corporation will be treated as a PFIC for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of “passive income,” or (2) at least 50% of the average value of the corporation’s gross assets produce, or are held for the production of, such “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. If we are treated as a PFIC, U.S. Holders of Ordinary Shares would be subject to a special adverse U.S. federal income tax regime with respect to the income derived by us, the distributions they receive from us, and the gain, if any, they derive from the sale or other disposition of their Ordinary Shares. U.S. Holders should carefully read Item 10E. “Additional Information – Taxation” for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our Ordinary Shares.

***We have a history of quarterly fluctuations in our results of operations and expect these fluctuations to continue.***

We have experienced, and in the future may continue to experience, significant fluctuations in our quarterly results of operations. Factors that may contribute to fluctuations in our quarterly results of operations include:

- The size and timing of orders;
- The high level of competition that we encounter;

- The timing of our products introductions or enhancements or those of our competitors or of providers of complementary products;
- Market acceptance of our new products, applications and services;
- The purchasing patterns and budget cycles of our customers and end-users;
- The mix of product sales;
- Fluctuations in currency exchange rates;
- General economic conditions; and
- The integration of newly acquired businesses.

Our customers ordinarily require the delivery of our license software solutions promptly after we accept their orders. With the exception of contracts for services and packaged software solution projects, which normally would extend between nine to eighteen months, we usually do not have a backlog of orders for our products. Consequently, revenues from our products in any quarter depend on orders received and products provided by us and accepted by the customers in that quarter. A deferral in the placement and acceptance of any large order from one quarter to another or from one year to another could adversely affect our results of operations for the respective quarter or year. Our customers sometimes require an acceptance test for services and packaged software solutions projects we provide and as a result, we may have a significant backlog of orders arising from those services and projects. Our revenues from services depend on orders received and services provided by us and accepted by our customers in that quarter. If sales in any quarter or year do not increase correspondingly or if we do not reduce our expenses in response to level or declining revenues in a timely fashion, our financial results for that period may be adversely affected. For these reasons, quarter-to-quarter comparisons of our results of operations are not necessarily meaningful and you should not rely on the results of our operations in any particular quarter as an indication of future performance.

#### **Risks Related to Our Location in Israel**

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

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

Conflicts in North Africa and the Middle East, including in Egypt and Syria that border Israel, have resulted in continued political uncertainty and violence in the region. Efforts to improve Israel's relationship with the Palestinian Authority have failed to result in a permanent solution, and there have been numerous periods of hostility in recent years. In addition, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran's nuclear program. Such instability may affect the economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect our business, financial condition and results of operations in the future.

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



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

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

***We currently have the ability to benefit from certain government tax benefits, which may be cancelled or reduced in the future.***

We are currently eligible to receive certain tax benefits under programs of the Government of Israel. In order to maintain our eligibility for these tax benefits, we must continue to meet specific requirements. If we fail to comply with these requirements in the future, such tax benefits may be cancelled.

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

We are organized in Israel and some of our directors and executive officers reside outside the United States. Service of process upon them may be difficult to effect within the United States. Furthermore, most of our assets and the assets of some of our executive officers are located outside the United States. Therefore, a judgment obtained against us or any of them in the United States, including one based on the civil liability provisions of the U.S. federal securities laws may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to assert U.S. securities law claims in original actions instituted in Israel.

***Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.***

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. These provisions of Israeli corporate and tax law may have the effect of delaying, preventing or complicating a merger with, or other acquisition of, us. This could cause our Ordinary Shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

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

We are organized under Israeli law. The rights and responsibilities of holders of our Ordinary Shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes at the general meeting with respect to, among other things, amendments to a company's articles of association, compensation policy, increases in a company's authorized share capital, mergers and actions and transactions involving interests of officers, directors or other interested parties which require the shareholders' general meeting's approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that he or she possesses the power to determine the outcome of a vote at a meeting of our shareholders, or who has, by virtue of the company's articles of association, the power to appoint or prevent the appointment of an office holder in the company, or any other power with respect to the company, has a duty of fairness toward the company. The Israeli Companies Law does not establish criteria for determining whether or not a shareholder has acted in good faith.

## ITEM 4. INFORMATION ON THE COMPANY

### A. HISTORY AND DEVELOPMENT OF THE COMPANY

#### Corporate details

Our legal and commercial name is Magic Software Enterprises Ltd. We were organized and registered in Israel on February 10, 1983 and began operations in 1986. We are a public limited liability company and operate under the provisions of the state of Israel. Our Ordinary Shares have been listed on the NASDAQ Global Stock Market (symbol: MGIC) since our initial public offering in the United States on August 16, 1991. On January 3, 2011, our shares were transferred to the NASDAQ Global Select Market. Since November 16, 2000, our Ordinary Shares have also traded on the Tel Aviv Stock Exchange, or the TASE, and since December 15, 2011, our shares have been included in the TASE TA-125 Index.

#### *Capital Transactions since January 1, 2019*

On February 28, 2019, we acquired OnTarget Group Inc. (“OnTarget”), a U.S. based full-services provider of software development services, for a total consideration of \$12.5 million of which \$6.0 million was paid upon closing with 1.0 million deferred and paid on the six month anniversary following the closing with the remaining \$.5 million paid on the fifteen month anniversary following the closing and the remaining amount constitutes a contingent payment depending on the future operating results achieved by OnTarget between 2019 and 2022. Based on OnTarget’s operating results between 2019 and 2021 we expect total purchase price to amount to approximately \$19.6 million. Further to the \$6.5 million paid in 2019, we paid \$1.0 million in 2020, \$1.0 million in 2021 and \$2.0 million in 2022.

On April 1, 2019 we acquired PowWow Inc (“PowWow”), creator of SmartUX™, a leading Low-Code development platform for mobilizing and modernizing enterprise business applications, for a total estimated consideration of \$8.4 million, out of which \$2 million is contingent on the future revenues achieved by PowWow between 2020 and 2023. During 2020, we reversed the entire contingent amount as it became apparent that PowWow would not meet its revenue targets.

On June 30, 2019, we acquired NetEffects Inc (“NetEffects”), a U.S. based full-services company, specializes in IT staffing and recruiting, for a total consideration of \$12.5 million, of which \$9.4 million was paid upon closing and the remaining \$3.1 million was payable in two equal installments following the first and second year anniversaries. We paid \$1.55 million in 2020 and in 2021 we settled the remainder of the consideration.

On January 1, 2020, we acquired an additional 20.05% interest in our subsidiary, Roshtov Software Industries Ltd (“Roshtov”), an Israeli-based software company that is a market leader in Israel in patient record information systems, for a total cash consideration of approximately \$15 million, which was paid upon closing. We currently hold 80.05% of Roshtov. We and the sellers hold mutual call and put options for the remaining 19.95% interest in Roshtov.

On April 15, 2020, we acquired an additional 10.17% interest in our subsidiary Comblack IT Ltd. (“Comblack”), an Israeli-based company that specializes in software professional and outsource management services for mainframes and complex large-scale environments, for a total cash consideration of approximately \$3.6 million, of which \$3 million was paid upon closing and the remainder is payable over a period of up to 18 months. In addition to the cash consideration, we have in place a contingent consideration mechanism according to which an additional amount may be paid in the event Comblack meets certain income thresholds. In April 2022, based on Comblack operating results in 2020 and 2021, we paid an additional \$1.7 million as final consideration with respect to the contingent consideration. We currently hold an 80.2% stake in Comblack. Comblack holds a put option in respect to its remaining 19.8% holding.

On May 7, 2020, we acquired Aptonet Inc (“Aptonet”), a U.S.-based services company, specializes in IT staffing and recruiting, for a total consideration of \$4.663 million of which \$ 3.663 million was paid upon closing and the remaining \$ 1.0 million was payable in two installments, six and twelve months following the closing date. During 2020 and 2021, we paid the remainder of the consideration in two equal installments of \$0.5 million each.

On September 2, 2020, we acquired Stockell Information Systems, Inc (“Stockell”), a U.S.-based services company, specializes in IT staffing and recruiting, for a total consideration of \$7.714 million, of which \$ 6.265 million was paid upon closing and the remaining \$ 1.449 million was payable twelve months following the closing date. In December 2021, following the discovery of a few discrepancies in the sellers’ disclosures, we paid \$0.76 million as final consideration to settle the remainder of the purchase price.

On January 1, 2021, we, through one of our Israeli subsidiaries, acquired 60% of the shares of 9540 Y.G. Soft IT Ltd. (“Soft IT”), an Israel-based services company which specializes in outsourcing of software development services for a total consideration of up to \$1.1 million. We paid \$0.4 million upon closing, \$0.3 million was paid on July 4, 2021, and the remaining amount of \$0.4 million constitutes a contingent payment depending on the future operating results of IT Soft. The fair value of the contingent consideration amounted to \$0.5 million as of the acquisition date. We and Soft IT minority shareholder hold mutual call and put options for the remaining 40% interest.

On April 1, 2021, we acquired EnableIT, LLC and its subsidiary (“EnableIT”), a U.S.-based services company, specializing in IT staffing and recruiting, for a total consideration of \$6.0 million, of which \$4.0 million was paid upon closing and the remaining \$2.0 million was payable in two equal installments in April 1, 2022 (which was paid on time) and April 1, 2023.

Also on April 1, 2021, we acquired Menarva Ltd. (“Menarva”), an Israeli-based services company which specializes in software solutions for non-profit organizations for a total estimated consideration of up to \$5.594 million, of which, \$3.0 million was paid upon closing, with the remaining \$2.594 million payable in two equal installments on April 1, 2022 and 2023, contingent upon the operational results of Menarva. On March 31, 2022, we paid an amount of \$1.1 million.

On December 2, 2021, we entered into a share purchase agreement to acquire 50.1% of the outstanding share capital of Vidstart Ltd. (“Vidstart”). Vidstart is a provider of a video advertising platform that offers personalized automated methods and real-time smart optimization, helping its clients achieve high yields in the competitive digital ecosystem. The final closing and execution of the Vidstart Agreement occurred on January 27, 2022. The total purchase price was approximately \$11 million in cash. Furthermore, we are obliged to purchase the remainder of Vidstart’s shares (30% on December 31, 2022 and 19.9% on December 31, 2023) for a price contingent on Vidstart’s future operating results during 2022 and 2023.

Our fixed assets capital expenditures for the years ended December 31, 2019, 2020 and 2021 were approximately \$ 1.4 million, \$ 2.8 million, and \$ 1.4 million, respectively. These expenditures were principally for network equipment and computer hardware, as well as for vehicles, furniture, office equipment and leasehold improvements.

## **B. BUSINESS OVERVIEW**

Our legal and commercial name is Magic Software Enterprises Ltd., and we were organized and registered in Israel on February 10, 1983 and began operations in 1986. We are a global provider of: (i) software services and Information Technologies (“IT”) outsourcing software services; (ii) proprietary application development and business process integration platforms; (iii) selected packaged vertical software solutions, as well as (iv) cloud based services for end to end digital transformation.

Our software technology is used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, our technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. We also provide selected verticals with a complete software solution and return on investment.

Based on our technological capabilities and our specialists, we enable our clients to respond to rapidly evolving market needs and regulatory changes, while improving the efficiency of their core operations. We have approximately 3,677 employees, who serve our clients at any given time and whose skills and specialization are a significant source of competitive differentiation. We operate through a network of over 3,000 independent software vendors, or ISVs, who we refer to as Magic Software Providers, or MSPs, and hundreds of system integrators, distributors, resellers, and consulting and OEM partners. Thousands of enterprises in approximately 50 countries use our products and services.

### **Our software technology platforms**

Organizations across all industries are digitally transforming by leveraging software to automate and optimize mission critical operations, enhance customer experiences, and drive competitive differentiation. Historically, organizations have principally relied on off-the-shelf packaged software and custom software solutions to operationalize and automate their businesses. Packaged software often fails to address unique use cases or to enable differentiation. It also requires organizations to adapt their business (processes, systems of record, etc.) to the software package, as opposed to adapting the software to their unique business needs. While traditional custom software solutions can be differentiated and tailored to meet strategic objectives, development requires a long, iterative, and cumbersome process, as well as costly integration that relies on scarce developer talent. We enable organizations to differentiate themselves from their competition through software-enabled digital transformation.

Throughout our history, we have traditionally maintained two major lines of products, one is our application development platform, which today is known as Magic xpa Application Platform, an evolution of our original metadata-based development platform; and the second is our application integration platform, Magic xpi Integration Platform, originally introduced in 2003 under the name iBOLT. In December 2011, we acquired the AppBuilder development platform of BluePhoenix Solutions Ltd., a leading provider of value-driven legacy IT modernization solutions. AppBuilder is a comprehensive application development infrastructure used by many Fortune 1000 enterprises around the world. This enterprise application development environment is a powerful, model-driven tool that enables development teams to build, deploy, and maintain large-scale, custom-built business applications. On April 2019, we acquired the SmartUX development platform of PowWow Inc., a leading Low-Code enterprise mobile development application platform for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.

Our low-code platforms employ an intuitive, visual interface and pre-built development modules that reduce the time required to build powerful and unique applications. Our platform automates the creation of forms, workflows, data structures, reports, user interfaces, and other software elements that would otherwise need to be manually coded. This functionality greatly reduces the iterative development process, allowing for real-time optimization and ultimately shortening the time it takes to design, build, and deploy applications.

Our customers leverage our technologies to apply the right automation approach for their specific use case. We believe our unified low-code platforms are a differentiator in the marketplace. We strive to deeply integrate our capabilities so that they are all interoperable and low-code making it easier and faster for our clients to address complex use cases, particularly those that involve multiple departments within an organization

Our software technology platforms consist of:

- **Magic xpa Application Platform** – a proprietary low-code application platform for developing and deploying Client Server/Mobile/Web business applications.
- **AppBuilder Application Platform** – a proprietary low-code application platform for building, deploying, and maintaining high-end, mainframe-grade business applications.
- **Magic xpi Integration Platform** – a proprietary low-code platform for application integration
- **Magic SmartUX** – a proprietary low-code enterprise mobile development application platform for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.
- **FactoryEye** – a cloud-based platform for manufacturers enabling smooth migration to Industry 4.0 smart factories. Real-time factory floor visibility and optimization is provided as part of the end-to-end visibility to maximize production performance.
- **BusinessEye** – a cloud-based platform for all verticals enabling smooth end-to-end digital transformation and full organizational business intelligence

#### **Our vertical software packages**

- **Clicks™** – offered by our Roshtov subsidiary, is a proprietary comprehensive core software solution for medical record information management systems, used in the design and management of patient-file for managed care and large-scale healthcare providers. The platform is connected to each provider clinical, administrative and financial data base system, residing at the provider's central computer, and allows immediate analysis of complex data with potentially real-time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.
- **Leap™** – offered by our FTS subsidiary, is a proprietary comprehensive core software solution for BSS, including convergent charging, billing, customer management, policy control, mobile money and payment software solutions for the telecommunications, content, Machine to Machine/Internet of Things or M2M/IoT, payment and other industries.

- **Hermes Cargo** – offered by our Hermes Logistics Technologies Ltd. subsidiary, the Hermes Air Cargo Management System is a proprietary, state-of-the-art, packaged software solution for managing air cargo ground handling. Our Hermes Solution covers all aspects of cargo handling, from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods and special handling, tracking and tracing, security and billing. Customers benefit through faster processing and more accurate billing, reporting and ultimately enhanced revenue. The Hermes Solution is delivered on a licensed or fully hosted basis. Hermes recently supplemented its offering with the Hermes Business Intelligence (HBI) solution, adding unprecedented data analysis capabilities and management-decision support tools.
- **HR Pulse** – Offered by our Pilat NAI, Inc. and Pilat Europe Ltd. subsidiaries, Pulse (now in its 10<sup>th</sup> release) is a proprietary tool for the creation of customizable HCM solutions quickly and affordably. It has been used by Pilat to create products, such as Pilat Frist and Pilat Professional, that provide “out of the box” SaaS solutions for organizations that implement Continuous Performance and/or Talent Management.
- **MBS Solution** – offered by our Complete Business Solutions Ltd. subsidiary, is a proprietary comprehensive core system for managing TV broadcast channels.
- **Nativ** – offered by our Menarva Ltd. subsidiary, is a proprietary comprehensive core system for management of rehabilitation centers.
- **Mobisale** – offered by our Mobisoft Ltd. subsidiary, is a proprietary comprehensive core system for sales and distribution field activities for consumer goods manufacturers and wholesalers.

### **Our professional software and IT services**

Our software professional services offerings include a vast portfolio of professional services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, support services, DevOps (Development & Operations), Mobile, Big Data and Analytical BI, M/F, cloud computing for deployment of highly available and massively-scalable applications and APIs and supplemental IT outsourcing services to a wide variety of companies, including Fortune 1000 companies, all in accordance with the professional expertise required in each case with our goal to create significant value for our clients in managing, streamlining, accelerating and helping their businesses thrive. The talents we provide generally supplement in-house capabilities of our customers. We have extensive and proven experience with virtually all types of telecom infrastructure technologies in wireless and wire-line as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services.

We have substantial experience in end-to-end development of high-end software solutions, beginning with collection and analysis of system requirements, continuing with architecture specifications and setup, to software implementation, component integration and testing. From concept to implementation, from application of the ideas of startups requiring the early development of an application or a device, to somewhat larger, more established enterprises, vendors or system houses who need our team of experts to take full responsibility for the development of their systems and products. With our ability to draw on our pool of resources, comprised of hundreds of highly trained, skilled, educated and flexible engineers, we adhere to timelines and budget and work in full transparency with our customers every step of the way to create a tailor-made and cost-effective solution to answer all of our customers’ unique needs.

Our IT services subsidiaries consist of:

- Coretech Consulting Group LLC
- Fusion Solutions LLC
- Xsell Resources Inc.
- AllStates Consulting Services LLC
- Futurewave Systems, Inc.
- NetEffects, Inc.

- CommIT Group
- Comblack Ltd
- Infinigy Solutions
- Shavit Software Ltd.
- OnTarget Group Inc
- Aptonet Inc
- Stockell information systems
- EnableIT LLC
- Vidstart Ltd

*Partnerships and Alliances:*

We continue to build on our existing strategic partnerships that include partnerships with Oracle, JD Edwards, SAP, Salesforce.com, Microsoft, IBM and SugarCRM to enhance our mobile, integration and cloud offerings.

In March 2018, following an extension of our partnership with Salesforce, we included new features in our Magic xpi 4.7 to make the integration between Salesforce and other systems even easier. By collaborating with Salesforce, we are significantly expanding our partners' network and maximizing our service offering to customers around the world, enabling them to better serve their customers via all channels by connecting to back-office ERP and finance applications, and streamlining business processes across numerous applications. We have reached the status of Salesforce Premier ISV partner, showing our high competence expert level, ensuring that all of our customers enterprise software is faultlessly integrated.

We are an Oracle Platinum Partner holding an Oracle Validated Integration status, a SAP Channel Gold Partner holding SAP Certified Integration status, an IBM Server Proven, and a SYSPRO business partner, among others. We appear on the Salesforce AppExchange and are a featured partner on SugarCRM's Sugar Exchange, marketplaces for apps provided by partners. We continue to update and strengthen our relationships with these major IT partners by attending partner events and by updating and certifying our Magic xpi connectors for each specific ecosystem.

In December 2018, we achieved Microsoft Gold Competency and have maintained this elite status since then. Gold Competency is Microsoft's highest level of partner certification reserved for the top one percent of Microsoft elite partners worldwide who have demonstrated expertise and proven skills with a particular Microsoft technology or service. In addition to that, we earned the Co-Sell Ready Status as a member in the Microsoft One Commercial Partner (OCP) Program, Magic xpi, which maps data, automates business processes and connects apps, databases, APIs with built-in Microsoft connectors, and Magic BusinessEye, a 100% cloud-native, microservices-based integration platform are available on the Microsoft AppSource app store and are listed on the Microsoft Azure Marketplace.

In May 2020, our CommIT Group, achieved Amazon AWS SaaS Competency status. AWS SaaS Competency is designated to help customers find top AWS consulting partners with deep specialization and experience in designing and building software-as-a-service solutions on AWS. Organizations are interested in software that is easy to use, implement, and operate. They are looking to reduce time-to-value and obtain access to innovative product features and flexible software procurement on a consumption or contractual basis. AWS SaaS Competency Partners follow Amazon Web Services (AWS) best practices for designing and building SaaS solutions through their professional services practices. To qualify for the AWS SaaS Competency designation, organizations have undergone rigorous technical validation by AWS Partner Solutions Architects and demonstrated proven customer success. In recent years, Comm-IT has successfully led, developed and produced many SaaS solutions on AWS for companies across many business sectors, including high-tech and startups, industrial and retail, and insurance and finance. Comm-IT's unique, flexible R&D model, which provides complete flexibility in determining the mix of experts, allows for full control of budgets and schedules throughout the development project. In this framework, We accompany our clients in their digital journey and in their entry into the SaaS world, providing design and build services for application environments or migration services for applications from existing models to cloud SaaS models. These processes require software architecture, construction, and software development from both Digital and SaaS, all of which take into account performance aspects, information security, scalability, infrastructure monitoring, customer experience and billing. Achieving AWS SaaS Competency status allows us to expand our business offering and even accompany the organizational change for customers who are in the process of transitioning to SaaS.

## Industry Overview

In recent years, the number of available enterprise applications has grown significantly which has led information system complexity within many organizations to a level that has obstructed business progress and evolution, reduced business agility and led to significantly higher costs. We believe this complexity will continue to increase in the future. Although it is not unusual for organizations to operate multiple applications, systems and platforms that were created utilizing disparate programming languages, the complexity of these environments typically reduces an organization's operating flexibility, hinders decision-making processes and leads to costly inefficiencies and redundancies. When organizations seek to swiftly change, update and upgrade IT assets to support new business processes or to cope with changes in business and regulatory environments, they often find that the introduction and integration of new or upgraded business applications is more complex than expected, requires significant implementation resources, takes a long time to implement and is costly. The proliferation of smartphones and mobile platforms necessitates device-independent and future-proof business solutions for fast, simple, and cost-effective mobile deployment. In addition, new cloud computing technologies present enterprises with an opportunity to realize greater agility and meaningful cost savings to businesses, creating a growing need for further changes to enterprises' IT applications and systems.

The pace of digital transformation is also accelerating at companies all around the world. Customers are increasingly demanding an all-digital experience from the companies they do business with. They seek instant gratification through real-time updates or instant customer service without having to talk to or wait for other human beings. Employees are also pushing for a more digital experience in their workplaces. The confluence of these internal and external forces is causing companies of all sizes to put digital transformation goals at the top of the agenda. It is becoming clearer that companies will need to embrace and prioritize the creation of a digital operating environment to gain a competitive edge and be able to recruit and maintain a talented employee base.

Manual coding and application development is a complex and time-consuming process with an end result that is not guaranteed. The process requires constant iteration as bugs are discovered and new features are integrated. In addition, the communication gap and general disconnect between developers and end-users are critical shortcomings of manual coding that results in business applications that are less than ideally designed. Many of these problems can be addressed by low-code and no-code development platforms. The enterprise application development software market consists of several application development sub-segments and includes large dominant players such as IBM, Microsoft, Oracle, Salesforce, HP, CA Technologies and Compuware as well as a large number of highly specialized vendors, with focused capabilities for specific vertical markets. Huge backlogs of enterprise app development work and growing demand for apps coupled with shortage and expense of skilled programmers, is increasingly leading enterprises to turn to low-code/no-code application development platforms that democratize the development process and give business users the ability to develop applications themselves with minimal or no assistance from IT. Through the adoption of business applications, these business users are increasingly looking for ways to automate manual workflows and become more efficient and effective by reallocating their time to solving more complex business problems. Even IT resources and developers are using low-code development tools to increase their development speed and reduce backlog.

Although the market for low-code development platforms is not new by any means, it has certainly started to gain more traction over the past couple of years and is expected to continue its strong growth due to continued demand for applications and a shortage of skilled developers. Low-code development is a natural evolution of rising abstraction levels in application development, which will eventually lead to viable cross-enterprise, highly scalable citizen development and composition of applications. According to market analysts spending on low-code development technologies (excluding RPA) is expected to grow from \$9.6 billion in 2020 to \$24.7 billion by 2025, at a CAGR of 21%. Based on Gartner's, Magic Quadrant for Enterprise Low Code Application Platforms, 8 August 2019, by 2024 low-code application platforms will be responsible for more than 65 percent of all application development activity and three-quarters of large enterprises will be using at least four low-code development tools for both IT application development and citizen development initiatives. The increasing need of digitalization and maturity of agile DevOps practices are expected to enhance the use of low-code development platform market across the globe. Web application is considered as a face of an organization and by using the low-code development platform organizations can roll out user-defined web-based applications quickly. Instead of writing the programming language for the development of web-based applications, employees with less development experience can also create sophisticated applications. For those who has relevant experience, this platform can ease out the daily work chores and can even help them create more custom web-based applications by integrating already existing digital ecosystems. North America has the presence of several prominent market players delivering low-code development platform and services to all end users in the region. The US and Canada both have strong economic conditions and are expected to be major contributors to the growth of the low-code development platform market. The geographical presence, significant research and development (R&D) activities, partnerships, and acquisitions and mergers are the major factors for the deployment of low-code development platform and services.

The IT services segment of the market is comprised of a broad array of specific segments such as infrastructure design and delivery, application development, technology consulting planning and implementation services, support services and supplemental outsourcing services. In addition, IT professional services include quality assurance, product engineering services and process consulting. The IT services segment is also undergoing a profound transition, with some key trends that have accelerated recently. Growing demand for mobile and cloud-based applications as well as Big Data solutions also entails more complex IT development and integration projects which management and implementation require a higher level of expertise. In addition, the typical software-based projects of IT consulting have been gradually shifting towards software and technology-driven solutions that can be embedded into clients' systems, providing ongoing engagement services. This transition has been accentuated by an underlying change in IT services sourcing processes: the need for a faster go-to-market process as well as constrained resources in IT departments is resulting in greater influence by specific business units on the purchasing decision as opposed to the traditional sourcing process. The traditional outsourcing business model of capacity on demand is also transitioning towards a model of capability on demand. Information technology service buyers are increasingly looking at outcome-driven managed services with a tighter integration between software, service and infrastructure.

We have identified the following trends that are relevant to the markets we operate in:

- **Increasingly complex business integration:** In recent years, enterprises operate multiple applications and platforms, using various programming languages, resulting in complex enterprise information systems. Such systems and the ability to swiftly change, update, and upgrade them to support new business processes are crucial to the enterprise's ability to cope with changes in the business, economic and regulatory environment. However, the introduction and integration of new business applications is complex, requires significant time and human resources and entails significant and often unpredicted costs. Therefore, enterprises are in need of solutions that will facilitate the rapid and seamless deployment of business applications.
- **Reusing IT assets/enterprise applications:** In an increasingly dynamic technology, business and economic environment, organizations face mounting pressure to continue to leverage their large IT investments in enterprise applications, such as ERP and CRM, while increasing their ability to change business processes and support new ones. Tools to support lightweight yet rapid, iterative and modular development methodologies, reusable architectures and application life-cycle management are primary drivers for spending on application development worldwide.
- **Enterprise mobility:** With the proliferation of smartphones and mobile platforms that support enterprise mobility, enterprise users now expect instant access to real-time information, a rich user experience, seamless integration with various enterprise systems and support to multiple mobile devices. As such, enterprises need to be able to develop device-independent and robust business solutions for fast and cost-effective mobile deployment.
- **Cloud, Platform-as-a-Service and Software-as-a-Service:** Cloud, Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) are each becoming a well-established phenomenon in some areas of enterprise IT. Cloud-hosted applications continue to grow as alternatives to internally managed systems as they deliver greater agility and meaningful cost savings to businesses. In addition, fast time-to-deployment, low cost-of-entry, and adoption of pay-as-you-go models drive growing adoption of SaaS applications. In turn, SaaS applications enable the rapid construction, deployment and management of some custom-built applications accessed as a service in the cloud. With more SaaS deployments, the need for integration tools that bridge the cloud apps with on-premise application increases.
- **Big Data:** The amount of digital information that is being generated by enterprises each year, across a number of diverse data sources and formats, is growing rapidly. Enterprises are required to retain, process and analyze data to attain meaningful insights and gain competitive advantages, and therefore require versatile and flexible tools in order to quickly and reliably process these increasingly large amounts of data.
- **IT Consulting:** The typical software-based projects of IT consulting have been gradually shifting towards software and technology-driven solutions that can be embedded into clients' systems, providing ongoing engagement services.
- **Sourcing processes:** The need for a faster go-to-market process as well as constrained resources in IT departments is resulting in greater influence by specific business units on the purchasing decision as opposed to the traditional sourcing process. The traditional outsourcing business model of capacity on demand is also transitioning towards a model of capability on demand. Information technology service buyers are increasingly looking at outcome-driven managed services with a tighter integration between software, service and infrastructure.



- **Mobility & IT skills shortage:** Growth in mobility skills demand is outpacing organizations' ability to keep up, resulting in mobile strategists facing a skills shortage across the entire mobility ecosystem, with mobile application development skills in greatest demand. Poor availability of skilled staff is driving mobile strategists to outsource many functions across the mobility ecosystem, including application development and testing services. The increasing mobility skills gap will force mobile strategists to use a multifaceted application development and delivery approach.

### **Magic's Software Solutions**

Our software solutions enable enterprises to accelerate the planning, development, deployment and integration of on-premise, mobile and cloud business applications that can be rapidly customized to meet current and future needs. Our software solutions and complementary professional services empower customers to dramatically improve their business performance and return on investment by enabling the cost-effective and rapid delivery, integration and mobilization of business applications, systems and databases. Our technology and solutions are especially in demand when time-to-market considerations are critical, budgets are tight, and integration is required with multiple platforms or applications, databases or existing systems and business processes, as well as for RIA and SaaS applications. Our technology also provides the option to deploy our software capabilities in the cloud, hosted in a web services cloud computing environment. We believe these capabilities provide organizations with a faster deployment path and lower total cost of ownership. Our technology also allows developers to stage multiple applications before going live in production.

Development communities are facing high complexity, cost and extended pay-back periods in order to deliver cloud, RIAs, mobile and SaaS applications. Magic xpa, AppBuilder, Magic SmartUX, Magic xpi, Magic FactoryEye and Magic BusinessEye all provide MSPs with the ability to rapidly build integrated applications in a more productive manner, deploy them in multiple modes and architectures as needed, lower IT maintenance costs and speed time-to-market. Our solutions are comprehensive and industry proven. These technologies can be applied to the entire software development market, from the implementation of micro-vertical solutions, through tactical application modernization and process automation solutions, to enterprise spanning service-oriented architecture, or SOA, migrations and composite applications initiatives. Unlike most competing platforms, we offer a coherent and unified toolset based on the same proven metadata driven and rules-based declarative technology. Our low-code, metadata platforms consist of pre-compiled and pre-written technical and administrative functions, which are essentially ready-made business application coding that enables developers to bypass the intensive technical code-writing stage of application development and integration, concentrate on building the correct logic for their apps and move quickly and efficiently to deployment. Through the use of metadata-driven platforms such as Magic xpa, AppBuilder, Magic SmartUX, Magic xpi, Magic FactoryEye and Magic BusinessEye, software vendors and enterprise customers can experience unprecedented cost savings through fast and easy implementation and reduced project risk.

Our software technology solutions include application platforms for developing and deploying specialized and high-end large-scale business applications and integration platforms that allow the integration and interoperability of diverse solutions, applications and systems in a quick and efficient manner. These solutions enable our customers to improve their business performance and return on investment by supporting the affordable and rapid delivery and integration of business applications, systems and databases. Using our software solutions, enterprises and ISVs can accelerate time-to-market by rapidly building integrated solutions, deploying them in multiple environments while leveraging existing IT resources. In addition, our solutions are scalable and platform-agnostic, enabling our customers to build solutions by specifying their business logic requirements in a commonly used language rather than in computer code, and to benefit from seamless platform upgrades and cross-platform functionality without the need to re-write applications. Our technology also enables future-proof protection and supports current market trends such as the development of mobile applications that can be deployed on a variety of smartphones and tablets, and cloud environments. In addition, we also offer a variety of vertical-targeted products that are focused on the needs and requirements of specific growing markets. Certain of these products were developed utilizing our application development platform.

We sell our solutions globally through our own direct sales representatives and offices and through a broad sales distribution network, including independent country distributors, independent service vendors that use our technology to develop and sell solutions to their customers, and system integrators. We also offer software maintenance, support, training, and consulting services in connection with our products, thus aiding the successful implementation of projects and assuring successful operation of the platforms once installed. We sell our integration solutions to customers using specific popular software applications, such as SAP, Salesforce.com, IBM i (AS/400), Oracle JD Edwards, Microsoft SharePoint, Microsoft Dynamics, SugarCRM and other eco-systems. As such, we enjoy a well-diversified client base across geographies and industries including oil & gas companies, telecommunications groups, financial institutions, healthcare providers, industrial companies, public institutions and international agencies.

The underlying principles and purpose of our technology are to provide:

- **Simplicity** – the use of code-free/low code development tools instead of hard coding and multiple programming languages to solve critical and complex challenges;
- **Business focus** – the use of pre-compiled business logic and components eliminates repetitive, low level technical and coding tasks;
- **Comprehensiveness** – the use of a comprehensive development and deployment platform offers a full end-to-end development, deployment and integration capability;
- **Automation of mundane tasks** – to accelerate development and maintenance and reduce risk; and
- **Interoperability** – to support business logic across multiple hardware and software platforms, operating systems and geographies.

We offer three complementary application platforms that address the wide spectrum of composite applications, Magic xpa, Magic SmartUX and AppBuilder. Our Magic xpi integration platform, Magic FactoryEye and Magic BusinessEye deliver fast and simple integration and orchestration of business processes and applications. Our customers operate in a wide variety of industries, including financial services, life sciences, government, telecommunications, energy and manufacturing.

### **Magic xpa Application Platform**

Magic xpa Application Platform, our metadata driven application platform, provides a simple, low code and cost-effective development and deployment environment that lets organizations and MSPs quickly create user-friendly, enterprise-grade, multi-channel mobile and desktop business app that employ the latest advanced functionalities and technologies. The Magic xpa Application Platform, formerly named uniPaaS, was first released in 2008 and is an evolution of our original eDeveloper product, a graphical, rules-based and event-driven framework that offered a pre-compiled engine for database business tasks and a wide variety of generic runtime services and functions which was released in 2001.

We have continually enhanced our Magic xpa application platform to respond to major market trends such as the growing demand for cloud-based offerings including Rich Internet Applications (RIA), mobile applications and SaaS. Accordingly, we have added new functionalities and extensions to our application platform, with the objective of enabling the development of RIA, SaaS, mobile and cloud-enabled applications. SaaS is a business and technical model for delivering software applications, similar to a phone or cable TV model, in which the software applications are installed and hosted in dedicated data centers and users subscribe to these centers and use the applications over an internet connection. This model requires the ability to deliver RIA. Magic xpa is a comprehensive RIA platform. It uses a single development paradigm that handles all ends of the application development and deployment process including client and server partitioning and the inter-communicating layers.

Magic xpa offers customers the power to choose how they deploy their applications, whether full client or web; on-premise or on-demand; in the cloud or behind the corporate firewall; software or mobile or SaaS; global or local. Our Magic xpa Application Platform complies with event driven and service oriented architectural principles. By offering technology transparency, this product allows customers to focus on their business requirements rather than technological means. The Magic xpa single development paradigm significantly reduces the time and costs associated with the development and deployment of cloud-based applications, including RIAs, mobile and SaaS. In addition, application owners can leverage their initial investment when moving from full client mode to cloud mode, and modify these choices as the situation requires. Enterprises can use cloud-based Magic xpa applications in a SaaS model and still maintain their databases in the privacy of their own data centers. Magic xpa also supports most hardware and operating system environments such as Windows, Unix, Linux and AS/400, as well as multiple databases and is interoperable with .NET and Java technologies.

Magic xpa can be applied to the full range of software development, from the implementation of micro-vertical solutions, through tactical application modernization and process automation solutions, to enterprise spanning SOA migrations and composite applications initiatives. Unlike most competing platforms, we offer a coherent and unified toolset based on the same proven metadata driven and rules based declarative technology, resulting in increased cost savings through fast and easy implementation and reduced project risk.

Magic xpa enables organizations to differentiate themselves from their competition through software-enabled digital transformation. With our platform, organizations can rapidly and easily design, build and implement powerful, enterprise-grade custom applications through our intuitive, visual interface, with little or no coding required. Our Solution ensures that applications developed on our platform can be immediately and natively deployed across a full range of mobile and desktop devices with no additional customization, including desktop web browsers, tablets and mobile phones. We also enable organizations to easily modify and enhance applications and automatically disseminate these updates across device types to ensure that all users benefit from the most up-to-date functionality.

Key benefits of our platform include:

- **Powerful applications to solve critical and complex challenges.** At the core of our platform is an advanced engine that enables the modeling, modification and management of complex processes and business rules. Our heritage provides us with this differentiated understanding of complex processes, and we have incorporated that expertise into our platform to enable the development of powerful applications. Organizations have used our platform to launch new business lines, build large procurement systems, manage retail store layouts, conduct predictive maintenance on field equipment and manage trading platforms, among a range of other use cases.
- **Rapid and simple innovation through our powerful platform.** Our platform employs a low-code, intuitive, visual interface and pre-built development modules that reduce the time required to build powerful and unique applications. Our platform automates the creation of forms, data flows, records, reports and other software elements that would otherwise need to be manually coded or configured. This functionality greatly reduces the iterative development process, allowing for real-time application optimization and ultimately shortening the time from idea to deployment. In turn, organizations can better leverage scarce and costly developer talent to accomplish more digital transformation objectives.
- **Build once, deploy everywhere.** Our technology allows developers to build an application once and use it everywhere with the consistency of experience and optimal performance levels that users expect. Applications developed on our platform can be immediately and natively deployed across a full range of mobile and desktop devices with no additional customization, including desktop web browsers, tablets and mobile phones. We also enable organizations to easily modify and enhance applications and automatically disseminate these updates across device types to ensure all users benefit from the most up-to-date functionality.
- **Deployment flexibility to serve customer needs.** Our platform can be installed in any cloud or on-premises, with organizations able to access the same functionality and data sources in all cases. Our flexible deployment model also preserves a seamless path to future cloud deployments for organizations initially choosing on-premises for their most sensitive workloads.

Our approach to digital transformation goes beyond simply enabling organizations to build custom applications fast. We empower decision makers to reimagine their products, services, processes and customer interactions with software by removing much of the complexity and many of the challenges associated with traditional approaches to software development. Because we make application development easy, organizations can build specific and competitively differentiated functionality into applications to deliver enhanced user experiences and streamlined business operations.

In February 2018, we released Magic xpa 3.3 with a more seamless and easier integration with Java, similar to the already existing integration with .NET, making the Magic xpa platform even more robust. Along with that, we provided a new WS provider mechanism, built on Apache Axis2, enhancing our current WCF based capabilities.

In April 2018, and for the third consecutive year, Magic Software's Magic xpa application development platform gained top market share in license sales in the Japanese market. According to the "Market Research for Next Generation Extra-Rapid Development Tools in 2018" published by MIC Research Institute Ltd., the Magic xpa Application Platform grew 2% achieving a 41% share of the Japanese market.

In August 2018, we released Magic xpa 4.0 with its new Angular-based Web application framework that provides developers and Angular developers with the power to develop device-agnostic and feature-packed Web applications. Magic xpa 4.0 decouples the business logic from the presentation of the apps providing developers with the flexibility to use the Angular open-source platform with industry-standard state-of-the-art technologies, including HTML5, CSS, and JavaScript for designer-quality screens, while benefiting from the productivity, security, and scalability capabilities provided by our low-code development platform.

In addition, we further modernized our Integrated Development Environment (IDE) by moving toward a full-fledged Visual Studio-based studio, offering our users an even more intuitive and user-friendly experience.

During 2018, Magic xpa was listed in Gartner's Market Guide for Application Platforms report. In addition, Magic xpa was listed in the Forrester Wave™ for Mobile Low-Code Development Platforms.

In 2020, Magic Software significantly enhanced its new Angular based web client capabilities, provided GIT version control capability as an integral part of expanding its CI/CD overall capabilities, as well as enhanced compare and merge functionality under its xpa 4.7 release.

In 2021, we moved our Magic xpa platform to be a cloud native platform deployed by dockers container, opening the door to our customer to take their applications to be a full SaaS products.

### ***AppBuilder Application Platform***

AppBuilder, a platform we acquired in December 2011, is a proprietary development environment used for managing, maintaining and reusing complicated applications needed by large businesses. AppBuilder provides the infrastructure for enterprises worldwide, across several industries, with applications running millions of transactions daily on legacy systems. Enterprises using AppBuilder can build, deploy and maintain large-scale custom-built business applications for years without being dependent on any particular technology. The AppBuilder deployment environments include IBM mainframe, Unix, Linux and Windows. AppBuilder is intended to increase productivity and agility in the creation and deployment of enterprise class computing.

AppBuilder follows the 4GL development paradigm to help enterprises focus on the business needs and definition and overlook technical hurdles. AppBuilder developers define the business roles and prior to deployment the code is generated from the development environment to the required run time environment. Several large MSPs have utilized AppBuilder to build state of the art applications that are deployed through many large customers.

AppBuilder implements a model driven architecture approach to application development. It provides the ability to design an application at the business modeling level and generate forward to an application. AppBuilder has a platform-independent, business-rules language that enables generation to multiple platforms. It is possible to generate the client part of an application as Java and the server part as COBOL. As businesses change, the server part can be generated as Java without changing the application logic. Only a simple configuration option needs to be changed.

AppBuilder contains everything a development environment needs to create any type of simple or complex business application with platform-independent functionality, including:

- System administration security controls for scope and permissions;
- Migration, testing, and deployment functions;
- Architecture-independent development;
- An integrated toolset for designing, developing, and deploying applications;
- Object-based components managed from host, server, or client repositories;
- Support for Java/J2EE, COBOL, C#, and C programming languages;
- An efficient, cross-platform code generation facility;
- Ready-to-use business logic and libraries;
- A remote prepare facility for mainframe development;
- Multiple language user interface support; and
- DBCS support.

## ***Magic xpi Integration Platform***

We believe data is the most valuable competitive asset today as companies increasingly pursue digital transformation initiatives to modernize their businesses. Enormous amounts of data are being generated by people, applications, and devices worldwide. Enterprises are seeking to connect data across their various applications, systems, and IT environments in order to become data-driven businesses. Understanding and connecting these data assets as well as migrating workloads to the cloud, enables superior insights across the business organization, better service of customers, automation of supply chains, and the democratization of secure, governed data access for all employees.

The rise of cloud computing, low cost data storage and the proliferation of applications that generate and access data, combined with the increasing volume of data from mobile, social and IoT, is resulting in an explosion of the volume, variety, and velocity of data. According to a March 2021 report from IDC, “The amount of digital data created over the next five years will be greater than twice the amount of data created since the advent of digital storage.” This new data creates opportunities to generate greater business insights and pursue new market opportunities, but is overwhelming for organizations to manage, aggregate, and normalize. As enterprises undertake the massive transition to cloud, we believe a majority of their workloads will remain on-premises for the foreseeable future due to the mission-critical processes they support. The complexity of this hybrid world will be further exacerbated as enterprises also employ multi-cloud strategies. According to IDC, “82% of organizations are currently using multiple clouds - or plan to within the next 12 months.” As a result, we expect enterprises will require new technologies purpose-built to connect, analyze, manage, and normalize data anywhere it resides using modern, cloud-native architectures that can seamlessly be deployed in any IT environment.

Our Magic xpi integration platform (an evolution of our original and formerly branded iBOLT platform, launched in 2003) is a graphical, wizard-based code-free solution delivering fast and simple integration and orchestration of business processes and applications. Magic xpi allows businesses to more easily view, access, and leverage their mission-critical information, delivering true enterprise application integration, or EAI, business process management, or BPM, and SOA infrastructure. Increasing the usability and life span of existing legacy and other IT systems, Magic xpi allows fast EAI, development and customization of diverse applications, systems and databases, assuring rapid return on invested capital and time-to-market, increased profitability and customer satisfaction.

Magic xpi allows the integration and interoperability of diverse solutions, including legacy applications, in a quick and efficient manner. In January 2010, we released Magic xpi 3.2 and since then we have continued to develop the Magic xpi channel. We entered into agreements with additional system integrators, consultancies and service providers, who acquired Magic xpi skills and offer Magic xpi licenses and related services to their customers. We also offer special editions of Magic xpi with optimized and certified connectors for specific enterprise application vendor ecosystems, such as SAP, Oracle JD Edwards, Microsoft SharePoint and Salesforce.com. These special editions contain specific features and pricing tailored for these market sectors.

Data engineers, Extract-Transform-Load (ETL) developers, and citizen integrators have the ability to use our platform to ingest, transform and integrate data spanning departmental to enterprise scale workloads. These workloads include diverse and distributed data sources in multi-cloud, hybrid environments. The breadth and depth of our data integration capabilities accelerate the aggregation and processing of data to ready it for analytics, data science and enterprise reporting initiatives. Leveraging a simple graphical design experience, users can develop workloads across ETL, Extract-Load-Transform (ELT), real-time and streaming data integration patterns. Our platform is designed to integrate structured and unstructured data across on-premises and cloud-native applications, databases, business intelligence tools, data modeling tools, data lakes, data warehouses, mainframes, messaging systems, file systems and IoT devices. Our data-lake Magic BusinessEye allows data stewards and business analysts to create an authoritative single-source view of all business-critical data from internal and external sources across multiple data domains, including customers, locations, assets, and employees and many other domain types.

Our heritage as a veteran player in the integration market provides us with a differentiated understanding and ability to automate complex processes, and we have incorporated that expertise into our platform to enable the development of powerful business software. Magic xpi can leverage a complete stack of automation technologies, applying the right automation approach for each specific use case.

Key benefits of our platform include:

- **Business Process Management.** At the core of our platform is an advanced engine that enables the modeling, modification and management of complex processes. This engine enables orchestration of any business workflow.
- **Decision Rules.** Appian includes a declarative environment for defining and executing business logic or rules. These rules can be highly complex and can be applied within the Appian platform to many use cases, ranging from automated decision making to user experience personalization.
- **Seamless integration with existing systems and data.** In contrast to typical enterprise software, our platform does not require that data reside within it in order to enable robust data analysis and cross-department and cross-application insight. Our platform seamlessly integrates with many of the most popular enterprise software applications and data repositories and can be used within many legacy environments. For example, organizations frequently use our platform to extend the life and enhance the functionality of legacy systems of record, such as those used for enterprise resource planning, human capital management and customer relationship management, by building new applications that enhance the functionality of those systems and by leveraging the data within those systems to further optimize and automate operations.
- **Embrace the full benefits of the public cloud.** Our platform helps customers accelerate the migration of their on-premises workloads to the cloud. Our platform modernizes our customers' applications and data management capabilities to accelerate migrations to the cloud, allowing them to embrace innovation, create digital-first business models, reduce operating costs, and generate new revenue streams.
- **Deliver rich 360-degree business experiences.** By enabling our customers to aggregate, consolidate and normalize their data to build a single source of truth, we empower them to deliver highly engaging and personalized customer experiences. This allows our customers to embrace a digital-first business strategy, build better connections and relationships with their end users, and modernize their supply chains by intelligently matching supply with demand patterns.

In the aggregate, these core capabilities enable Magic to automate and govern end-to-end processes. Magic complements these automation technologies with related features like process reporting, analytics and management, which make it simple for organizations to quickly improve and upgrade their automations as business needs change.

In March 2018, we released Magic xpi version 4.7 with a new OData Provider connector, Active Directory Federation Services (ADFS) support for the SharePoint Online (MOSS) connector, ability to write new connectors based on Magic xpa Application Platform's runtime technology and multiple features to improve programming productivity, such as visual indicators of data flow status and an enhanced monitor to provide an even more accurate bird's eye view of all running projects.

In October 2018, we announced that Magic xpi Integration Platform 4 achieved SAP-certified integration with SAP S/4HANA, enabling our customers to optimize business processes through automation across leading ERP, CRM, finance, and other enterprise systems using a single platform.

In February 2019, we released Magic xpi version 4.9 with a new REST client connector, ODATA connector enhancements, inherent UPSERT support in the data mapper, and built-in cloud support.

In August 2019, we released Magic xpi version 4.11, enabling access to remote connectors residing at another site, without the need for a VPN (aka 'Local Agent' capability). In addition, in the beginning of 2020 we released the major released Magic xpi 4.12, which includes 64-bit support for our Run-Time engine as-well as integration with one of the industry's API management solutions suites. During 2019, we also released additional features pursuant to customer requests.

In 2020, Magic Software enhanced the above Local Agent capability with more functionality, added additional connectors (e.g., OPC for manufacturing) and invested more resources in the overall product stability. In addition, Magic Software has added various features to the platform to expand its product offering, per customer requests.

In 2021, we enhanced Magic xpi Local Agent capabilities with more functionalities, added additional connectors (e.g., OPC for manufacturing) and invested more resources in the overall product stability. In addition, we moved our Magic xpi platform to be a cloud native platform deployed by dockers container.

In 2022, we plan to continue to expand our product offering with additional features, per customer requests.

### ***Magic SmartUX***

Magic SmartUX, a platform we acquired in April 2019, is a low-code development platform for mobilizing and modernizing enterprise business application designed for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.

The Magic SmartUX platform addresses the three biggest challenges enterprises are facing in the road to Digital Transformation:

- Multi-platform: end client devices are abundant and diverse, we provide an omni-channel solution.
- Many Systems of Record: over the years enterprise adopted (home grown and third party) solutions that scattered the business flow over many different system, Magic SmartUX enable the enterprise to expose complex business flows to modern technology with now changes and overhead to the existing working applications.
- Talent Gap: Mobile and integration are the hardest skillsets for IT orgs to find, with the Magic SmartUX platform addressing Citizens Developers, we allow any intern tech savvy individual to deliver complex and robust Mobile business application.

### ***FactoryEye***

On May 2019, Magic Software launched the release of FactoryEye, a proprietary high performance, low-code, flexible, hybrid platform built specially for manufacturers based on existing infrastructure enabling real-time virtualizations of all production data and advanced analytics (based on machine learning) for improved productivity and competitive advantage. Magic Software has hundreds of manufacturing customers, and drew on over 35 years of manufacturing experience to develop FactoryEye. The product's intuitive and user-friendly dashboards empower manufacturers by providing all the analysis they need in order to make faster and smarter decisions based on real time data and analytics. This translates into improved productivity, faster delivery times, and better control over the manufacturing processes, leading to increased customer satisfaction and higher profit margins. FactoryEye offers dozens of prebuilt connectors to a range of enterprise applications and MRP systems, such as SAP, JD Edwards, and Infor, as well as MES, CRM, and PLM systems.

FactoryEye collects real-time data from existing machinery and operational systems and transforms it into actionable intelligence for immediate results and continuous improvement in the manufacturing process. The solution brings the benefits of Industry 4.0 connectivity to mid-sized manufacturers in several industry verticals, including automotive parts, food & beverage, medical devices, metal processing, packaging, plastics & rubber and specialty manufacturing.

The addition of FactoryEye to Magic Software's software portfolio allows Magic Software to provide to its new and existing manufacturing clients, with a comprehensive Industry 4.0 solution and aligns with Magic Software strategy of enhancing its portfolio with enterprise grade technologies.

FactoryEye's end-to-end solution incorporates several key features:

- Powered by Magic Software plug and play IIoT Integration platform.
- Incorporates advanced analytics and AI into decision support
- Customer KPIs are used to measure and qualify results
- Leverages investments by integrating existing systems
- Collects data from automated and semi-automated machines

In addition to offering a dynamic cloud-based software solution, FactoryEye manufacturing consultants work with customers to harmonize their systems and fit the right tools for their needs. Consultants analyze business processes for what is working, formulate a plan to add what is missing from existing systems and create sprints to deliver immediate results. A dynamic cycle of data collection and analysis allows for continuous improvement and flexibility in the optimization process.

Since its launch, Magic Software made a targeted effort to reach mid-sized manufacturers who are looking to improve the efficiency of their factories. Our goal is to position FactoryEye as a solution that offers more than mere factory floor visibility through IIoT connectivity, while remaining more cost effective and customizable than offerings from “Tier 1” companies. To that end, Magic Software has created a new website for FactoryEye which will launch by the end of the first half of 2020, as well as blogs, whitepapers, e-books and email campaigns to spread awareness of this new offering and benefits for mid-sized manufacturers.

As an Oracle Platinum Partner, FactoryEye brings the benefits of Industry 4.0 to mid-sized manufacturing companies, with an easy, affordable, and flexible approach that does not require changing existing systems and infrastructure. This Industry 4.0 solution captures vast amounts of production data, transforms it into actionable intelligence, and empowers workers, managers and executives to make informed decisions in real-time.

In April 2021, Magic Software announced its partnership with JDEMart, which is the largest online marketplace of JD Edwards solutions from vendors all over the world. Adding Magic Software’s FactoryEye solution to JDEMart’s marketplace provides manufacturers using JD Edwards with real-time, actionable intelligence to decision makers at all levels of the company.

In addition, we continue to market Magic Software’s application and integration products. These products continue to provide value and convenience for our customers as low code options to integrate their disparate systems.

### ***Vertical software solutions***

#### ***Clicks™***

Our Roshtov subsidiary has approximately three decades of proven experience based on its proprietary comprehensive core software solution for medical record information management systems, using in the design and management of patient-file for managed care and large-scale healthcare providers. The platform, which can be tailor-made to the specific needs of the healthcare provider, is connected to the clinical, administrative and financial data base system, residing at the provider’s central computer, and allows immediate analysis of complex data with potentially real-time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.

All of our clients that buy or subscribe to our Clicks software solution also enter into software support agreements with us for maintenance and support of their medical record management systems. In addition to immediate software support in the event of problems, these agreements allow clients to access new releases covered by support agreements. In addition, each client has 12-hour access, six days a week (6 hours on Friday) to the applicable call-center support teams.

We employ a team of 35 research and development specialists that together with our clients create a future where the health care system works to improve the well-being of individuals and communities. Roshtov’s proven ability to innovate has led to what we believe to be an industry leading architectures and a breadth and depth of solutions and services.

There are four healthcare service providers in Israel, of which, Maccabi Healthcare Services and Clalit, which are the two largest healthcare providers in Israel accounting for 78% of the Israeli market, have been our customers since the early 1990’s.

#### ***Leap™***

Our FTS subsidiary has over 20 years of BSS experience, based on dozens of projects delivered to customers worldwide. We implement revenue management and monetization solutions in mobile, wireline, broadband, MVNO/E, payments, e-commerce, M2M / Internet of Things, mobile money, cable, cloud and content markets under the brand name of Leap™. Our Leap™ solutions lower the total cost of ownership (TCO) for telecom, content and payment service providers.

FTS works with telecommunications, content and payment service providers globally to help them manage complex transactions and relationships with greater flexibility and independence. Analyzing transactions from a business standpoint, FTS offers end-to-end and add-on telecom billing, charging, policy control and payments solutions to customers worldwide, and services both growing and major providers.

FTS targets mid to lower level tier service providers, supporting their BSS needs with end-to-end, turnkey billing and other BSS projects. In addition, FTS offers upper-tiers of service providers with BSS and monetization solutions for specific needs, including policy control and charging solutions, M2M billing, billing for content services, MVNE/MVNO billing, mobile money software solutions, payment and mobile financial services solutions and others.



Our Leap™ offering is comprised of:

Leap™ BCCF (Business Control and Charging Function) – a proprietary packaged software solution which serves as the underlying foundation of our Leap™ products and solutions. Leap BCCF enables service providers to handle the aspects of event processing, from defining the system’s business logic, through importing events and formatting, to charging and executing business rules. With Leap BCCF, new services are deployed on the fly, and strategic business rules are formulated more easily, ensuring real-time responses to both service and customer-related events and providing a baseline for policy control.

Leap™ Billing 6.3 – a convergent charging, billing and customer care solution that realizes substantial reductions in OPEX and CAPEX while increasing customer satisfaction and retention. Leap Billing software’s flexibility and ease of use enables the service providers’ billing platform to work more at the speed of marketing by offering new marketing plans or services in a rapid time-to-market.

Leap™ Policy Control - Leap Policy Control is an integrated charging and policy control solution (a full PCC solution based on PCRF& online/offline charging). Compliant with the 3GPP’s Diameter policy control standard, Leap Policy Control provides traffic and subscriber management strategies. Leap Policy Control gives operators the power to monitor usage in real time and, using fully configurable business rules, define how they manage network resources, applications, and subscribers – in real time – while generating revenue from personalized mobile applications, content and services. Leap Policy Control can be implemented as a stand-alone solution or as part of a larger BSS project implementation.

FTS Express™ - FTS express™ is an all-in-one software appliance for online charging, billing, AAA, balance management, customer care, policy control and interconnect, designed for entry-level operations of MVNOs, LTE, VoIP, ISP, broadband, IPTV and more.

The following is a sample of the monetization solutions offered by FTS:

- End-to-end, turnkey billing and customer care solutions;
- Convergent, online charging and billing;
- Policy control and charging;
- MVNO/E billing;
- Billing for content;
- Interconnect billing;
- M2M / IoT billing;
- Broadband and multi-play billing;
- Mobile money solutions;
- E-commerce and M-commerce solutions;
- Payments and mobile payments solutions;
- Smart revenue sharing and partner management solutions; and
- Billing service bureau.

FTS’s solutions are delivered via cloud, on-premises or in a fully managed-services mode and are backed by our Israel and Bulgaria-based experienced professional services support team.

### ***HR Pulse***

Now in its 10<sup>th</sup> release, HR Pulse is a proprietary platform that creates and customizes software applications for HCM, with the goal to combine technology with effective processes, to facilitate the collection, analysis and interpretation of quality data about people, their jobs and their performance, to enhance HCM decision making, resulting in increased organizational efficiency and effectiveness. HR Pulse addresses four distinct functional areas with the ability to also work as one consolidated system:

- Performance and goal management:
- Development management;
- Talent management and succession planning; and
- Compensation and merit review.

Our offering includes customizable “out of the box” HCM SaaS Solutions, such as Pilat Frist and Pilat Professional, that provides a menu of templates that can be used to affordably and expeditiously create customized HCM solutions for companies. The HR Pulse platform promotes the building and implementation of solutions that address broader business challenges as well. Such offerings include 360-degree feedback, employee surveys, leadership and management development, coaching and job evaluation.

### ***Hermes Cargo***

Hermes has been developing and evolving cargo management systems for the air cargo industry since 2002. Hermes Air Cargo Management System is a proprietary, state-of-the-art, packaged software solution for managing air cargo ground handling. Our Hermes Solution covers all aspects of cargo handling, from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods and special handling, tracking and tracing, security and billing. Over the last 10 years Hermes systems have been implemented in over 70 terminals on five continents, providing efficient and accurate handling of more than 5 million tons of freight annually. Customers benefit through faster processing and more accurate billing, reporting and ultimately enhanced revenue. Customers include independent ground handlers, airlines with a cargo arm, hubs belonging to an individual airline or those catering to a number of airlines transiting cargo to additional destinations. The Hermes Solution is delivered on a licensed or fully hosted basis.

Hermes systems are built with the specific needs of air cargo handlers and airlines in mind and are amongst the most versatile and sophisticated around. Hermes Solutions are focused on maximizing customer profits by streamlining ground handling processes and employing built-in best practices to reduce handling errors. Hermes team of cargo experts carry out a full business analysis, listen to our customers’ requirements, suggest additional functionality and work with them to deliver an air cargo management solution that is streamlined around their processes and customized to their needs. Hermes works with everyone from smaller cargo handlers to large airlines all over the world and counts Menzies Aviation, WFS (FRA), Luxair, Etihad Airport Services and Frankfurt Cargo Services among their customers.

### ***Nativ:***

Offered by our Menarva Ltd subsidiary, Nativ is the leading system for efficient management of all types of rehabilitation centers. Selected by many of the largest rehabilitation and treatment centers in Israel, Nativ serves as a comprehensive solution, the largest and most specialized and equipped system in Israel, with all the capabilities required for operating all aspects of organizations engaged in patient rehabilitation and treatment. From rehabilitation programs to recruitment, Nativ enables control of all levels of rehabilitation bodies, including monitoring detailed rehabilitation plans, finance, collection, account management, recruitment, working hours, asset management, employment and medical files.

In addition, Nativ also contains many integral interfaces, including the Israel’s Ministry of Health’s suppliers portal, Israel’s Ministry of Welfare’s suppliers portal, rent transfers from the Israel’s Ministry of Housing, accounting systems, payroll systems and more. The system produces a wide range of reports, including a receipt report from Israel’s Ministry of Health, Welfare, Economy and Security, comprehensive and detailed information divided into units and services, a detailed living allowance report, patient report, condition report, emergency report and more.

Menarva has extensive experience gained in its work over the past 10 years with dozens of clients in Israel, an experience that has given rise to in-depth insights into the field of rehabilitation. Nativ is supported by the cloud and allows connection at any time and from any place for maximum efficiency, including a mobile application for continuous monitoring of field personnel in real time.

Nativ offers maximum survivability, due to the need for high reliability and comprehensive information security, all infrastructure is owned by Menarva and the system complies with all standards and guidelines of Israel's Privacy Protection Authority, including ISO standards: Standard 9001 for information systems development, Standard 27001.

### *Strategy*

Our goal is to continue our profitable and cash generative growth within our software solutions and professional services markets. We plan to achieve this goal by focusing on the following principles:

- **Expand sales to existing customers.** We have a strong track-record of expanding within our existing customers. We believe there are significant cross-sell and upsell opportunities within our existing customer base by adding new products, addressing new areas of expertise, and growing with our customers' overall business footprint. We intend to capitalize on the opportunity to more effectively cross-sell solutions and services across our existing customer base. In addition to selling complementary software solutions to customers that already use our development application solutions or packaged software solutions, we believe our strong customer, MSP and partner relationships and execution track record position us to successfully grow our revenues by delivering complementary development and integration tools from our product offering to our existing IT services customers and by delivering IT services to our existing application development customer base.
- **Capitalize on opportunities created by new technological trends.** We believe that emerging industry trends such as mobile applications, cloud applications, SaaS and big data will require our enterprise customers and partners to continue and upgrade existing systems and to integrate their current infrastructure with new mobile and cloud applications or with new big data management solutions. We intend to market the capabilities of our software solutions and professional services offerings to customers that are currently impacted or will potentially be impacted by the increased complexity resulting from these trends. For instance, we intend to promote Magic xpa through Rich Internet Applications (RIAs).
- **Grow our customer base through new offerings.** We plan to grow our business by attracting new ISV enterprise customers with new technology offerings and new professional services through our already established expertise in the areas of mobile technologies and projects, cloud applications, SaaS and Big Data solutions, and integration solutions. Due to our track record in these industry segments, we believe we are well positioned to develop and offer new application development and integration solutions that will enable us to attract new customers. In addition, we believe our familiarity with these verticals will allow us to differentiate our IT services offering and grow our market share in this vertical as well.
- **Provide new solutions to new ecosystems.** We expect the same industry trends of mobile, cloud, SaaS and big data to lead to the creation of additional enterprise applications ecosystems. We intend to continue to develop new solutions that will allow us to form new partnerships, which in turn will grow our revenues. We also intend to focus on recruiting OEM partners that will incorporate our Magic xpi integration technology into their product offerings.
- **Acquire complementary businesses.** As part of our growth strategy, we will continue to seek and evaluate opportunities to grow through acquisitions of companies and operations with complementary software solutions, technologies and related intellectual property, packaged software solutions, augmenting integration and services capabilities, additional distribution channels or market share. We have a strict acquisition policy pursuant to which we only pursue acquisitions in cases we identify as having a clear business opportunity and a clear path to revenue growth. In addition, we only pursue acquisitions which we believe entail low integration and operational risk as a result of our internal familiarity with the target or the industry in which it operates, through our network of MSPs, system integrators, distributors, resellers, and consulting and OEM partners. We intend to balance any investments in such acquisitions with investments in our existing business and our policy of returning value to shareholders in the form of dividends.

Our partner strategy is focused on delivering complete end-to-end solutions for our customers, driving general awareness of our platforms and service capabilities and broadening our distribution and reach to new customers. We have deep relationships with global system integrators, which we partner closely with. We co-create and co-sell solutions to solve customer needs where we combine the power of our innovation and their services to deliver against the customer business objectives. We have a scaled and well-defined alliances program where we partner with value-added resellers and distributors across the world to expand our reach in international markets. Our relationship with these channel partners ranges from fulfilment services to co-sell or independent resell in some markets.

### *Product Development*

We place considerable emphasis on research and development in order to improve and expand the functionality of our technologies and to develop new applications. We believe that our future success depends upon our ability to maintain our technological leadership, to enhance our existing products and to introduce new commercially viable products addressing the needs of our customers on a timely basis. We also intend to support emerging technologies as they are introduced in the same way we have supported new technologies in the past. We will continue to devote a significant portion of our resources to research and development. We believe that internal development of our technology is the most effective means of achieving our strategic objective of providing an extensive, integrated and feature-rich development technology. For significant version release see “Magic’s Software Solutions” discussed above.

### *Product Related Services*

**Professional Services.** We offer fee-based consulting services in connection with installation assurance, application audits and performance enhancement, application migration and application prototyping and design. Consulting services are aimed at generating both additional revenues and ensuring successful implementation of Magic xpa, Appbuilder, Magic xpi, Magic BusinessEye, SmartUX and FactoryEye projects through knowledge transfer. As part of management efforts to focus on license sales, our goal is to provide such activities as a complementary service to our customers and partners. We believe that the availability of effective consulting services is an important factor in achieving widespread market acceptance.

Services are offered as separately purchased add-on packages or as part of an overall software development and deployment technology framework. Over the last several years, we have built upon our established global presence to form business alliances with our MSPs that use our technology to develop solutions for their customers, and distributors to deliver successful solutions in focused market sectors.

**Maintenance.** We offer our customers annual maintenance contracts providing for unspecified upgrades and new versions and enhancements for our products on a when-and-if-available basis for an annual fee.

**Customer Support.** We believe that a high level of customer support is important to the successful marketing and sale of our products. Our in-house technical support group provides training and post-sale support. We believe that effective technical support during product evaluation as well as after the sale has substantially contributed to product acceptance and customer satisfaction and will continue to do so in the future.

We offer online support systems for our MSPs and end users, providing them with the ability to instantaneously enter, confirm and track support requests through the Internet. These systems support MSPs and end-users worldwide. As part of this online support, we offer Support Knowledge Base tools providing the full range of technical notes and other documentation including technical papers, product information, and answers to most common customer queries and known issues that have already been reported.

**Training.** We conduct formal and organized training on our development tools and packaged software solutions. We develop courses, pertaining to our principal products and provide trainer and student guidebooks. Course materials are available both in traditional, classroom courses and as web-based training modules, which can be downloaded and studied at the student’s own pace and location. The courses and course materials are designed to accelerate the learning process, using an intensive technical curriculum in an atmosphere conducive to productive training.

## IT Services

### *Background*

The core of our growth strategy is to serve as a one-stop-shop for our clients, helping them accelerate their digital transformation to enhance competitiveness, grow profitability and deliver sustainable stakeholder value. We use our deep industry and functional expertise to help clients capture more growth and solve a diverse set of business challenges, including identifying and developing new products and services; improving sales and customer experience; optimizing cost structures; maximizing human performance; harnessing data to improve decision-making; mitigating risk and enhancing security; shaping and delivering value from large-scale cloud migrations; and digitizing manufacturing and operations with smart, connected products and platforms.

Technology is the single biggest driver of change in companies today. Despite the potential impacts of the Omicron variant, we expect an economic recovery with high expectations for increased technology investments. While Gartner prognosticated that the worldwide IT Spending would grow by 5%-6% in 2021, they actually grew by over 9% and such spending is expected to grow by 5.1% in 2022 (See <https://www.gartner.com/en/newsroom/press-releases/2022-01-18-gartner-forecasts-worldwide-it-spending-to-grow-five-point-1-percent-in-2022>).

We help our clients use technology to build their digital core to drive enterprise-wide transformation—such as moving them to the cloud, leveraging data and artificial intelligence, and embedding security and sustainability across the enterprise; by transforming their operations; and by accelerating their revenue growth. We leverage our scale and global footprint, innovation capabilities, and strong ecosystem partnerships, together with our platforms including to consistently deliver tangible value for our clients.

Our IT services offerings consist of a variety of professional services that can be grouped into integration and other IT services. Our integration services include:

- **Infrastructure analysis, design and delivery** - management of complex, tailor-made projects and telecom infrastructure projects in wireless and wire-line as well as IT consulting services, mainly for the defense and public sectors.
- **Technology consulting and implementation services** - planning and execution of end-to-end, large-scale, complex solutions in networking, cyber security, command & control and high performance transaction systems.
- **Application development** - We specialize in end-to-end projects that feature an array of technologies, from development and implementation of concepts for startups to overall responsibility for the development of systems for large enterprises. Our development services include development of on-premise, mobile and cloud applications as well as Embedded and real time software development.

We are a talent- and innovation-led organization with approximately 3,677 people as of December 31, 2021, who serve our clients at any given time and whose skills and specialization are a significant source of competitive differentiation. With approximately 3,150 experts, the majority of which are in the U.S, Israel and Europe, and hundreds of projects gone live in a variety of advanced technologies, we have developed significant expertise and accumulated vast experience in integration projects. Such projects are typically more complex and require a high level of industry knowledge and highly skilled professionals. Our integration expertise, as well as our global reach allows us to deliver comprehensive, value added services to our customers. Our IT services customers include major global telecoms, OEMs and engineering, furnish and installation service companies.

### *Strategic Consulting and Outsourcing Services*

We provide a broad range of IT consulting services in the areas of infrastructure design and delivery, application development, technology planning and implementation services, cloud computing, as well as supplemental outsourcing services. Our wholly-owned subsidiaries, Fusion Solutions LLC, Xsell Resources Inc., Allstates Consulting Services LLC, Futurewave Systems, Inc., NetEffects, Inc, OnTarget Group, Inc, the Comm-IT Group, Infinigy Solutions LLC, EnableIT LLC, Comblack Ltd. and Shavit Software (2009) Ltd. provide advanced IT consulting and outsourcing services to a wide variety of companies including Fortune 1000 companies. Our technical personnel generally supplement the in-house capabilities of our customers. Our approach is to make available a broad range of technical personnel to meet the requirements of our customers rather than focusing on specific specialized areas. We have extensive knowledge of and have worked with virtually all types of wireless and wireline telecom infrastructure technologies as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services. Our consulting partners come from a wide range of industries, including finance, insurance, government, health care, logistics, manufacturing, media, retail and telecommunications. With an experienced team of recruiters in the telecom and IT areas and with a substantial and a growing database of telecom talent, we can rapidly respond to a wide range of requirements with well qualified candidates. Our customer list includes major global telecoms, OEMs and engineering, furnish and installation service companies. We have built long-term relationships with our customers by providing expert telecom talent. We provide individual consultants for contract and contract-to-hire assignments as well as candidates for full time placement. In addition, we configure teams of technical consultants for assigned projects at our customers' sites.

## Customers, End-Users and Markets

We market and sell our products and services in more than 50 countries worldwide. The following tables present our revenues by revenue type and geographical market for the periods indicated:

	Year ended December 31,		
	2021	2020	2019
	(in thousands)		
Software sales	\$ 30,934	\$ 24,272	\$ 28,084
Maintenance and technical support	36,149	33,181	30,996
Consulting services	413,242	313,741	266,550
Total revenues	\$ 480,325	\$ 371,194	\$ 325,630

	Year ended December 31,		
	2021	2020	2019
	(in thousands)		
United States	\$ 254,342	\$ 177,882	\$ 158,095
Israel	180,462	149,094	124,523
Europe	30,085	26,947	25,788
Japan	11,443	12,643	12,499
Other	3,993	4,628	4,725
Total revenues	\$ 480,325	\$ 371,194	\$ 325,630

Our Magic xpa, Magic xpi, Magic BusinessEye, Magic SmartUX, Magic FactoryEye, and AppBuilder technologies are used by a wide variety of developers, integrators and solution providers, that can generally be divided into two sectors (i) those performing in-house development (corporate IT departments), and (ii) MSPs, including large system integrators and smaller independent developers, and VARs that use our technology to develop or provide solutions to their customers. MSPs who are packaged software publishers use our technology to write standard packaged software products that are sold to multiple customers, typically within a vertical industry sector or a horizontal business function.

Among the thousands of customers running their business systems with our technology are the following:

ABB Group	Fukushima Bank	PGG Wrightson
Able B.V.	Gakken	PTT
ADD	GE Capital	QboCel Mexico
Adidas Canada	GGD Amsterdam	Rosenbauer
Adecco Nederland	Grange Company	Segafredo France
Agricultural Bank of China	Groupe Flo	Sennheiser
Allstate Life Insurance	Grupo Inversionistas en Autotransportes Mexicanos	Sony DADC
ATLAS Grupo Financiero	Guardian Life Insurance	Staff Development Management Systems (SDMS Ltd)
Seguros y Fianzas	Hebrew University of Jerusalem	SECOM Trust Systems
Auchan	Hitachi Systems	Sodiaal
AutoScout24	IDF	Stallergenes
Axesor Powers	ING Commercial Finance BV	State of Washington Courts
Bank Leumi	ISS	Sterling Crane
BNP Paribas	Japan Chamber of Commerce	Sun Life Insurance
Boston Medical Center	Korea Development Bank (KDB)	Synbra Holding BV
CBIA	Lekkerland Nederland BV	Telenet Belgium
Çelebi Ground Handling Inc.	Lloyds Bank	TelOne Zimbabwe
Centric	L'Occitane	The Himalaya Drug Company
Christie Digital	Loxam	TOA
Club Med	MatrixCare	TOTO
Coca Cola	Mahindra & Mahindra	UPS
Crane & Co.	Moose Toys	Valeo services
Datenlotsen	Morgan Advanced Materials	Veolia Waters
Eco-Emballages	Mundipharma	Viparis
Electra	Nagarjuna Fertilizers & Chemicals Ltd.	Vishay Intertechnology
Export-Import Bank of Thailand	Nespresso	Vodafone Iceland
Ekro	NextiraOne	Volvo Brazil
Euroclear	NHS Trust	WellMark
Farm Mutual Reinsurance Plan	Nihon UNISYS	Worldwide Flight Services (WFS)
Finanz Informatik	Nintendo	ZF Lemforder
Fiskars	Orangina Schweppes	
Franken Brunnen	Pacific Steel & Recycling	
Fujitsu Marketing	Parrot	
Fujitsu-Ten	Petzl	

### Sales, Marketing and Distribution

We market, sell and support our products through our own global offices and marketing department, as well as through a broad global channel-network of MSPs, system integrators, value-added distributors and resellers, and OEM and consulting partners. Our sales force is based in our regional offices in the United States, Japan, Germany, United Kingdom, Netherlands, France, Hungary, South Africa, India and Israel, and through regional distributors elsewhere. Our sales network is present in about 50 countries worldwide.

**Direct Sales.** For Magic xpa and AppBuilder, our direct sales force pursues software solution providers and enterprise accounts. Our sales personnel carry out strategic sales with a direct approach to decision makers, managing a constantly monitored consultative type of sales cycle. Magic xpi, FactoryEye and Magic BusinessEye are mostly sold through indirect channels and through our ecosystem business relationships, but we have some direct customers with integration needs.

As of December 31, 2021, we employed approximately 167 sales and marketing personnel including, a team of sales engineers who provide pre-sale technical support, presentations and demonstrations in order to support our sales force.

**Indirect Sales.** We maintain an indirect sales channel, through our ecosystem business relationships, as well as through system integrators, value added distributors and resellers, OEM partners, as well as consultancies and service providers. We maintain an indirect sales channel for Magic xpa through MSPs and system integrators, who use our application and integration platforms to develop and deploy different applications for sale to their end-user customers.

**Distributors.** In general, we distribute our products through regional non-exclusive distributors in those countries where we do not have a sales office. A regional distributor is typically a software marketing organization with the capability to add value with consulting, training and support. Distributors that are also MSPs are generally responsible for the implementation of both our application platform and business and process integration suite and localization into their native languages. The distributors also translate our marketing literature and technical documentation. Distributors must undergo our program of sales and technical training. Marketing, sales, training, consulting, product and customer support are provided by the local distributor. We are available for backup support for the distributor and for end-users. In coordination with the local subsidiaries and distributors, we also provide sales support for large and multinational accounts.

**VARs.** In general, we resell our products through VARs that extend their capabilities with our offerings. These include SAP VARs.

**Global Marketing Activities.** We carry out a wide range of marketing activities aimed at generating awareness of our solutions offerings and to promote sales. Among our activities, we focus both on both outbound and inbound marketing, including a content-rich website available in eight foreign languages, social networks communication, search engine optimization, on-line advertising, lead generation campaigns, public relations, case studies, blogs, industry analyst relations, attendance at conferences and trade shows and lead generation campaigns around key professional white papers and webinars. We conduct distributor and user conferences to update our worldwide affiliates and user base on our new product offerings, marketing and promotional activities, pricing, best practices, technical information and other information.

We use the Salesforce.com CRM platform and the Hubspot marketing automation tool globally to connect all our lead generation campaigns with our sales pipeline management. We have aligned all our local offices to work according to the same global sales and marketing processes. We have also used our own Magic xpi Integration Platform to automate processes between our Salesforce and SAP systems to increase efficiency.

Our sales cycle varies by size of the customer, the number of products purchased and the complexity of the customer's infrastructure, ranging from several weeks for incremental sales to existing customers to several months for large deployments.

## **Competition**

The markets for our Enterprise Mobility Solution, and Magic xpa and Magic xpi platforms are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, mergers and acquisitions, and rapidly changing customer requirements. These markets are therefore highly competitive, and we expect competition to continue to intensify. The growth of the cloud adoption and mobile markets increases the competition in these areas. We constantly follow and analyze the market trends and our competitors in order to effectively compete in these markets and avoid losing market share to our direct competitors and other players.

With Magic xpa, we compete in the low-code application platform, SOA architecture and enterprise mobility markets. Our main competitors fall into two categories: (1) providers of custom software and customer software solutions that address, or are developed to address, some of the use cases that can be addressed by applications developed on our platform; and (2) providers of low-code development platforms, such as Microsoft, Salesforce.com, ServiceNow, OutSystems, Appien and Mendix.

As our market grows, we expect it will attract more highly specialized vendors as well as larger vendors that may continue to acquire or bundle their products more effectively. The principal competitive factors in our market include:

- Platform features, reliability, performance, and effectiveness;
- Ease of use and speed;



- Platform extensibility and ability to integrate with other technology infrastructures;
- Deployment flexibility;
- Robustness of professional services and customer support;
- Price and total cost of ownership;
- Strength of platform security and adherence to industry standards and certifications;
- Strength of sales and marketing efforts; and
- Brand awareness and reputation.

With Magic xpi, we compete in the integration platform market, which is highly competitive and rapidly evolving. Among our current competitors are IBM, Informatica, TIBCO, MuleSoft, Jitterbit, Talend, Dell–Boomi, Scribe and Software AG.

There are several similar products in the market utilizing the model driven architecture, or MDA, approach utilized by AppBuilder. The market for this type of platform is highly competitive. Companies such as CA and IBM have tools that compete directly with AppBuilder. Furthermore, new development paradigms have become very popular in IT software development and developers today have many alternatives.

As our market grows, we expect that it will attract more highly specialized vendors as well as larger vendors that may continue to acquire or bundle their products more effectively. The principal competitive factors in our market include:

- platform features, reliability, performance and effectiveness;
- ease of use and speed;
- platform extensibility and ability to integrate with other technology infrastructures;
- deployment flexibility;
- robustness of professional services and customer support;
- price and total cost of ownership;
- strength of platform security and adherence to industry standards and certifications; and
- strength of sales and marketing efforts.

We believe we generally compete favorably with our competitors with respect to the features, security and performance of our platform, the ease of integration of our applications and the relatively low total cost of ownership of our applications. However, many of our competitors have substantially greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets, broader distribution, more diversified product lines and larger and more mature intellectual property portfolios.

Our goal is to maintain our technological advantages, time to market and worldwide sales and distribution network. We believe that the principal competitive factors affecting the market for our products include developer productivity, rapid results, product functionality, performance, reliability, scalability, portability, interoperability, ease-of-use, demonstrable economic benefits for developers and users relative to cost, quality of customer support and documentation, ease of installation, vendor reputation and experience, financial stability as well as intuitive and out-of-the-box solutions to extend the capabilities of ERP, CRM and other application vendors for enterprise integration.

## Intellectual Property

In accordance with industry practice, since we have no registered patents on our software solution technologies, we rely upon a combination of copyright, trademark, trade secret laws and contractual restrictions to protect our rights in our software products. Our policy has been to pursue copyright protection for our software and related documentation and trademark registration of our product names. In addition, our key employees and independent contractors and distributors are required to sign non-disclosure and secrecy agreements.

We provide our products to customers under a non-exclusive, non-transferable license. Usually, we have not required end-users of our products to sign license agreements. Generally, a “shrink wrap” license agreement is included in the product packaging, which explains that by opening the package seal, the user is agreeing to the terms contained therein. It is uncertain whether license agreements of this type are legally enforceable in all of the countries in which the software is marketed.

We do not believe that patent laws are a significant source of protection for our products since the software industry is characterized by rapid technological changes, the policing of unauthorized use of software is a difficult task and software piracy is expected to continue to be a persistent problem for the packaged software industry. As there can be no assurance that the above-mentioned means of legal protection will be effective against piracy of our products, and since policing unauthorized use of software is difficult, software piracy can be expected to be a persistent potential problem.

We believe that because of the rapid pace of technological change in the software industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of our support services.

Our trademark rights include rights associated with our use of our trademarks and rights obtained by registration of our trademarks. We have obtained trademark registrations in South Africa, Canada, China, Israel, the Netherlands (Benelux), Switzerland, Thailand, Japan, the United Kingdom and the United States. The initial terms of the registration of our trademarks range from 10 to 20 years and are renewable thereafter. Our use and registration of our trademarks do not ensure that we have superior rights to others that may have registered or used identical or related marks on related goods or services. We have registered a copyright for our software in the United States and Japan. In addition, we have registered copyrights for some of our manuals in the United States and have acquired an International Standard Book Number (ISBN) for some of our manuals. Our copyrights expire 70 years from date of first publication.

## Environmental, Social& Governance Matters

We place emphasis on, and devote considerable time towards, business responsibility, sustainability, and delivering value for our customer base, employees, investors, suppliers, and each of our respective communities. We have developed a strong set of corporate values that inspire ethical behavior throughout their decision-making process and that promote one of our business objectives of bringing together a diverse group with the unique skill sets, knowledge, and talents to effectuate our vision.

### C. ORGANIZATIONAL STRUCTURE

The following table sets forth the legal name, location and country or state of incorporation and percentage ownership of our subsidiaries as of December 31, 2021:

<b>Subsidiary Name</b>	<b>Country of Incorporation</b>	<b>Ownership Percentage</b>
Magic Software Japan K.K	Japan	100%
Magic Software Enterprises Inc.	Delaware	100%
Magic Software Enterprises (UK) Ltd (shares held by Magic Software Enterprises Netherlands B.V.)	United Kingdom	100%
Hermes Logistics Technologies Limited (shares held by Magic Software Enterprises (UK) Ltd)	United Kingdom	100%
Magic Software Enterprises Spain Ltd (shares held by Magic Software Enterprises Netherlands B.V.)	Spain	100%
Coretech Consulting Group, Inc. (shares held by Magic Software Enterprises Inc)	Pennsylvania	100%
Coretech Consulting Group LLC (shares held by Magic Software Enterprises Inc)	Delaware	100%
Fusion Solutions LLC. (shares held by Coretech Consulting Group LLC)	Delaware	100%
Fusion Technical Solutions LLC. (shares held by Fusion Solutions LLC)	Delaware	49%
Xsell Resources Inc. (shares held by Coretech Consulting Group LLC)	Pennsylvania	100%
Magic Software Enterprises (Israel) Ltd	Israel	100%
Magic Software Enterprises Netherlands B.V.	Netherlands	100%
Magic Software Enterprises France (shares held by Magic Software Enterprises Netherlands B.V.)	France	100%
Magic Beheer B.V. (shares held by Magic Software Enterprises Netherlands B.V.)	Netherlands	100%
Magic Benelux B.V. (shares held by Magic Beheer B.V.)	Netherlands	100%
Magic Software Enterprises GMBH (shares held by Magic Software Enterprises Netherlands B.V.)	Germany	100%
Magic Software Enterprises India Pvt. Ltd.	India	100%
Onyx Magyarorszag Szsoftverhaz (shares held by Magic Software Enterprises Netherlands B.V.)	Hungary	100%
Magix Integration (Proprietary) Ltd.	South Africa	100%
AppBuilder Solutions Ltd.	United Kingdom	100%
Complete Business Solutions Ltd.	Israel	100%
Datamind Technologies Ltd. (shares held by Complete Business Solutions Ltd)	Israel	100%
CommIT Technology Solutions Ltd.	Israel	78.0%
CommIT Software Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
CommIT Embedded Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	75%
Valinor Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
Dario Solutions IT Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
Quickcode Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
Twingo Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	60%
9540 Y.G. Soft I.T Ltd. (shares held by CommIT Software Ltd.)	Israel	60%
Pilat Europe Ltd.	United Kingdom	100%
Pilat (North America), Inc.	New Jersey	100%
Roshtov Software Industries Ltd	Israel	80.05%
BridgeQuest Labs, Inc. (shares held by BridgeQuest, Inc.)	North Carolina	100%
BridgeQuest, Inc. (shares held by Magic Software Enterprises Inc.)	North Carolina	100%
Allstates Consulting Services LLC (shares held by Magic Software Enterprises Inc.)	Delaware	100%
F.T.S. - Formula Telecom Solutions Ltd.	Israel	100%
FTS Bulgaria Ltd. (FTS Global Ltd.) (shares held by F.T.S. - Formula Telecom Solutions Ltd.)	Bulgaria	100%
Comblack IT Ltd	Israel	80.1%
Yes-IT Ltd. (shares held by Comblack IT Ltd)	Israel	100%
Shavit Software (2009) Ltd. (shares held by Comblack Ltd)	Israel	100%
Infinigy (UK) Holdings Limited	United Kingdom	100%
Infinigy (US) Holding Inc (shares held by Infinigy (UK) Holdings Limited)	Georgia	100%
Infinigy Solutions LLC. (shares held by Infinigy (US) Holding Inc)	Georgia	100%
Infinigy Engineering LLP (shares held by Infinigy Solutions LLC.)	Georgia	99.9%

<b>Subsidiary Name</b>	<b>Country of Incorporation</b>	<b>Ownership Percentage</b>
Skysoft Solutions Ltd. (shares held by CommIT Embedded Ltd.)	Israel	75%
Futurewave Systems, Inc. (shares held by Fusion Solutions LLC.)	Georgia	100%
OnTarget Group, Inc	North Carolina	100%
NetEffects, Inc. (shares held by Coretech Consulting Group LLC)	Missouri	100%
PowWow Inc. (shares held by Magic Software Enterprises Inc)	California	100%
BA Microwaves Ltd. (shares held by CommIT Embedded Ltd)	Israel	56.67%
Stockell Information Systems Inc. (shares held by Coretech Consulting Group LLC)	Missouri	100%
Mobisoft Ltd.	Israel	70%
Magic Hands B.V. (shares held by Magic Benelux B.V.)	Netherlands	100%
Knowledge & Solutions Software B.V.	Netherlands	100%
Aptonet, Inc. (shares held by Coretech Consulting Group LLC)	Georgia	100%
Comm-IT USA, Inc. (shares held by CommIT Technology Solutions Ltd)	Delaware	100%
Comblack Municipal Services Ltd. (shares held by Comblack IT Ltd)	Israel	70%
Shavit Human Resource Ltd. (shares held by Shavit Software (2009) Ltd)	Israel	100%
Menarva Ltd.	Israel	100%
Enable IT LLC. (shares held by Coretech Consulting Group LLC)	Delaware	100%
Enable IT Consulting Services Canada Inc. (shares held by Enable IT LLC.)	Canada	100%
Vidstart Ltd.	Israel	50.1%
Appush Inc. (Shares held by Vidstart Ltd.)	Delaware	100%

#### **D. PROPERTY, PLANTS AND EQUIPMENT**

Our headquarters and principal administrative, finance, sales, marketing and research and development office is located in a 32,404 square foot office facility that we lease in Or Yehuda, Israel, a suburb of Tel Aviv. In 2021, we paid \$0.6 million in annual rent for the Or Yehuda facilities under a lease agreement expiring in June 2033, with two additional five (5) year options to extend our lease agreement for.

Our subsidiaries lease office space in Laguna Hills, California; King of Prussia, Pennsylvania; Dallas, Texas; Houston, Texas; New Jersey; Atlanta, Georgia; Paris, France; Munich, Germany; Pune, India; Bangalore, India; Tokyo, Japan; Budapest, Hungary; Houten, the Netherlands; Johannesburg, South Africa; Bracknell, the United Kingdom; Saint Petersburg, Russia and various locations in Israel. The aggregate annual cost for such facilities was \$5.4 million during the year ended December 31, 2021.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

##### **A. OPERATING RESULTS**

The following discussion of our results of operations should be read together with our consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

## **Background**

We were organized under the laws of Israel on February 10, 1983 and began operations in 1986. Our Ordinary Shares have been listed on the NASDAQ Stock Market (symbol: MGIC) since our initial public offering in the United States on August 16, 1991. On January 3, 2011, our shares were transferred to the NASDAQ Global Select Market. Since November 16, 2000, our Ordinary Shares have also traded on the Tel Aviv Stock Exchange, or the TASE, and since December 15, 2011, our shares have been included in the TASE's TA-125 Index.

## **Overview**

We develop market, sell and support application platforms, business and process integration and selected vertical comprehensive software solutions packages. We have 51 active wholly-owned subsidiaries in the United States, Israel, Europe, Asia and South Africa. Of such subsidiaries, 27 are engaged in developing, marketing and supporting vertical applications, as well as in selling and supporting our products, and 24 subsidiaries specialize in providing broad range of IT consulting and outsourcing services in the areas of infrastructure design and delivery, application development, technology planning and implementation services, as well as supplemental outsourcing services.

As an IT technology innovator, we have many years of experience in assisting software companies and enterprises worldwide to produce and integrate their business applications. Our application platforms, Magic xpa and AppBuilder, are used by thousands of enterprises and MSPs to develop solutions for their users and customers in approximately 50 countries. We also provide maintenance and technical support as well as professional services to our enterprise customers and to MSPs. In addition, we sell our Magic xpi and Magic BusinessEye technologies for business integration to enterprises using specific popular software applications, such as SAP, Salesforce.com, IBM i (AS/400) or Oracle JD Edwards and other business applications. We refer to these vendor-centered market sectors as ecosystems.

## **General**

Our consolidated financial statements appearing in this annual report have been prepared in U.S. dollars and in accordance with U.S. GAAP.

Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in currencies other than the U.S. dollar are converted into dollars in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 830 "Foreign Currency Matters." The majority of our sales are made outside of Israel and a substantial part of them is in dollars. In addition, a substantial portion of our costs is incurred in dollars. Since the dollar is the primary currency of the economic environment in which we and certain of our subsidiaries operate, the dollar is our functional and reporting currency and accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars using the foreign exchange rate in effect at each balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the exchange rate in effect at the date of the transaction. For certain foreign subsidiaries whose functional currency is other than the U.S. dollar, all balance sheet accounts have been translated using the exchange rates in effect at each balance sheet date. Operational accounts have been translated using the average exchange rate prevailing during each year. The resulting translation adjustments are reported as a component of accumulated other comprehensive income (loss) in equity.

## ***Vision and Focus Areas***

Our vision of how the industry will evolve is being driven by the change in enterprise mobility, cloud computing and Big Data. We believe that our technology and extensive services will allow us to expand our offerings into the cloud and mobile enterprise markets with speed, scale and flexibility. We intend to remain focused on both the technology and business architectures that will enable our customers to take advantage of the cost efficiencies and competitive advantages conveyed by these technologies. We intend to continue to prudently take advantage of opportunities to capture market transitions and to put our assets to use in existing and new markets as the recovery continues. We believe that our strategy and our ability to innovate and execute may enable us to improve our competitive position in difficult business conditions and may continue to provide us with long-term growth opportunities.

## **Key Factors Affecting Our Business**

Our operations and the operating metrics discussed below have been and will likely continue to be affected by certain key factors as well as certain historical events and actions. The key factors affecting our business and results of operations include among others, dependence on a limited number of core product families, selected vertical software solutions and services, competition, ability to realize benefits from business acquisitions, dependence on a key customer for a significant percentage of our revenues and changes in the mix of revenues generated by different revenue elements affect our gross margins and profitability. For further discussion of the factors affecting our results of operations, see "Risk Factors."

### ***Dependence on a limited number of core product families and services***

We derive a significant portion of our revenues from sales of application and integration platforms primarily under our Magic xpa, Magic xpi, Magic BusinessEye, Magic SmartUX and AppBuilder brands and from related professional services, software maintenance and technical support as well as from packaged software solutions in several business verticals (mainly human resources, cargo handling, patient medical records and billing), and from other IT professional services, which include IT consulting and outsourcing services. Our future growth depends heavily on our ability to effectively develop and sell new products developed by us or acquired from third parties as well as add new features to existing products. A decrease in revenues from our principal products and services would adversely affect our business, results of operations and financial condition.

## ***Competition***

We compete with other companies in the areas of application platforms, business integration and business process management, and in the applications and services markets in which we operate. The growth of the SaaS and Enterprise Mobility market has increased the competition in these areas. We expect that such competition will continue to increase in the future, both with respect to our technology, applications and services which we currently offer and applications and services which we and other vendors are developing. Increased competition, direct and indirect, could adversely affect our business, financial condition and results of operations.

We also compete with other companies in the technical IT consulting and outsourcing services industry. This industry is highly competitive and fragmented and has low entry barriers. We, through eight of our subsidiaries in the United States and five of our subsidiaries in Israel, compete for potential customers with providers of outsourcing services, systems integrators, computer systems consultants, other providers of technical IT consulting services and, to a lesser extent, temporary personnel agencies. We expect competition to increase, and we may not be able to remain competitive.

Some of our existing and potential competitors are larger companies, have substantially greater resources than us, including financial, technological, marketing, skilled human resources and distribution capabilities, and enjoy greater market recognition than us. We may not be able to differentiate our products and services from those of our competitors, offer our products as part of integrated systems or solutions to the same extent as our competitors, or successfully develop or introduce new products that are more cost-effective, or offer better performance than our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

## ***Dependence on key customers***

We depend on repeat product and professional services revenues from a certain base of existing customers. Our two largest customers accounted for 19.0% and 21.2% of our revenues in the years ended December 31, 2020 and 2021, respectively, and our five largest customers accounted for 26.0% and 27.5% of our revenues in the years ended December 31, 2020 and 2021, respectively. If these existing customers decide not to continue utilizing our professional services, not to renew their existing engagements, not to continue using our products, or decide to significantly decrease their total expenditures with us, it may adversely affect our business, results of operations and financial condition. While one of these five customers is under a contract until December 31, 2027, under their master services agreements, the other customers may terminate their agreements with us upon only a 30-days' notice and without any penalty.

## ***Revenue Mix***

We derive our revenues from the sale of proprietary and third-party software licenses, related professional services, maintenance and technical support as well as from other IT professional services. In recent years the decline in our gross margin was primarily affected by the change in proportion of our revenues generated from the sale of each of those elements of our revenues. Our revenues from the sale of our proprietary software licenses, related professional services, maintenance and technical support have higher gross margins than our revenues from third party software licenses and IT professional and outsourcing services. Any increase in the portion of third-party software license sales out of total license sales will decrease our gross profit margin. If the relative proportion of our revenues from the sale of IT professional services continues to increase as a percentage of our total revenues, our gross profit margins may continue to decline in the future.

The breakdown of our revenue mix for the twelve-month period of 2021 was approximately 19% related to our software solutions and 81% related to our professional services, compared to 23% related to our software and 77% related to our professional services in 2020 as a whole. The increase in the percentage of our professional services is due to the continued strong demand for our professional experts driving our professional services revenue stream and the addition of Enable IT acquired during the second quarter of 2021 to our professional services business segment contributing \$19 million to our top line this year.

Despite the significant change in mix of our revenues between software solutions and professional services, the breakdown of our gross profit mix for the twelve-month period of 2021 remained stable as approximately 45% of our gross profit related to our software solutions and 55% related to our professional services in 2021 as a whole, compared to 47% related to our software and 53% related to our professional services in 2020 as a whole.

***We may encounter difficulties in realizing the potential financial or strategic benefits of recent and future business acquisitions.***

A significant part of our business strategy is to pursue acquisitions and other initiatives based on strategy centered on three key factors: growing our customer base, expanding geographically and adding complementary solutions to our portfolio— all while we seek to ensure our continued high quality of services and product delivery. As such, in recent years we made numerous of acquisitions. Mergers and acquisitions of companies are inherently risky and subject to many factors outside of our control and no assurance can be given that our future acquisitions will be successful and will not adversely affect our business, operating results, or financial condition. In the future, we may seek to acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in the future in order to expand our business. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to a failure to do so. Even when an acquired company has previously developed and marketed products, there can be no assurance that new product enhancements will be made in a timely manner or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products.

If we acquire another business, we may face difficulties, including:

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

***Impact of Currency Fluctuations and of Inflation***

Our financial statements are stated in U.S. dollars, our functional currency. However, a substantial portion of our revenues and costs are incurred in other currencies, particularly NIS, Euros, Japanese yen, and the British pound. We also maintain substantial non-U.S. dollar balances of assets, including cash, accounts receivable, and liabilities, including accounts payable and debts to banks and financial institutions. Therefore, fluctuations in the value of the currencies in which we do business relative to the U.S. dollar may adversely affect our business, results of operations and financial condition. The depreciation of such other currencies in relation to the U.S. dollar has the effect of reducing the U.S. dollar value of any of our liabilities which are payable in those other currencies (unless such costs or payables are linked to the U.S. dollar). Such depreciation also has the effect of decreasing the U.S. dollar value of any asset that is denominated in such other currencies or receivables payable in such other currencies (unless such receivables are linked to the U.S. dollar). In addition, the U.S. dollar value of revenues and expenses denominated in such other currencies would decrease. Conversely, the appreciation of any currency in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked assets and the U.S. dollar amounts of any unlinked liabilities and increasing the U.S. dollar value of revenues and expenses denominated in other currencies.

In addition, while we incur a portion of our costs in NIS, the U.S. dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is (or is not) offset, or is offset on a lagging basis, by a devaluation of the NIS in relation to the U.S. dollar.

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

The following table sets forth for the periods indicated (depreciation) or appreciation of the U.S. dollar against the most important currencies for our business and the Israeli consumer price index:

	<b>Year Ended December 31,</b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
New Israeli Shekel	(3.3)%	(7.0)%	(7.8)%	8.1%	(9.8)%
Euro	8.4%	(8.5)%	2.0%	4.6%	(12.2)%
Japanese Yen	11.7%	(5.0)%	(1.2)%	(2.4)%	(3.8)%
British Pound	1.1%	(3.4)%	(3.1)%	5.6%	(9)%
Israeli Consumer Price Index	2.8%	(0.7)%	0.6%	0.8%	0.4%

## Segments

We report our results on the basis of two reportable business segments: software services (which include proprietary and non-proprietary software technology and complementary services) and IT professional services. Set forth below is segment information for the years ended December 31, 2019, 2020 and 2021.

	<u>Software services</u>	<u>IT professional services</u>	<u>Unallocated expense</u>	<u>Total</u>
	(U.S. dollars in thousands)			
<b>2019</b>				
Total revenues	\$ 86,140	\$ 239,490	\$ -	\$ 325,630
Expenses	71,825	216,842	3,311	291,978
Operating income (loss)	\$ 14,315	\$ 22,648	\$ (3,311)	\$ 33,652
Depreciation, amortization and stock-based compensation expenses	8,799	5,059	241	14,099
Capitalized software development costs	(4,143)	-	-	(4,143)
EBITDA	\$ 18,971	\$ 27,707	\$ (3,070)	\$ 43,608
<b>2020</b>				
Total revenues	\$ 86,025	\$ 285,169	\$ -	\$ 371,194
Expenses	64,498	258,907	7,201	330,606
Operating income (loss)	\$ 21,527	\$ 26,262	\$ (7,201)	\$ 40,588
Depreciation, amortization and stock-based compensation expenses	10,329	3,347	263	13,939
Capitalized software development costs	(3,302)	-	-	(3,302)
EBITDA	\$ 28,554	\$ 29,609	\$ (6,938)	\$ 51,225
<b>2021</b>				
Total revenues	\$ 95,589	\$ 384,736	-	480,325
Expenses	74,863	347,712	6,514	429,089
Operating income (loss)	\$ 20,726	\$ 37,024	\$ (6,514)	51,236
Depreciation, amortization and stock-based compensation expenses	9,261	5,220	371	14,852
Capitalized software development costs	(3,193)	-	-	(3,193)
EBITDA	\$ 26,794	\$ 42,244	\$ (6,143)	\$ 62,895



## Explanation of Key Income Statement Items

**Revenues.** Revenues are derived from sales of software licenses (proprietary and non-proprietary), related professional services, maintenance and technical support and other IT professional services, which include, cloud computing and IT consulting and outsourcing services. Revenues may continue to be affected by factors including market uncertainty, which can result in cautious spending in our global markets; changes in the geopolitical environment; sales cycles; fluctuation of exchange rates; changes in the mix of direct sales and indirect sales and variations in sales channels.

**Cost of Revenues.** Cost of revenues for software sales consist primarily of software production costs, royalties and licenses payable to third parties, as well as amortization of capitalized and acquired software costs. Cost of revenues for maintenance and technical support and professional services consists primarily of personnel expenses, subcontracting and other related costs. Cost of revenues for software sales is affected by changes in the mix of products sold; price competition; sales discounts; fluctuation of exchange rates; and increases in labor costs. Service gross margin may be impacted by various factors such as the change in mix between technical support services and advanced IT professional services, the timing of technical support service contract initiations and renewals and the timing of our strategic investments in headcount and resources to support this business.

**Research and Development Expenses, Net.** Research and development costs consist primarily of personnel expenses of employees engaged in on-going research and development activities, subcontracting, development tools and other related expenses. The capitalization of software development costs is applied as reductions to gross research and development costs to calculate net research and development expenses.

The following table sets forth the gross research and development costs, capitalized software development costs, and the net research and development expenses for the periods indicated:

	Year ended December 31,		
	2021	2020	2019
	(U.S. dollars in thousands)		
Gross research and development costs	\$ 12,188	\$ 12,091	\$ 12,382
Less capitalized software development costs	(3,193)	(3,302)	(4,143)
Research and development expenses, net	<u>\$ 8,995</u>	<u>\$ 8,789</u>	<u>\$ 8,239</u>

**Selling and Marketing Expenses.** Selling and marketing expenses consist primarily of salaries and related expenses for sales and marketing personnel, sales commissions, third party royalties, marketing programs and campaigns, website related expenses, public relations, on-line advertising, industry analyst relations, promotional materials, travel expenses and conferences and trade shows exhibit expenses, as well as amortization of acquired customer relationships recorded as a result of business combinations.

**General and Administrative Expenses.** General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, human resources and administrative personnel, professional fees, legal expenses, provisions for credit losses, and other general and administrative corporate expenses.

**Financial income (expenses), net.** Net financial income (expenses) consists primarily of interest earned on cash equivalents deposits and marketable securities, bank fees and interest paid on loans received, interest expenses related to liabilities in connection with acquisitions and impact of foreign currency exchange rates fluctuations.

## Results of Operations

The following table presents selected consolidated statement of operations data for the periods indicated as a percentage of total revenues:

	Year ended December 31,		
	2021	2020	2019
Revenues:			
Software	6.5%	6.6%	8.6%
Maintenance and technical support	7.5	8.9	9.5
Consulting services	86.0	84.5	81.9
Total revenues	100.0%	100.0%	100.0%
Cost of revenues:			
Software	2.5	2.8	3.1
Maintenance and technical support	0.9	1.0	1.3
Consulting services	68.9	66.7	64.2
Total cost of revenues	72.3	70.5	68.6
Gross profit	27.7	29.5	31.4
Operating costs and expenses:			
Research and development, net	1.9	2.4	2.5
Selling and marketing,	7.9	8.4	9.4
General and administrative	6.7	7.5	9.1
Change in valuation of contingent consideration related to acquisitions	0.5	0.3	0.1
Total operating expenses, net	17.0	18.6	21.1
Operating income	10.7	10.9	10.3
Financial income (expenses), net	(0.7)	(0.3)	(0.3)
Increase in valuation of contingent consideration related to acquisitions	(0.6)	(0.6)	-
Income before taxes on income	9.4	10.0	10.0
Tax on income	(2.2)	(1.9)	(2.1)
Net income attributable to redeemable non-controlling interests	(0.7)	(0.8)	(1.0)
Net income attributable to non-controlling interests	(0.4)	(0.5)	(0.7)
Net income attributable to Magic's shareholders	6.1	6.8	6.2

### Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

**Revenues.** Revenues in 2021 increased by 29% from \$371.2 million in 2020 to \$480.3 million in 2021.

Revenues from the software services business segment increased by 11% from \$86.0 million in 2020 to \$95.6 million in 2021. This is primarily attributable to i) increase of \$3.1 million in sales of our maintenance and support agreements, 54%, accounted by organic growth with the remaining due to the inclusion of Mobisoft revenues, acquired in July 1, 2020, on a full year basis, ii) increase of \$3.5 million in sales of third party software, iii) increase of \$1.2 million resulted from the first-time consolidation of our subsidiary Menarva acquired on April 1, 2021 and iv) increase of \$1.7 million sales of proprietary software licenses.

Revenues from the IT professional services business segment increased by 35% from \$285.2 million in 2020 to \$384.7 million in 2021, primarily attributable to i) increase of \$18.3 million due to the inclusion of Aptonet and Stockell revenues, acquired on May 7, 2020 and September 2, 2020, respectively on a full year basis, ii) increase of \$19.2 million due to the acquisition of Enable IT on April 1, 2021, with the remaining increase resulted primarily from increased demand for our IT software services across most of our business units.

Revenues from sales of proprietary technology software licenses and proprietary packaged software solutions increased by approximately 18% from \$16.1 million in 2020 to \$19.0 million in 2021. This is mainly attributable to increase demand for our proprietary packaged software solutions with \$1.2 million resulting from the first-time consolidation of Menarva.

Revenues from sales of third-party software solutions increased by approximately 45% from \$8.2 million in 2020 to \$11.9 million in 2021, in line with the increase in sales recorded across all of our revenue streams.

Revenues from maintenance and technical support increased by approximately 9% from \$33.2 million in 2020 to \$36.1 million in 2021, in line with the increase in revenues from sales of proprietary technology software licenses and proprietary packaged software solutions.

Revenues from IT consulting services increased by approximately 32% from \$313.7 million in 2020 to \$413.2 million in 2021. The increase was primarily attributable to the first-time consolidation of our subsidiary Enable IT and the consolidation of Aptonet and Stockell, on a full year basis in 2021, as well as increased revenues from our two largest clients who accounted together for 19.0% and 21.2% of our revenues in the years ended December 31, 2020 and 2021, respectively.

The following table summarizes our revenues by geographical market for the years ended December 31, 2020 and 2021:

	<b>Year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(U.S. dollars in thousands)</b>	
United States	\$ 254,342	\$ 177,882
Israel	180,462	149,094
Europe	30,085	26,947
Japan	11,443	12,643
Other	3,993	4,628
Total revenues	\$ 480,325	\$ 371,194

**Cost of Revenues.** Cost of revenues increased by approximately 33% from \$261.6 million in 2020 to \$347.3 million in 2021.

Cost of revenues from the software services business segment increased by 7% from \$35.3 million in 2020 to \$37.6 million in 2021. As percentage of revenues, cost of revenues from the software services business segment decreased from approximately 41% in 2020 to approximately 39% in 2021. This is primarily due to the increase recorded in our sales of proprietary technology software licenses and proprietary packaged software solutions as well in our revenues from maintenance and technical support.

Cost of revenues from the IT professional services business segment increased by approximately 37% from \$226.3 million in 2020 to \$309.7 million in 2021. As percentage of revenues, cost of revenues from the IT professional services business segment remained stable at approximately 80% in 2021 compared to 79% in 2020. The increase in cost of revenues from the IT professional services business segment in absolute numbers is in line with the increase in revenues from the IT professional services business segment.

Cost of revenues for maintenance and technical support increased by 15% from \$3.6 million in 2020 to \$4.1 million in 2021. As a percentage of revenues, cost of revenues for maintenance and technical support remained stable at approximately 11% in 2021 and 2020.

**Gross Margin.** Gross margin declined by 1.8% from 29.5% in 2020 to 27.7% in 2021. The decrease in our gross margin is mainly attributable to i) the change of our revenue mix related to our software solutions compared to our professional services accounting for approximately half of the decrease in gross margin and ii) the increase in employee payroll costs due to increased demand for digital, cloud, data and core systems professional experts which lowered our professional services gross margins to 20% in 2021 compared to 21.1% in 2020.

**Research and Development Expenses, Net.** Gross research and development costs remained stable in absolute numbers with \$12.2 million in 2021 compared to \$12.1 million in 2020. Net research and development costs increased by 2% from \$8.8 million in 2020 to \$9.0 million in 2021. In 2021, we capitalized \$3.2 million of software development costs compared to \$3.3 million in 2020. Net research and development costs as a percentage of revenues was 1.9% in 2021 compared to 2.4% in 2020. Gross (net) research and development costs as a percentage of revenues of our software services business segment slightly decreased from 14% (10%) in 2020 to 13% (9%) in 2021.

**Selling and Marketing Expenses.** Selling and marketing expenses increased by 22% from \$31.2 million in 2020 to \$38.1 million in 2021. Selling and marketing expenses as a percentage of revenues decreased from 8.4% in 2020 to 7.9% in 2021. The increase in the overall sales and marketing expenses is in line with the increase in our revenues. Selling and marketing expenses for the year ended December 31, 2021 include \$956,000 of stock-based compensation expenses compared to \$0 in 2020.

**General and Administrative Expenses.** General and administrative expenses increased by 15.0% from \$27.7 million in 2020 to \$32.1 million in 2021. General and administrative expenses as a percentage of revenues decreased from 7.5% in 2020 to 6.8% in 2021. The increase in expenses is attributable mainly to i) cost-saving measures taken in 2020 with respect to the COVID-19 business disruption that did not repeat in 2021, ii) increase in costs related to acquisitions from \$1.5 million to \$2.2 million, iii) increase in valuation of contingent consideration costs from \$1.1 million in 2020 to \$2.5 million in 2021 and iv) increase in directors and officers insurance costs from \$0.4 million in 2020 to \$0.9 million in 2021. The remaining increase in the overall general and administrative expenses is in line with the increase in our revenues.

**Financial Expenses, Net.** We recorded net financial expenses of \$0.9 million in 2020 and \$3.2 million in 2021. The increase is mainly attributed to an increase in our interest expenses with respect to loans from financial institutions in the amount of \$0.2 million, as well as an increase in costs arising from devaluation of U.S dollar mainly versus the New Israeli Shekel and the Euro in the amount of \$1.8 million.

**Taxes on Income.** We recorded taxes on income of \$7.3 million in 2020 compared to \$10.4 million in 2021. The increase is mainly attributed to a one-time reversal a provision for uncertain tax positions in respect of previous years which occurred in 2020 in the amount of \$1.1 million. The rest of the increase is in line with the increase in our taxable income.

**Net Income Attributable to Our Shareholders.** Our net income increased from \$25.2 million in 2020 to \$29.3 million in 2021, primarily attributable to an increase in operating profit of \$10.6 million and offset by financial expenses, net of \$2.2 million out of which \$1.8 million related to foreign currency revaluation and \$3.1 million on taxes.

### **Year Ended December 31, 2020 Compared with Year Ended December 31, 2019**

Please see Item 5A of our Form 20-F for the Year ended December 31, 2020 filed on May 13, 2021 for this comparison.

### **B. LIQUIDITY AND CAPITAL RESOURCES**

To date, we have financed our operations through income generated by operations, proceeds from our public offerings in 1991 (approximately \$8.5 million), 1996 (approximately \$5.0 million), 2000 (approximately \$79.6 million) and 2014 (approximately \$54.7 million), private equity investments in 1998 (approximately \$12.2 million), 2010 (approximately \$20.3 million), and in 2018 (approximately \$34.6 million). In addition, we have also financed our operations through short-term loans, long-term loans and borrowings under available credit facilities from financial institutions.

In November 2016, we obtained a NIS 120 million loan linked to the New Israel Shekel from an Israeli financial institution. We intended to use the proceeds from this loan for our general corporate purposes, which may include the funding of our working capital needs and the funding of potential acquisitions. The principal amount of the loan is payable in seven equal annual payments with the final payment due on November 2, 2023 and bears a fixed interest rate of 2.60% per annum, payable in two semi-annually payments. The loan, which may be prepaid under certain circumstances (in any event for not less than NIS 5.0 million and thereon for amounts which are a multiple of NIS 5.0 million), is subject to various financial covenants which mainly consist of the following:

- a. Our equity will not be lower than \$100 million (one hundred million U.S. Dollars at all times);
- b. Our cash and cash equivalent and marketable securities available for sales will not be less than \$10 million (ten million U.S. Dollars);
- c. The ratio of our total financial debts to total assets will not exceed 50%;
- d. The ratio of our total financial debts less cash, short-term deposits and short-term marketable securities to the annual EBITDA will not exceed 3.25 to 1;

- e. Cross default, including following an immediate repayment initiated in relation to other financial indebtedness in an amount that exceeds \$5 million;
- f. Suspension of trading of the debentures on the TASE over a period of 60 days, or the delisting of the debentures from the TASE;
- g. If there is a change in control without consent of the lender (a change of control is deemed to occur if Formula ceases to be the controlling shareholder of our company, whether directly or indirectly. Formula will be considered a controlling shareholder for so long as it continues to hold at least 30% of the means of control of our company (within the meaning of the Israeli Securities Law) and there is no other person or entity holding a higher percentage. To the extent that Formula holds such controlling interest jointly with others, it will be deemed to remain our controlling shareholder if it maintains the highest percentage ownership among such other shareholders);
- h. The existence and continuation of a bankruptcy event involving our company, or the liquidation of our company or writing off of our assets;
- i. There has been a material adverse change in the business of our company compared to the position of our company shortly before the issuance of the loan and there is a material concern that we will not be able to pay our obligations under the loan agreement on time; and
- j. Failure to comply with the negative pledge covenant.

To date, we are in full compliance with the financial covenants of the loan.

On June 1, 2021, the Company obtained a loan in the amount of \$ 15 million from an Israeli bank. The principal amount of the loan is payable in eight equal semi-annual installments with the final payment due on December 1, 2025 and bears a fixed interest rate of SOFR + 2.1% per annum, payable in two semi-annual payments.

On March 31, 2022, the Company entered into a secured credit agreement, or the Credit Agreement, with an Israeli bank (or the “Lender”). Pursuant to the Credit Agreement, the Company borrowed \$25 million, or the Bank Loan, for a five-year term. The Bank Loan will mature on March 31, 2027, and will be repaid in 5 equal annual installments, whereas the interest will be paid and calculated on a quarterly basis. The Bank Loan bears interest at the rate of SOFR + 2.25%.

As of December 31, 2021, we had \$94.8 million in cash and cash equivalents and available-for-sale marketable securities, with net working capital of approximately \$138.6 million and long term debts to banks and others of approximately \$20.2 million compared to \$89.7 million in cash and cash equivalents and available-for-sale marketable securities, with net working capital of \$126.4 million and long term debts to banks and others of \$13.4 million, as of December 31, 2020.

As of December 31, 2020, and 2021, our long-term and short-term debt amounted to \$24.9 million and \$37.1 million, respectively and our redeemable non-controlling interests as of December 31, 2020 and 2021 amounted to \$25.0 million and \$30.4 million, respectively.

Based on our current operating forecast, we believe that our cash and cash equivalents (including available-for-sale marketable securities and existing working capital), will be sufficient to meet our cash requirements for working capital and capital expenditures for at least the next 12 months. We assume that our cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, accounts receivable collections, payments of loans and the timing and amount of tax and other payments.

We believe the overall credit quality of our portfolio is strong, with our cash equivalents and fixed income portfolio invested in securities with a weighted-average credit rating exceeding A. Our fixed income and publicly traded equity securities are classified as Level 2 investments, as measured under ASC 820, “Fair Value Measurements and Disclosures,” as these vendors either provide a quoted market price in an active market or use observable inputs.

## Cash Flows

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

	Year ended December 31,		
	2021	2020	2019
	(U.S. dollars in thousands)		
Net income from operations	\$ 34,904	\$ 30,117	\$ 25,598
Adjustments to reconcile net income to net cash provided by operating activities	2,906	22,179	20,350
Net cash provided by operating activities	37,810	52,296	45,948
Net cash used in investing activities	(16,854)	(9,604)	(15,440)
Net cash used in financing activities	(20,735)	(39,647)	(36,980)
Effect of exchange rate changes on cash and cash equivalents	(258)	3,167	1,261
Increase (decrease) in cash and cash equivalents	\$ (37)	\$ 6,212	\$ (5,211)

Net cash provided by operating activities was \$37.8 million for the year ended December 31, 2021, compared to \$52.3 million and \$45.9 million for the years ended December 31, 2020 and 2019, respectively.

Net cash provided by operations in 2021 consisted primarily of \$34.9 million of net income adjusted for non-cash activities, including \$14.9 million of depreciation and amortization expenses, \$1.0 million of stock-based compensation expenses, a \$0.3 million increase in other long term and short term accounts receivable and prepaid expenses, a \$8.8 million increase in trade payables, a \$6.4 million increase in accrued expenses and other accounts payable and a \$2.0 million increase in deferred revenues, offset by a \$3.0 million change in deferred taxes, net and a \$27.4 million increase in trade receivables.

Net cash provided by operations in 2020 consisted primarily of \$30.1 million of net income adjusted for non-cash activities, including \$13.9 million of depreciation and amortization expenses, a \$3.4 million decrease in other long term and short term accounts receivable and prepaid expenses, a \$1.9 million increase in trade payables, a \$8.2 million increase in accrued expenses and other accounts payable, and a \$1.4 million increase in value of loans which are denominated in NIS as a result of the appreciation of the NIS in relation to the U.S. dollar, offset by a \$1.7 million change in deferred taxes, net, a \$3.9 million increase in trade receivables, and a \$0.9 million decrease in deferred revenues.

Net cash provided by operations in 2019 consisted primarily of \$25.6 million of net income adjusted for non-cash activities, including \$14.0 million of depreciation and amortization expenses, \$0.1 million of stock compensation expenses, a \$6.5 million decrease in trade receivables, net, a \$9.6 million decrease in other long term and short term accounts receivable and prepaid expenses, a \$0.1 million of amortization of marketable securities premium, a \$2.9 million increase in deferred revenues, and a \$1.9 million increase in value of loans which are denominated in NIS as a result of the appreciation of the NIS in relation to the U.S. dollar, offset by a \$1.9 million change in deferred taxes, net, a \$5.3 million decrease in trade payables, and a \$7.7 million decrease in accrued expenses and other accounts payable.

Net cash used in investing activities was approximately \$16.9 million for the year ended December 31, 2021, compared to net cash used in investing activities of approximately \$9.6 million for the year ended December 31, 2020 and net cash used in investing activities of approximately \$15.4 million for the year ended December 31, 2019.

Net cash used in investing activities in 2021 is primarily attributable to \$6.8 million used in business combinations, \$1.4 million used to purchase property and equipment and \$3.2 million of capitalized software development costs, as well as investment in short-term bank deposits which amounted to \$5.3 million.

Net cash used in investing activities in 2020 is primarily attributable to \$16.5 million used in business combinations, \$2.8 million used to purchase property and equipment and \$3.3 million of capitalized software development costs, offset by proceeds of \$7.6 million from investment in short-term bank deposits, and proceeds of \$5.4 million from maturity of marketable securities.

Net cash used in investing activities in 2019 is primarily attributable to \$0.7 investment in long-term bank deposits, \$22.6 million used in business combinations, \$1.4 million used to purchase property and equipment and \$4.1 million of capitalized software development costs, offset by \$10.0 million investment in short-term bank deposits, and \$3.4 million provided by proceeds from maturity of marketable securities.

Net cash used in financing activities was approximately \$21.3 million for the year ended December 31, 2021, primarily attributable to dividend distributions of \$21.8 million, dividends paid to non-controlling interests of \$0.6 million, dividends paid to redeemable non-controlling interests of \$3.7 million, payments in connection with contingent considerations arising from acquisitions in the amount of \$5.3 million, and repayment of short-term and long-term loans of \$14.5 million, which were offset by proceeds from short-term and long-term loans received in the amount of \$25.6 million.

Net cash used in financing activities was approximately \$39.6 million for the year ended December 31, 2020, primarily attributable to dividend distributions of \$12.5 million, dividends paid to non-controlling interests of \$5.1 million, dividends paid to redeemable non-controlling interests of \$4.6 million, purchase of redeemable non-controlling interests of \$18.0 million, and repayment of short-term and long-term loans of \$9.4 million, which were offset by \$0.1 million received from the exercise of employee options, and proceeds from short-term and long-term loans received in the amount of \$9.6 million.

Net cash used in financing activities was approximately \$37.0 million for the year ended December 31, 2019, primarily attributable to dividend distributions of \$15.0 million, dividends paid to non-controlling interests of \$0.5 million, dividends paid to redeemable non-controlling interests of \$3.4 million, purchase of redeemable non-controlling interests of \$5.6 million, and repayment of short-term and long-term loans of \$13.6 million, which were offset by issuance of \$0.1 million of ordinary shares, \$0.1 million received from the exercise of employee options, and short-term and long-term loans received of \$0.9 million.

## **Dividends**

We have paid dividends since September 2012 consistent with our Board of Directors' dividend policy. On August 2017, our board of directors amended our dividend distribution policy, whereas, each year we distribute a dividend of up to 75% of our annual net income attributable to our shareholders (previously 50%), subject to applicable law. Our Board of Directors may at its discretion and at any time, change, whether as a result of a one-time decision or a change in policy, the rate of dividend distributions or decide not to distribute a dividend. The dividend is to be distributed on a semi-annual basis.

For information about our dividend policy and distributions, see Item 8A. "Financial Information - Consolidated Statements and Other Financial Information."

## **General**

Our consolidated financial statements appearing in this annual report have been prepared in U.S. dollars and in accordance with U.S. GAAP.

Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in currencies other than the U.S. dollar are converted into dollars in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 830 "Foreign Currency Matters." The majority of our sales are made outside of Israel and a substantial part of them is in dollars. In addition, a substantial portion of our costs is incurred in dollars. Since the dollar is the primary currency of the economic environment in which we and certain of our subsidiaries operate, the dollar is our functional and reporting currency and accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars using the foreign exchange rate in effect at each balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the exchange rate in effect at the date of the transaction. For certain foreign subsidiaries whose functional currency is other than the U.S. dollar, all balance sheet accounts have been translated using the exchange rates in effect at each balance sheet date. Operational accounts have been translated using the average exchange rate prevailing during each year. The resulting translation adjustments are reported as a component of accumulated other comprehensive income (loss) in equity.

**C. RESEARCH AND DEVELOPMENT**

Our research and development and support personnel work closely with our customers, our prospective customers and relevant market analysts to determine our requirements and to design enhancements and new releases to meet market needs. We periodically release enhancements and upgrades to our core products. In the years ended December 31, 2019, 2020 and 2021, we invested \$12.4 million, \$12.1 million and \$12.2 million in research and development, respectively. Research and development activities take place in our facilities in Israel, India, Russia and Japan.

As of December 31, 2021, we employed 228 employees in research and development activities, of which 87 persons were located in Israel, 114 persons in India, 21 persons in Russia, 5 persons in Japan (when measured on a full time basis) and 1 person in the US. Our product development team includes technical writers who prepare user documentation for our products. In addition, we have also entered into arrangements with subcontractors for the preparation of product user documentation and certain product development work.

For additional information regarding product development see Item 4. “Information on the Company - Business Overview - Product Development.”

**D. TREND INFORMATION**

For information see discussion in Item 4. “Information on the Company-Business Overview-Industry Background and Trends” and Item 5. “Operating and Financial Review and Prospects - Results of Operations.”

**E. CRITICAL ACCOUNTING POLICIES AND ESTIMATIONS**

**Critical Accounting Policies and Estimations**

We have identified the policies below as critical to the understanding of our financial statements. The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying financial statements and the related footnotes. Actual results may differ from these estimates. To facilitate the understanding of our business activities, certain of our accounting policies that we believe are the most important to the portrayal of our financial condition and results of operations and that require management’s subjective judgments are described below. We base our judgments on our experience and various assumptions that we believe are reasonable.



## ***Revenue Recognition***

We implement the provisions of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). See Note 19 to our financial statements included in this annual report for further disclosures required under ASC 606.

Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services.

We determine revenue recognition through the following steps:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

We enter into contracts that can include various combinations of products, software and professional services, as detailed below, which are generally distinct from each other and accounted for as separate performance obligations.

We derive our revenues from licensing the rights to use our software (proprietary and non-proprietary), provision of related professional services, maintenance and technical support as well as from other software and IT professional services (either fixed price or based on time and materials). We sell our products primarily through direct sales force and indirectly through distributors and value added resellers.

Under ASC 606, an entity recognizes revenue when or as it satisfies a performance obligation by transferring software license or software related services to the customer, either at a point in time or over time. We recognize our revenues from software sales at a point in time upon delivery of a software license. The software license is considered a distinct performance obligation, as the customer can benefit from the software on its own. Revenues from contracts that involve significant customization to customer-specific specifications are performance obligations that we generally account for as performance obligations satisfied over time. The underlying deliverable is owned and controlled by the customer and does not create an asset with an alternative use to us. We recognize revenue of such contracts over time using cost inputs, which recognize revenue and gross profit as work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract, to measure progress toward completion of its performance obligations. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss for the entire contract. During the years ended December 31, 2019, 2020 and 2021, no material estimated losses were identified. In addition, we provide professional services that do not involve significant customization to customer-specific specifications. For contracts that do not involve significant customization to customer-specific specifications (typically staffing or consulting services) revenue is recognized as the services are performed, either on a straight-line basis or based on the hours of services that were provided to the customer, in accordance with the terms of the contracts.

Our revenues from post contract support are derived from annual maintenance contracts providing for unspecified upgrades for new versions and enhancements on a when-and-if-available basis for an annual fee, as well as technical support for software licenses previously sold. The right for an unspecified upgrade for new versions and enhancements on a when-and-if-available basis do not specify the features, functionality and release date of future product enhancements for the customer to know what will be made available and the general timeframe in which it will be delivered. We consider the post contract support performance obligation as a distinct performance obligation that is satisfied over time, and recognized on a straight-line basis over the contractual period.

Revenue from professional services both related to software and IT professional services businesses consists of either fixed price or time and materials (T&M), and are considered performance obligations that are satisfied over time, and revenues are recognized as the services are provided.

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of software licenses are estimated using the residual approach, due to the lack of selling software licenses on a standalone basis. Standalone selling prices of services are determined by considering several external and internal factors including, but not limited to, transactions where the specific performance obligation is sold separately.

We generally do not grant a right of return to our customers. When a right of return exists, we defer revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria are met.

Revenue from third-party sales is recorded at a gross or net amount according to certain indicators. The application of these indicators for gross and net reporting of revenue depends on the relative facts and circumstances of each sale.

We pay commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales or profit goals. When sales commissions are considered incremental costs of obtaining a contract with a customer they are deferred and amortized on a systematic basis that is consistent with the transfer to the customer of the performance obligations to which the asset relates. We generally expense sales commissions as they are incurred when the amortization period would have been less than one year. In addition, generally, sales commissions which are paid upon contract renewal are commensurate with the initial commissions as the renewal amounts are substantially identical to the initial commission costs. During the year ended December 31, 2021, no costs have been capitalized.

We do not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

### ***Research and development costs***

Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in ASC 985-20, "Costs of Software to be Sold, Leased or Marketed."

We establish technological feasibility upon completion of a detailed program design or working model.

Research and development costs incurred in the process of developing product enhancements are generally charged to expenses as incurred.

ASC 985-20-35 requires that a product be amortized when the product is available for general release to customers. We consider a product to be available for general release to customers when we complete the internal validation of the product that is necessary to establish that the product meets its design specifications including functions, features, and technical performance requirements. Internal validation includes the completion of coding, documentation and testing that ensure bugs are reduced to a minimum. The internal validation of the product takes place a few weeks before the product is made available to the market. In certain instances, we enter into a short pre-release stage, during which the product is made available to a selected number of customers as a beta program for their own review and familiarization. Subsequently, the release is made generally available to customers from our download area. Once a product is considered available for general release to customers, the capitalization of costs ceases and amortization of such costs to "cost of sales" begins.

Capitalized software costs are amortized on a product by product basis by the straight-line method over the estimated useful life of the software product (approximately 5 years, due to their high rates of acceptance, the continued reliance on these products by existing customers, and the demand for such products from prospective customers, all of which validate our expectations) which provides greater amortization expense compared to the revenue-curve method.

We assess the recoverability of these intangible assets on a regular basis by assessing the net realizable value of these intangible assets based on the estimated future gross revenues from each product reduced by the estimated future costs of completing and disposing of it, including the estimated costs of performing maintenance and customer support over its remaining economical useful life using internally generated projections of future revenues generated by the products, cost of completion of products and cost of delivery to customers over its remaining economical useful life.

During the years ended December 31, 2019, 2020 and 2021, no such unrecoverable amounts were identified.

Research and development costs incurred in the process of developing product enhancements are generally charged to expenses as incurred.

## ***Business Combinations***

We account for business combinations under ASC 805 “Business Combinations,” which requires that we allocate the purchase price of acquired businesses to assets acquired, liabilities assumed, non-controlling interest and redeemable non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. We expense any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies as they are incurred. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings. We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

We make estimates of fair value based upon assumptions and judgments a marketplace participant would consider and which we believe to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired businesses and relevant market and industry data and are, inherently, uncertain. Critical estimates made in valuing certain of the intangible assets include, among other things, the following: (i) future expected cash flows from license sales, maintenance agreements, customer contracts and acquired developed technologies and patents; (ii) expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed; (iii) the acquired company’s brand and market position as well as assumptions about the period of time the acquired brand will continue to be used in the combined company’s product portfolio; and (iv) discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. Changes to these estimates, relating to circumstances that existed at the acquisition date, are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses, if otherwise.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation. See Note 3 to our consolidated financial statements for additional information on accounting for our recent acquisitions.

During the years ended December 31, 2020 and 2021 we recorded \$3.4 million and \$5.3 million, with respect to changes in the fair value of contingent consideration liability, respectively.

## ***Goodwill***

As a result of our acquisitions, our goodwill represents the excess of the consideration paid or transferred plus the fair value of contingent consideration and any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Under ASC 350, “Intangibles - Goodwill and Other”, goodwill is subject to an annual impairment test or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. As of December 31, 2021, we operate in four reporting units within its operating segments.

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

The provisions of ASC 350 require that the quantitative two-step impairment test will be performed on goodwill at the level of the reporting units. In the first step, or “Step one”, we compare the fair value of each reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and we are not required to perform further testing. If the carrying value of the net assets exceeds the fair value, then we must perform the second step, or “Step two”, of the impairment test in order to determine the implied fair value of goodwill. To determine the fair value used in Step one, we use discounted cash flows. If and when we are required to perform a Step two analysis, determining the fair value of its net assets and its off-balance sheet intangibles, then we would be required to make judgments that involve the use of significant estimates and assumptions.

We determine the fair value of each reporting unit by using the income approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. We consider historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for its goodwill.

We performed annual impairment tests during the fourth quarter in each of the years ended December 31, 2019, 2020 and 2021 and did not identify any impairment losses. See Note 9 to our financial statements included in this annual report for further disclosures required under ASC 350.

#### ***Impairment of long-lived assets, right of use assets and intangible assets subject to amortization***

We review our long-lived assets to be held or used, including right of use assets and intangible assets that are subject to amortization long-lived assets for impairment in accordance with ASC 360, "Property, Plant and Equipment," or ASC 360, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

As required by ASC 820, "Fair Value Measurements and disclosures" we apply assumptions, judgments and estimates that marketplace participants would consider in determining the fair value of long-lived assets (or asset groups).

Intangible assets with finite lives are comprised of distribution rights, acquired technology, customer relationships, backlog and non-compete agreements and are amortized over their economic useful life using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. Distribution rights, acquired technology and non-compete agreements were amortized on a straight line basis and customer relationships and backlog were amortized on an accelerated method basis over a period between 1 and 15 years based on the customer relationships identified.

During the years ended December 31, 2019, 2020 and 2021, no impairment indicators were identified.

#### ***Stock-based Compensation***

We account for stock-based compensation in accordance with ASC 718 "Compensation – Stock Compensation," or ASC 718 which requires registrants 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 our consolidated statement of income. We recognize compensation expenses for the value of our awards, which have graded vesting based on the accelerated method over the requisite service period of each of the awards, net of estimated forfeitures. To measure and recognize compensation expense for share-based awards we use the Binomial option-pricing model. The Binomial model for option pricing requires a number of assumptions such as volatility, dividend yield rate, and risk-free interest rate and also allows for the use of dynamic assumptions and considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

The fair value of each option granted using the Binomial model, was estimated on the date of grant with the following assumptions: expected volatility was based upon actual historical stock price movements and was calculated as of the grant dates for different periods, since the Binomial model can be used for different expected volatilities for different periods. The risk-free interest rate was based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term to the contractual term of the options. The expected term of options granted was derived from the output of the option valuation model and represented the period of time that options granted were expected to be outstanding. Estimated forfeitures were based on actual historical pre-vesting forfeitures. Since dividend payments are applied to reduce the exercise price of the option, the effect of the dividend protection was reflected by using an expected dividend assumption of zero.

For awards with performance conditions, compensation cost is recognized over the requisite service period if it is 'probable' that the performance conditions will be satisfied.

During the years ended December 31, 2019, 2020 and 2021, we recognized stock-based compensation expenses related to employee stock options of \$0.1 million, \$0 million, and \$1.0 million, respectively.

### ***Contingencies***

From time to time, we are subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to intellectual property, contracts, employment and other matters. We accrue a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter.

### ***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 Group, have been eliminated upon consolidation.

Changes in the parent's ownership interest in a subsidiary with no change of control are treated as equity transactions, with any difference between the amount of consideration paid and the change in the carrying amount of the non-controlling interest, recognized in equity.

Non-controlling interests of subsidiaries represent the non-controlling share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of ASC 810 "Consolidation" and ASC 480-10-S99-3A, "Distinguishing Liabilities from Equity."

### ***Fair Value Measurements***

We account for certain assets and liabilities at fair value under ASC 820. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

Level 2 - Significant other observable inputs based on market data obtained from sources independent of the reporting entity.

Level 3 - Unobservable inputs which are supported by little or no market activity (for example cash flow modeling inputs based on assumptions).

Assets and liabilities measured at fair value on a recurring basis are comprised of marketable securities, foreign currency forward contracts and contingent consideration of acquisitions (See Note 5 to the consolidated financial statements).

The carrying amounts reported in the balance sheet for cash and cash equivalents, short term bank deposits, trade receivables, other accounts receivable, short-term bank credit, trade payables and other accounts payable approximate their fair values due to the short-term maturities of such instruments.

## ***Income Tax***

We account for income taxes in accordance with ASC 740, "Income Taxes," or ASC 740. ASC 740 prescribes the use of the "asset and liability" method whereby deferred tax asset 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. Deferred tax assets and liabilities are classified as non-current.

Taxes that would apply in the event of disposal of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is our intention to hold these investments, rather than realize them. We do not expect our non-Israeli subsidiaries to distribute taxable dividends in the foreseeable future, as their earnings are needed to fund their growth while we expect to have sufficient resources in the Israeli companies to fund our cash needs in Israel.

Our non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence. 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 tax rates.

Neither Israeli income taxes, foreign withholding taxes nor deferred income taxes were provided in relation to undistributed earnings of the non-Israeli subsidiaries. This is because we intend to permanently reinvest undistributed earnings in the foreign subsidiaries in which those earnings arose. If these earnings were distributed in the form of dividends or otherwise, we would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and non-Israeli withholding taxes.

The amount of cash and cash equivalents that are currently held outside of Israel that would be subject to income taxes if distributed as dividends is \$11.3 million. However, a determination of the amount of the unrecognized deferred tax liability for temporary difference related to those undistributed earnings of foreign subsidiaries is not practicable due to the complexity of the structure of our group of subsidiaries for tax purposes and the difficulty of projecting the amount of future tax liability.

We utilize a two-step approach in recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. Under the first step we evaluate a tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, based on technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement with the tax authorities. We have accrued interest and penalties related to unrecognized tax benefits in our provisions for income taxes.

## **Recently Issued Accounting Standards**

For a description of recently issued and recently adopted accounting standards, see Note 2 to our consolidated financial statements appearing elsewhere in this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Guy Bernstein	54	Chief Executive Officer and Director
Sagi Schliesser <sup>(1)</sup>	50	External Director
Ron Ettlinger <sup>(1)</sup>	55	External Director
Naamit Salomon	57	Director
Avi Zakay <sup>(1)</sup>	43	Director
Asaf Berenstin	44	Chief Financial Officer
Arik Kilman	69	Chairman, Software Solutions division
Yakov Tsaroya	52	Chief Executive Officer of Coretech Consulting Services and Fusion Solutions
Yael Ilan	53	Chief Executive Officer of Complete Business Solutions
Arik Faingold	45	President, Integration Solutions division
Yuval Baruch	55	Chief Executive Officer of Hermes Logistics
Hanan Shahaf	70	Chief Executive Officer of Roshtov Software Industries Ltd
Yuval Lavi	53	Vice President Technology and innovation of Software Solutions division

(1) Member of our Audit and Compensation Committees

Messr. Guy Bernstein, Avi Zakay and Ms. Naamit Salomon were re-elected as directors at our 2021 annual general meeting of shareholders to serve as directors until our 2022 annual general meeting of shareholders.

Messrs. Sagi Schliesser and Ron Ettlinger are serving as external directors pursuant to the provisions of the Israeli Companies Law for their second three-year terms.

Messrs. Guy Bernstein and Asaf Berenstin are first cousins. Mr. Arik Faingold is the brother of Mr. Idan Faingold who is an executive officer of the Comm-IT Group and the two brothers are the owners of the 13.6% minority interest in that company. Other than such relationships, there are no family relationships among our directors and senior executives.

**Guy Bernstein** has served as our chief executive officer since April 2010 and has served as a director of our company since January 2007 and served as the chairman of our board of directors from April 2008 to April 2010. Mr. Bernstein has served as the chief executive officer of Formula Systems, our parent company, since January 2008. From December 2006 to November 2010, Mr. Bernstein served as a director and the chief executive officer of Emblaze Ltd. or Emblaze, our former controlling shareholder. Mr. Bernstein also serves as the chairman of the board of directors of Sapiens International Corporation N.V., or Sapiens, and is the chairman of the board of directors of Matrix IT Ltd., both of which are subsidiaries of Formula Systems. From April 2004 to December 2006, Mr. Bernstein served as the chief financial officer of Emblaze and he has served as a director of Emblaze since April 2004. Prior to that and from 1999, Mr. Bernstein served as our chief financial and operations officer. Prior to joining our company, Mr. Bernstein was senior manager at Kost Forer Gabbay & Kasierer, a member of Ernst& Young Global, from 1994 to 1997. Mr. Bernstein holds a B.A. degree in accounting and economics from Tel Aviv University and is a certified public accountant (CPA) in Israel.

**Sagi Schliesser** has served as an external director of our company since November 2015 and is a member of our audit committee. Mr. Schliesser has been the co-founder and chief executive officer of TabTale, a creator of innovative games, interactive books and educational apps since 2010. Prior to founding TabTale, Mr. Schliesser was the CTO of Sapiens International Corporation (NASDAQ and TASE: SPNS), managing Sapiens Technologies. Previously Mr. Schliesser served for seven years as VP of R&D and CTO of IDIT Technologies Ltd., a global provider of insurance software solutions. Before that Mr. Schliesser was one of the founders of WWCOM, a B2B enablement software startup. Mr. Schliesser holds a B.Sc. degree with honors in Computer Science and Psychology from Tel Aviv University, as well as a Master's degree in Computer Science from the Interdisciplinary Center in Herzliya and an M.B.A. degree with honors in Business Psychology from Hamasloul Ha'akademi Shel Hamichlala Leminhal.

**Ron Ettlinger** has served as a director of our company since December 2014 and is a member of our audit committee. Mr. Ettlinger is the founder and has been the chief executive officer of “Nippon Europe Israel Ltd.,” a leading provider of car multimedia advanced systems, since October 2000. Prior to that, Mr. Ettlinger was the owner and general manager of Universal Ltd., a car service. Mr. Ettlinger is the founder and since July 2014 has served as chief executive officer of Nippon Lights Ltd., a leading provider of LED lights and panels. Mr. Ettlinger holds a B.A. degree in Business, with a major in finance and marketing from Tel-Aviv College of Management.

**Naamit Salomon** has served as director of our company since March 2003. Since January 2010, Ms. Salomon has served as a partner in an investment company. Ms. Salomon also serves as a director of Sapiens, which is part of the Formula group. Ms. Salomon served as the chief financial officer of Formula Systems from August 1997 until December 2009. From 1990 through August 1997, Ms. Salomon served as the controller of two large privately held companies in the Formula group. Ms. Salomon holds a B.A. degree in Economics and Business administration from Ben Gurion University and an LL.M. degree from Bar-Ilan University.

**Avi Zakay** has served as director of our company since February 2018. Mr. Zakay has been the sales manager of the Volkswagen dealership and showroom in Rishon Letzion (Champion Motors) since 2014. In 2013, he served as the sales manager of the showroom of Mitsubishi Motors in Netanya, and from 2007 to 2013, he served as a sales manager of BMW and Mercedes-Benz in Tel Aviv. Mr. Zakay holds a B.A. degree in Business Administration and studied for an M.B.A. degree, both from Michlala Le-minhal College in Tel-Aviv.

**Asaf Berenstin** has served as our chief financial officer since April 2010. In November 2011, Mr. Berenstin was appointed as Chief Financial Officer of our parent company Formula Systems (1985) Ltd. in addition to his position as chief financial officer of our company. Prior to that and from August 2008, Mr. Berenstin served as our corporate controller. Mr. Berenstin also serves as a director of Michpal Micro Computers (1983) Ltd., a director at TSG IT Advanced Systems Ltd., and is a director at InSync staffing, all of them are subsidiaries of Formula Systems. Prior to joining our company and from July 2007, Mr. Berenstin served as a controller at Gilat Satellite Networks Ltd. (NASDAQ: GILT). From October 2003 to July 2008, Mr. Berenstin was a certified public accountant at Kesselman & Kesselman, a member of PriceWaterhouseCoopers. Mr. Berenstin holds a B.A. degree in Accounting and Economics and an M.B.A. degree, both from Tel Aviv University, and is a certified public accountant (CPA) in Israel.

**Yuval Lavi** has served as Vice President Technology and Innovation since 2017. Prior to that and from April 2013, Mr. Lavi served as vice president, Corporate Professional Services & Support., Mr. Lavi joined our company in 2013., Before joining our company, Mr. Lavi served for 18 years as the Chief Technology Officer and joint founder of Kopel Reem Ltd.

**Arik Kilman** has served as chairman of our Software Solutions division since January 2017 and president of AppBuilder Software Solutions division since January 2012, following our acquisition of AppBuilder Solutions Ltd. at which time he was named Chief Executive Officer of AppBuilder. Prior to joining our company, Mr. Kilman served as Chief Executive Officer of BluePhoenix Solutions Ltd., the former parent of AppBuilder from May 2003 to January 2009 and from April 2010 to December 2011. Mr. Kilman holds a B.A. degree in Economics and Computer Science from New York City College of Technology.

**Yakov Tsaroya** has served as chief executive officer of our subsidiary, CoreTech Consulting Group LLC, since 2006. Mr. Tsaroya has also served as Chief Executive Officer of Fusion Solution LLC and Xsell Resources Inc. since our acquisition of these companies in 2010. Mr. Tsaroya holds a B.A. degree in Accounting and Finance from the College of Administration in Israel and is a certified public accountant (CPA) in Israel.

**Yael Ilan** joined Complete Business Solutions as CEO in 2022 after spending six years as CEO at Formula Telecom Solution. Prior to joining Magic group, Yael held several managerial positions in Amdocs USA and Amdocs Israel Professional Services groups, supporting large operations for communication service providers in Israel and abroad. Yael also served as an independent consultant of operations management and control for high-tech and low-tech companies. Yael holds a B.A degree from Jerusalem’s Hebrew University in Economics and Business Administration and a professional Diploma in Computer Sciences.

**Arik Faingold** has served as president of our Integration Solutions division since July 2012. Mr. Faingold has served as chairman of Comm-IT Group since 2009. Mr. Faingold was General Manager of Open TV Israel, part of OpenTV Global, from 2003 to 2009. Mr. Faingold served as Co-founder and CTO of Betting Corp from 1999 to 2003. Mr. Faingold holds a B.A. degree in Computer Science from the Interdisciplinary Center in Herzliya and an M.B.A. degree from Tel Aviv University.



**Yuval Baruch** has served as an officer of our company since his appointment in September 2012 as the chief executive officer of Hermes Logistics Technologies (HLT). Mr. Baruch has also served as the chief executive officer of Pilat HR solutions since April 2013. Mr. Baruch was chief executive officer of J.R. Holdings & Development from November 2007 to January 2012. Mr. Baruch has served as an external director of Matrix IT, a publicly traded company in Israel, since 2011. Between 2004 and 2008 Mr. Baruch launched, managed and divested a chain of fitness centers in Israel. Mr. Baruch holds a B.A. degree in Marketing and Finance from The College of Management in Israel and an M.B.A. degree from the Stanford Graduate School of Business.

**Hanan Shahaf** became an officer of our company in July 2016, as part of the Roshtov Software Industries Ltd. acquisition. Mr. Shahaf was one of Roshtov's founders in 1989 and has served as its Chief Executive Officer and a director since its inception. He also served as a director and chairman on several board of private companies. Mr. Shahaf holds a B.sc degree in Industrial engineering and Management and an M.B.A. from Northwestern University (Kellogg School of Management) and Tel Aviv University (Recanati Graduate School of Business Administration).

## B. COMPENSATION

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2021.

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All directors and executive officers as a group (13 persons)	\$ 3,361,141	\$ 87,971

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

The table below reflects the compensation granted to our five most highly compensated officers during or with respect to the year ended December 31, 2021. All amounts reported in the table reflect the cost to our company, as recognized in our financial statements for the year ended December 31, 2021.

**2021 Summary Compensation Table**

Name and Position	Salary	Bonus <sup>(1)</sup>	Equity Based Compensation <sup>(2)</sup>	All Other Compensation <sup>(3)</sup>	Total
Arik Kilman, Chairman, Software Group	\$ 278,620	\$ 416,720	\$ 956,000	\$ -	\$ 1,651,340
Yakov Tsaroya, President, Coretech Consulting Group LLC	\$ 400,000	\$ 1,189,000	\$ -	\$ 54,000	\$ 1,643,000
Arik Faingold, President, Integration Solutions division	\$ 669,000	\$ 196,820	\$ -*	\$ -	\$ 865,820
Yuval Baruch, Chief Executive Officer of Hermes Logistics	\$ 275,525	\$ 176,300	\$ -	\$ -	\$ 323,925
Hanan Shahaf, Chief Executive Officer of Roshtov Software Industries Ltd	\$ 317,520	\$ -	\$ -	\$ 8,100	\$ 325,620

(1) Amounts reported in this column represent annual incentive bonuses granted to the covered executives based on performance-metric based formulas set forth in their respective employment agreements.

(2) Amounts reported in this column represent the grant date fair value computed in accordance with accounting guidance for share-based compensation.

(3) Amounts reported in this column include personal benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the respective covered executive, payments, contributions and/or allocations for savings funds (e.g., Managers Life Insurance Policy), education funds (referred to in Hebrew as "keren hishtalmut"), pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurance (e.g., life insurance or work disability insurance), telephone expense reimbursement, convalescence or recreation pay, relocation reimbursement, payments for social security, and other personal benefits and perquisites consistent with our company's guidelines. All amounts reported in the table represent incremental cost to our company.

During the year ended December 31, 2021, we paid to each of our outside and independent directors an annual fee of \$22,539 and a per-meeting attendance fee of \$832. Such fees are paid based on the fees detailed in a schedule published semi-annually by the Committee for Public Directors under the Israeli Securities Law. The above compensation excludes stock-based compensation costs in accordance with ASC 718.

As of April 1, 2022, our directors and executive officers as a group, then consisting of 13 persons, held 260,775 Ordinary Shares and options to purchase an aggregate of 20,000 ordinary shares, at exercise prices of \$0 per share. All such options were granted under our 2007 Incentive Compensation Plan. See Item 6E “Directors, Senior Management and Employees - Share Ownership - Stock-Based Compensation Plans.”

## C. BOARD PRACTICES

### Introduction

According to the Israeli Companies Law and our Articles of Association, the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. Our executive officers are responsible for our day-to-day management. The executive officers have individual responsibilities established by our board of directors. Executive officers are appointed by and serve at the discretion of the board of directors, subject to any applicable agreements.

### Election of Directors

Our articles of association provide for a board of directors consisting of no less than three and no more than eleven members or such other number as may be determined from time to time at a general meeting of shareholders. Our board of directors is currently composed of five directors.

Pursuant to our articles of association, all of our directors are elected at our annual general meeting of shareholders, which are required to be held at least once during every calendar year and not more than 15 months after the last preceding meeting. Except for our external directors (as described below), our directors are elected by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed. Directors (other than external directors) may be removed earlier from office by resolution passed at a general meeting of our shareholders. Our board of directors may temporarily fill vacancies in the board until the next annual meeting of shareholders, provided that the total number of directors will not exceed the maximum number permitted under our articles of association.

Under the Israeli Companies Law, our board of directors is required to determine the minimum number of directors who must have “accounting and financial expertise” (as such term is defined in regulations promulgated under the Israeli Companies Law). In determining such number, the board of directors must consider, among other things, the type and size of the company and the scope of and complexity of its operations. Our board of directors has determined that at least one director must have “accounting and financial expertise,” within the meaning of the regulations promulgated under the Israeli Companies Law.

### External and Independent Directors

**External Directors.** The Israeli Companies Law requires companies organized under the laws of the State of Israel with shares that have been offered to the public in or outside of Israel to appoint at least two external directors. No person may be appointed as an external director if the person is a relative of the controlling shareholder of the company or if the person or the person’s relative, partner, employer or any entity under the person’s control has or had, on or within the two years preceding the date of the person’s appointment to serve as an external director, any affiliation with the company or the controlling shareholder of the company or the controlling shareholder’s relative or any entity controlled by the company or by the controlling shareholder of the company. If the company does not have a controlling shareholder or a person or entity which holds 25% of the total voting rights of the company, an external director may also not have an affiliation with chairman of the board, the chief executive officer, beneficial owner of 5% or more of the issued shares or the voting power of the company and the most senior executive officer of the company in the finance field. The term “affiliation” includes an employment relationship, a business or professional relationship maintained on a regular basis (other than negligible relationships), control and service as an “office holder” as defined in the Israeli Companies Law, however, “affiliation” does not include service as a director of a private company prior to its first public offering if the director was appointed to such office for the purpose of serving as an external director following the company’s first public offering. In addition, no person may serve as an external director if the person’s position or other activities create 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. In addition, a director in a company may not be appointed as an external director in another company if at that time, a director of the other company serves as an external director in the first company. Moreover, a person may not be appointed as an external director, if he or she is employed by the Israeli Securities Authority or by Tel-Aviv Stock Exchange. If, at the time external directors are to be appointed, all current members of the board of directors which are not the controlling shareholders of the company or their relatives are of the same gender, then at least one external director must be of the other gender.

At least one of the external directors must have “accounting and financial expertise” and the other external directors must have “professional expertise,” as such terms are defined by regulations promulgated under the Israeli Companies Law.

The election of the nominee for external director requires the affirmative vote of (i) the majority of the votes actually cast with respect to such proposal including at least a majority of the voting power of the non-controlling shareholders (as such term is defined in the Israel Securities Law, 1968) or those shareholders who do not have a personal interest in approval of the nomination except for a personal interest that is not as a result of the shareholder’s connections with the controlling shareholder, who are present in person or by proxy and vote on such proposal, or (ii) the majority of the votes cast on such proposal at the meeting, provided that the total votes cast in opposition to such proposal by the non-controlling shareholders or those shareholders who do not have a personal interest in approval of the nomination except for a personal interest that is not as a result of the shareholder’s connections with the controlling shareholder (as such term is defined in the Israel Securities Law, 1968) does not exceed 2% of all the voting power in the Company.

External directors serve for a three-year term. However, in accordance with the Israeli Companies Law regulations, external directors of a public company whose shares are traded on the NASDAQ may be appointed for additional periods of three-year each provided that the audit committee and the board of directors have approved that, given the external director’s expertise and contribution to the board and committee meetings, such appointment is for the company’s benefit and provided further that the nomination to additional periods of three-year terms is approved through one of the following mechanisms: (i) the board of directors proposed the nominee and his appointment was approved by the shareholders in the manner required to appoint external directors for their initial term (described above); or (ii) one or more shareholders holding 1% or more of the voting rights proposed the nominee, and the nominee is approved by the majority of the votes actually cast with respect to such proposal and all of the following conditions are met: (a) the majority of votes does not include the votes of the controlling shareholder or votes of shareholders who have a personal interest in approval of the nomination except for a personal interest that is not as a result of the shareholder’s connections with the controlling shareholder and (b) the total votes cast in favor of such proposal by the non-controlling shareholders or those shareholders who do not have a personal interest in the approval of the nomination except for a personal interest that is not as a result of the shareholder’s connections with the controlling shareholder exceed 2% of all the voting power in the company.

External directors may be removed from office 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, violate their duty of loyalty to the company or are found by a court to be unable to perform his or hers duties on a full time basis. External directors may also be removed by the court if they are found guilty of bribery, fraud, administrative offenses or use of inside information.

Each committee of the board of directors that may exercise a responsibility of the board of directors must include at least one external director. The audit committee must be comprised of at least three directors and include all the external directors. 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 such service.

Until the lapse of two years from termination of office, we may not engage an external director, or his or her spouse or child to service as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

**Independent Directors.** NASDAQ Stock Market Rules require us to establish an audit committee comprised of at least three members and only of independent directors each of whom satisfies the respective “independence” requirements of the SEC and NASDAQ.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director that serves as a board member less than nine years and the audit committee has approved that he or she meets the independence requirements of an external director. A majority of the members serving on the audit committee must be independent under the Israeli Companies Law. In addition, an Israeli company whose shares are publicly traded may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors will constitute individuals complying with certain independence criteria prescribed by the Israeli Companies Law. We have not included such a provision in our articles of association. Pursuant to Israeli regulations adopted in January 2011, directors who comply with the independence requirements of NASDAQ and the SEC are deemed to comply with the independence requirements of the Israeli Companies Law.

Our board of directors has determined that Mr. Sagi Schliesser and Mr. Ron Ettlinger both qualify as independent directors under the SEC and NASDAQ requirements and as external directors under the Israeli Companies Law requirements. Our board of directors has further determined that Mr. Avi Zakay qualifies as an independent director under the SEC, NASDAQ and Israeli Companies Law requirements.

## **Committees of the Board of Directors**

**Audit Committee.** Our audit committee, established in accordance with Sections 114-117 of the Israeli Companies Law and Section 3(a)(58)(A) of the Securities Exchange Act of 1934, assists our board of directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent public accountants' qualifications and independence, the performance of our internal audit function and independent public accountants, finding any irregularities in the business management of our company for which purpose the audit committee may consult with our independent auditors and internal auditor, proposing to the board of directors ways to correct such irregularities and such other duties as may be directed by our board of directors. The responsibilities of the audit committee also include approving related-party transactions as required by law. The audit committee is also required to determine whether any action is material and whether any transaction is an extraordinary transaction or non-negligible transaction, for the purpose of approving such action or transaction as required by the Israeli Companies Law. Under Israeli law, an audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which an approval was granted.

Our audit committee is currently composed of Messrs. Ettlinger, Schliesser and Zakay, each of whom satisfies the "independence" requirements of both the SEC and NASDAQ. We also comply with Israeli law requirements for audit committee members. Our board of directors has determined that Mr. Ettlinger qualifies as a financial expert. The audit committee meets at least once each quarter.

**Compensation Committee.** In accordance with the Israeli Companies Law, we have a compensation committee, whose role is to: (i) recommend a compensation policy for office holders and to recommend to the board, once every three years, on the approval of the continued validity of the compensation policy that was determined for a period exceeding three years; (ii) recommend an update the compensation policy from time to time and to examine its implementation; (iii) determine whether to approve the terms of service and employment of office holders that require the committee's approval; and (iv) exempt a transaction from the requirement of shareholders' approval in accordance with the provisions of the Israeli companies Law. The compensation committee also has oversight authority over the actual terms of employment of directors and officers and may make recommendations to the board of directors and the shareholders (where applicable) with respect to deviation from the compensation policy that was adopted by the company.

Under the Israeli Companies Law, a compensation committee must consist of no less than three members, including all of the external directors (who must constitute a majority of the members of the committee), and the remainder of the members of the compensation committee must be directors whose terms of service and employment were determined pursuant to the applicable regulations. The same restrictions on the actions and membership in the audit committee as discussed above under "Audit Committee," including the requirement that an external director serve as the chairman of the committee and the list of persons who may not serve on the committee, also apply to the compensation committee. We have established a compensation committee that is currently composed of Messrs. Ettlinger, Schliesser and Zakay.

## **Internal Auditor**

The Israeli Companies Law also requires the board of directors of a public company to appoint an internal auditor proposed by the audit committee. A person who does not satisfy the Israeli Companies Law's independence requirements may not be appointed as an internal auditor.

The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Our internal auditor complies with the requirements of the Israeli Companies Law. Alkalay Monarov currently serves as our internal auditor.

## **Directors' Service Contracts**

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

## **Approval of Related Party Transactions Under Israeli Law**

### ***Fiduciary Duties of Office Holders***

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

### ***Disclosure of Personal Interests of an Office Holder***

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their position, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company’s profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder’s spouse, siblings, parents, grandparents, descendants, spouse’s descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

### ***Approval of Transactions with Office Holders and Controlling Shareholders***

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has a personal interest) must be approved by the board of directors and, in some cases, by the audit committee or the compensation committee and by the board of directors, and under certain circumstances shareholder approval may also be required, provided, however, that such transactions are for the benefit of the company. Subject to certain exceptions. A person who has a personal interest in the approval of a transaction by the audit committee or the Board may not be present and take part in the voting. An officer or a director who has a personal interest, may be present at the meeting for the purpose of presenting the transaction if the chairman of the audit committee or the Board, as relevant, has determined that the presence of the officer or director is required. A director may be present and vote at the meetings of the audit committee and Board if the majority of the directors have a personal interest in the approval of the transaction. In such case, the transaction also requires approval by the general meeting. The disclosure requirements which apply to an office holder also apply to such transaction with respect to his or her personal interest in the transaction.

The Companies Law provides for certain procedural constraints on a public company entering into a transaction in which a controlling shareholder and other interested parties have a personal interest. More specifically, Section 275 of the Companies Law provides that an extraordinary transaction (which is defined as a transaction that is either not in a company’s ordinary course of business; or a transaction that is not undertaken in market conditions; or a transaction that is likely to substantially influence the profitability of a company, its property or liabilities) between a public company and its controlling shareholder, or an extraordinary transaction of a public company with a third party in which the controlling shareholder has a personal interest, including a transaction of a public company with a controlling shareholder, directly or indirectly, for the receipt of services therefrom (and including a transaction concerning the compensation arrangement of a controlling shareholder in its capacity as an employee or office holder of the company) (a “Controlling Party Transaction”), requires the approval of the audit committee (and with respect to a transaction concerning the compensation arrangement – the compensation committee), the board of directors and the general meeting of shareholders, provided however that the majority approving the transaction shall include at least one half of the votes of shareholders who do not have a personal interest in the transaction and are participating in the vote, or that the aggregate number of votes against the approval of the transaction, voted by shareholders who do not have such personal interest do not exceed 2% of the entire voting rights in the company. Section 275 of the Companies Law further provides that if the term of the Controlling Party Transaction extends beyond three years, the above approvals are required once every three years. However, if such transaction does not relate to a compensation arrangement, then the audit committee may approve the transaction for a longer duration, provided that the audit committee determines that such duration is reasonable under the circumstances. In accordance with the Israeli Companies law the audit committee is responsible to determine that Controlling Party Transactions shall be subject to a competitive procedure or other similar procedure before such transactions are approved.

During the year ended December 31, 2021, we sold approximately \$5.6 million of services to affiliated companies of Formula Systems. In 2021, we also purchased from those affiliated companies approximately \$2.6 million of hardware, software and services. We also provided Formula Systems cash management, accounting and bookkeeping services for total consideration of \$0.2 million.

### *Approval Process of Terms of Service and Employment of Office Holders*

Under the Israeli Companies Law, the method of approval of Terms of Service and Employment of office holders must be approved as follows:

- With respect to an office holder who is not the general manager, a director, a controlling shareholder or a relative of the controlling shareholder:
- In the event the transaction is in accordance with the compensation policy of the company – approval (in the following order) of: (i) compensation committee and (ii) board of directors.
- In the event the transaction is not in accordance with the compensation policy of the company – approval, in special cases (in the following order), by the (i) compensation committee, (ii) board of directors and (iii) company’s shareholders, by a simple majority, provided that such majority shall include (i) at least one half of the votes of shareholders who are participating in the vote and are not controlling shareholders or do not have a personal interest regarding the approval of the compensation policy, or (ii) the aggregate number of the opposing votes, voted by shareholders who do not have such personal interest or are not controlling shareholders, do not exceed two percent (2%) of the entire voting rights in the company (the “**Special Majority**”). Under these circumstances, the compensation committee and board of directors are required to approve the transaction based on certain considerations and include certain instructions in connection with the compensation policy. In the event the company’s shareholders do not approve the compensation of the office holder, the compensation committee and board of directors may still approve the transaction, in special cases and with detailed reasons and after discussion and examining the rejection of the company’s shareholders.
- With respect to a company’s general manager (generally the equivalent of a CEO):
- In the event the transaction is in accordance with the compensation policy - approval (in the following order) by the: (i) compensation committee, (ii) board of directors and (iii) company’s shareholders with the “Special Majority” described above.
- In the event the transaction is not in accordance with the compensation policy – the approval process and requirements are the same as the approval process for such a transaction with an office holder who is not the general manager, a controlling shareholder or a relative of the controlling shareholder.
- The Israeli Companies Law includes an exception from the shareholder approval requirement in connection with the approval of a transaction with a general manager candidate, subject to certain conditions. In addition, in the event the company’s shareholders do not approve the compensation of the general manager, the compensation committee and board of directors may still approve the transaction, in special cases and with detailed reasons and after discussion and examining the rejection of the company’s shareholders.
- With respect to a director who is not a controlling shareholder or a relative of the controlling shareholder:
- In the event the transaction is in accordance with the compensation policy – approval (in the following order) by the: (i) compensation committee, (ii) board of directors and (iii) company’s shareholders with a regular majority.
- In the event the transaction is not in accordance with the compensation policy – the approval process and requirements are the same as the approval process for such a transaction with an office holder who is not the general manager, a controlling shareholder or a relative of the controlling shareholder (other than the possibility to approve a transaction that was not approved by the shareholders).
- With respect to a controlling shareholder or a relative of a controlling shareholder:
- In the event the transaction is in accordance with the compensation policy - approval (in the following order) by the: (i) compensation committee, (ii) board of directors and (iii) company’s shareholders with the “Special Majority” described above.
- In the event the transaction is not in accordance with the compensation policy: the approval process and requirements are the same as the approval process for such a transaction with an office holder who is not the general manager, a controlling shareholder or a relative of the controlling shareholder (other than the possibility to approve a transaction that was not approved by the shareholders).

In accordance with the Israeli Companies Law, the audit committee is responsible to determine that Controlling Party Transactions shall be subject to a competitive procedure or other similar procedure before such transactions are approved.

Our latest amended compensation policy was adopted on February 25, 2021.

## **Provisions Restricting Change in Control of Our Company**

**Tender Offer.** In certain circumstances, an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would hold 25% or more of the voting rights in the company (unless there is already a 25% or greater shareholder of the company) or more than 45% of the voting rights in the company (unless there is already a shareholder that holds more than 45% of the voting rights in the company). If, as a result of an acquisition, the acquirer would hold more than 90% of a company's shares or voting rights, the acquisition must be made by means of a tender offer for all of the shares. A purchase by a tender offer is subject to additional requirements as specified in the Israeli Law and regulations promulgated thereunder.

**Merger.** The Israeli Companies Law generally requires that a merger be approved by the board of directors and by the general meeting of the shareholders. Upon the request of any creditor of a merging company, 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. In addition, a merger may generally not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies, and (ii) 30 days have passed since the merger was approved by the shareholders of each of the merging companies. The approval of merger by the company is also subject to additional approval requirements as specified in the Israeli Companies Law and regulations promulgated thereunder.

## **Exculpation, Indemnification and Insurance of Directors and Officers**

### ***Exculpation and Indemnification of Office Holders***

The Israeli Companies Law and our Articles of Association authorize us, subject to the receipt of requisite corporate approvals, to indemnify and exempt our directors and officers, subject to certain conditions and limitations. Most recently, in November 2011 our shareholders approved a form of indemnification and exculpation letter to ensure that our directors and officers (including any director and officer who may be deemed to be a controlling shareholder, within the meaning of the Israeli Companies Law) are afforded protection to the fullest extent permitted by law as currently in effect. Under the approved form of indemnification and exculpation letter, the total amount of indemnification allowed may not exceed an amount equal to 25% of our shareholders' equity in the aggregate, calculated with respect to each of our directors and officers.

The Israeli Companies Law provides that an Israeli company may not exculpate an office holder from liability for a breach of the duty of loyalty of the office holder. The company may, however, approve an office holder's act performed in breach of the duty of loyalty, provided that the office holder acted in good faith, the act or its approval does not harm the company and the office holder discloses the nature of his or her personal interest in the act and all material facts and documents a reasonable time before discussion of the approval. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for a breach of duty of care, but only if a provision authorizing such exculpation is inserted in its articles of association. An Israeli company may also not exculpate a director for liability arising out of a prohibited dividend or distribution to shareholders.

The Israeli Companies Law provides that a company may, if permitted by its articles of association, indemnify an office holder for acts or omissions performed by the office holder in such capacity for:

- A financial liability imposed on the office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court;
- Reasonable litigation expenses, including attorney's fees, actually incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any financial liability instead of criminal proceedings, or concluded without the filing of an indictment against the office holder and a financial liability was imposed on the officer holder instead of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent;
- Reasonable litigation expenses, including attorneys' fees, incurred by such office holder or which were imposed on him by a court, in proceedings the company instituted against the office holder or that were instituted on the company's behalf or by another person, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of a crime which does not require proof of criminal intent; and

- Expenses, including reasonable litigation expenses and legal fees, incurred by such office holder as a result of a proceeding instituted against him in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Israeli Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Israeli Securities Law; and (e) payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Israeli Securities Law.

In accordance with the Israeli Companies Law, a company's articles of association may permit the company to:

- Undertake in advance to indemnify an office holder, except that with respect to a financial liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of the undertaking, foreseeable due to the company's activities and to an amount or standard that the board of directors has determined is reasonable under the circumstances; and
- Retroactively indemnify an office holder of the company.

#### ***Insurance for Office Holders***

The Israeli Companies Law provides that a company may, if permitted by its articles of association, insure an office holder for acts or omissions performed by the office holder in such capacity for:

- A breach of his or her duty of care to the company or to another person;
- A breach of his or her duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice the company's interests; and
- A financial liability imposed upon the office holder in favor of another person.

Subject to the provisions of the Israeli Companies Law and the Israeli Securities Law, a company may also enter into a contract to insure an office holder for (A) expenses, including reasonable litigation expenses and legal fees, incurred by the office holder as a result of a proceeding instituted against such office holder in relation to (1) infringements that may impose financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law or (2) administrative infringements pursuant to the provisions of Chapter H'4 under the Israeli Securities Law or (3) infringements pursuant to the provisions of Chapter I'1 under the Israeli Securities Law and (B) payments made to the injured parties of such infringement under Section 52ND(a)(1) (a) of the Israeli Securities Law.

#### ***Limitations on Exculpation, Insurance and Indemnification***

The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exempting an office holder from duty to the company shall be valid, where such insurance, indemnification or exemption relates to any of the following:

- A breach by the office holder of his duty of loyalty, except with respect to insurance coverage or indemnification if the office holder acted in good faith and had reasonable grounds to assume that the act would not prejudice the company;
- A breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently;
- Any act or omission committed with intent to derive an unlawful personal gain; and
- Any fine, civil fine, financial sanction or forfeiture imposed on the office holder.



In addition, pursuant to the Israeli Companies Law, exemption of, procurement of insurance coverage for, an undertaking to indemnify or indemnification of an office holder must be approved by the compensation committee and the board of directors and, if such office holder is a director or a controlling shareholder or a relative of the controlling shareholder, also by the shareholders general meeting.

Our articles of association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by law, subject to the provisions of the Israeli Companies Law.

On February 25, 2021, our shareholders approved that the coverage of our directors' and officers' liability insurance policy will be up to a maximum amount of \$60,000,000, both per claim and in the aggregate, plus up to \$10,000,000 of Side A Difference in Conditions coverage. In addition, it was approved that we may pay an annual premium not exceeding \$2,000,000 per year (which may be increased by no more than 20% per year), and that any renewal, extension or replacement thereof will be on terms substantially similar to or better (from the perspective of the directors and officers) than those of the then-effective insurance policy.

#### Board Diversity

While we do not have a formal policy on diversity, our Board considers diversity to include the skill set, background, reputation, type and length of business experience of our board members, as well as a particular nominee's contribution to that mix. Although there are many other factors, the Board seeks individuals with experience in our industry, sales and marketing, legal and accounting skills and board experience. Nasdaq's Board Diversity Rule requires companies listed on Nasdaq to publicly disclose board-level diversity statistics using a standardized template by the later of August 8, 2022 or our 2022 proxy statement.

#### D. EMPLOYEES

The following table presents the number of our employees categorized by geographic location as of December 31, 2019, 2020 and 2021:

	Year ended December 31,		
	2021	2020	2019
Israel	1,268	1,184	1,133
Asia	190	204	186
North America	1,709	1,513	1,194
South Africa	12	12	14
Europe	498	126	115
Total	3,677	3,039	2,642

The following table presents the number of our employees categorized by activity as of December 31, 2019, 2020 and 2021:

	Year ended December 31,		
	2021	2020	2019
Technical support and consulting	3,137	2,506	2,126
Research and development	228	233	212
Marketing and sales	166	161	158
Operations and administrations	146	139	146
Total	3,677	3,039	2,642

We consider our employees the most valuable asset of our company. We offer competitive compensation and comprehensive benefits to attract and retain our employees. The remuneration and rewards include retention through share-based compensation and performance-based bonuses.

We believe that an engaged workforce is key to maintaining our ability to innovate. We have steadily increased our workforce and have been successful in integrating our new employees and keeping our employees engaged. Investing in our employees' career growth and development is an important focus for us. We offer learning opportunities and training programs including workshops, guest speakers and various conferences to enable our employees to advance in their chosen professional paths.

We are committed to providing a safe work environment for our employees. We have taken necessary precautions in response to the recent COVID-19 outbreak, including offering employees flexibility to work from home, mandatory social distancing requirements in the workplace (such as adding more space between work spaces) and health monitoring for our employees, daily office disinfection and sanitization, provision of hand sanitizer and face masks to all employees, and improvement and optimization of our telecommuting system to support remote work arrangements.

Our relationships with our employees in Israel are governed by Israeli labor legislation and regulations, extension orders of the Israeli Ministry of Labor and personal employment agreements. Israeli labor laws and regulations are applicable to all of our employees in Israel. The laws concern various matters, including severance pay rights at termination, notice period for termination, retirement or death, length of workday and workweek, minimum wage, overtime payments and insurance for work-related accidents. We currently fund our ongoing legal severance pay obligations by paying monthly premiums for our employees' insurance policies and or pension funds. At the time of commencement of employment, our employees generally sign written employment agreements specifying basic terms and conditions of employment as well as non-disclosure, confidentiality and non-compete provisions.

**E. SHARE OWNERSHIP**

**Beneficial Ownership of Executive Officers and Directors**

The following table sets forth certain information as of April 1, 2022 regarding the beneficial ownership by each of our directors and executive officers:

Name	Number of Ordinary Shares Beneficially Owned <sup>(1)</sup>	Percentage of Ownership <sup>(2)</sup>
Guy Bernstein	150,000	*
Asaf Berenstin	38,225	*
Ron Ettlinger	--	--
Naamit Salomon	--	--
Sagi Schliesser	--	--
Avi Zakay	--	--
Arik Faingold	--	--
Yuval Baruch	--	--
Arik Kilman	70,050	*
Yakov Tsaroya	2,500	--
Yuval Lavi	--	--
Yael Ilan	--	--
Hanan Shahaf	--	--

\* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary Shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 49,093,055 Ordinary Shares issued and outstanding as of April 1, 2021.

## Stock-Based Compensation Plans

### 2007 Incentive Compensation Plan

In 2007, we adopted our 2007 Incentive Compensation Plan, or the 2007 Plan, under which we may grant options, restricted shares, restricted share units and performance awards to employees, officers, directors and consultants of our company and its subsidiaries. The shares subject to the 2007 Plan may be either authorized or unissued shares or previously issued shares acquired by our company or any of its subsidiaries. The total number of shares that may be delivered pursuant to awards under the 2007 Plan shall not exceed 1,500,000 shares in the aggregate. If any award shall expire, terminate, be cancelled or forfeited without having been fully exercised or satisfied by the issuance of shares, then the shares subject to such award shall be available again for delivery in connection with future awards under the 2007 Plan.

In September 2013, our shareholders approved a 1,000,000 share increase in the number of Ordinary Shares available for issuance under the 2007 Stock Option Plan.

On December 31, 2015 our board of directors increased the amount of Ordinary Shares reserved for issuance by an additional 250,000 Ordinary Shares and extended the plan by 10 years until August 1, 2027. As of December 31, 2020, an aggregate of 932,500 Ordinary Shares are available for future grants under the Plan.

The 2007 Plan will terminate upon the earliest of: (i) August 31, 2027; (ii) the termination of all outstanding awards in connection with a corporate transaction; or (iii) in connection with, and as a result of, any other relevant event, including the 2007 Plan's termination by the Board of Directors.

Under the 2007 Plan, the option committee shall have full discretionary authority to grant or, when so restricted by applicable law, recommend the Board of Directors to grant, pursuant to the terms of the 2007 Plan, options and restricted shares and restricted share units to those individuals who are eligible to receive awards.

The 2007 Plan provides that each option will expire on the date stated in the award agreement, which will not be more than ten years from its date of grant. The exercise price of an option shall be determined by the option committee of the Board of Directors and set forth in the award agreement. Unless determined otherwise by the Board of Directors, the exercise price shall be equal to, or higher than, the fair market value of our company's shares on the date of grant.

Under the 2007 Plan, restricted shares and restricted share units shall not be purchased for less than the ordinary share's par value, unless determined otherwise by the Board of Directors.

Under the 2007 Plan in the event of any reclassification, recapitalization, merger or consolidation, reorganization, stock dividend, cash dividend, distribution of subscription rights or other distribution in securities of the Company, stock split or reverse stock split, combination or exchange of shares, repurchase of shares, or other similar change in corporate structure, that proportionally apply to all of our Ordinary Shares, we, shall substitute or adjust, as applicable, the number, class and kind of securities which may be delivered under Section 4.1; the number, class and kind, and/or price (such as the Option Price of Options) of securities subject to outstanding awards; and other value determinations applicable to outstanding awards, as determined by our Board of Directors, in order to prevent dilution or enlargement of participants' rights under the 2007 Plan; provided, however, that the number of Ordinary Shares subject to any award shall always be a whole number. The Board of Directors shall also make appropriate adjustments and modifications, in the terms of any outstanding awards to reflect such changes in our share capital, including modifications of performance goals and changes in the length of performance periods, if applicable.

Our Board of Directors may, from time to time, alter, amend, suspend or terminate the 2007 Plan, with respect to awards that have not been granted, subject to shareholder approval, if and to the extent required by applicable law. In addition, no such amendment, alteration, suspension or termination of the 2007 Plan or any award theretofore granted, shall be made which would materially impair the previously accrued rights of a participant under any outstanding award without the written consent of such participant, provided, however, that the Board of Directors may amend or alter the 2007 Plan and the option committee may amend or alter any award, including any agreement, either retroactively or prospectively, without the consent of the applicable participant, (i) so as to preserve or come within any exemptions from liability under any law or the rules and releases promulgated by the SEC, or (ii) if the Board of Directors or the option committee determines in its discretion that such amendment or alteration either is (a) required or advisable for us, the 2007 Plan or the award to satisfy, comply with or meet the requirements of any law, regulation, rule or accounting standard, or (b) not reasonably likely to significantly diminish the benefits provided under such award, or that such diminishment has been or will be adequately compensated.

During 2021, options to purchase an aggregate of 38,000 Ordinary Shares were exercised under the 2007 Plan at an average exercise price of \$1.12 per share and options to purchase 66,250 Ordinary Shares remained outstanding. As of December 31, 2021, our executive officers and directors as a group, consisting of 13 persons, held 260,775 Ordinary Shares.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

As of April 1, 2022, Formula Systems, an Israeli company traded on the NASDAQ Global Select Market and the TASE, held 22,374,434 or 45.58% of our outstanding Ordinary Shares. Formula Systems is controlled by Asseco, a Polish company listed on the Warsaw Stock Exchange, which held as of April 1, 2022 approximately 25.56% of the Ordinary Shares of Formula Systems. As of April 1, 2022, Guy Bernstein held approximately 11.74% of the outstanding shares of Formula Systems. On October 4, 2017 Asseco entered into a shareholders agreement with Mr. Bernstein, which was amended on September 7, 2020, under which agreement Asseco has been granted an irrevocable proxy to vote 1,797,973 Ordinary Shares of Formula currently held by Mr. Bernstein, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 37.3% of Formula's outstanding ordinary shares. Therefore, based on the foregoing beneficial ownership by each of Formula and Asseco, each of Formula and Asseco may be deemed to directly or indirectly (as appropriate) control us.

The following table sets forth as of December 31, 2021 certain information regarding the beneficial ownership by all shareholders known to us to own beneficially 5.0% or more of our ordinary shares:

Name	Number of Ordinary Shares Beneficially Owned <sup>(1)</sup>	Percentage of Ownership <sup>(2)</sup>
Formula Systems (1985) Ltd. <sup>(3)</sup>	22,374,434	45.59%
Harel Insurance <sup>(4)</sup>	4,595,281	9.37%
Clal Insurance Enterprises Holdings Ltd. <sup>(5)</sup>	3,681,659	7.51%
Yelin Lapidot Holdings Management Ltd. <sup>(6)</sup>	2,149,864	4.38%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary Shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 49,073,055 Ordinary Shares issued and outstanding as of December 31, 2021.
- (3) Asseco owns 25.60% of the outstanding shares of Formula. As such, Asseco may be deemed to be the beneficial owner of the aggregate 22,374,434 Ordinary Shares held directly by Formula Systems. Guy Bernstein owns 11.76% of the outstanding shares of Formula Systems. In addition, on October 4, 2017 Asseco entered into a shareholders agreement, which was amended on September 7, 2020, with Mr. Bernstein, under which agreement Asseco was granted an irrevocable proxy to vote 1,797,973 Ordinary Shares of Formula currently held by Mr. Bernstein, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 37.36% of Formula's outstanding ordinary shares. Therefore, based on the foregoing beneficial ownership by each of Formula and Asseco, each of Formula and Asseco may be deemed to directly or indirectly (as appropriate) control us. The address of Asseco is 35-322 Rzeszow, ul. Olchowa 14, Poland.
- (4) Based on a Schedule 13G amendment filed on January 31, 2022, Harel Insurance Investments & Financial Services Ltd., an Israeli public company, with a principal business address at Harel House; 3 Aba Hillel Street; Ramat Gan 52118, Israel (or "Harel"). Of the 4,595,281 Ordinary Shares (i) 4,595,022 Ordinary Shares are held for members of the public through, among others, provident funds and/or mutual funds and/or pension funds and/or insurance policies and/or exchange traded funds, which are managed by subsidiaries of Harel, each of which subsidiaries operates under independent management and makes independent voting and investment decisions and (ii) 259 Ordinary Shares are beneficially held for Harel own account.
- (5) Based on a Schedule 13G amendment filed on February 10, 2022, by Clal Insurance Enterprises Holdings Ltd. (or "Clal"). All the 3,681,659 Ordinary Shares held as of December 31, 2021 and reported by Clal are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal, which subsidiaries operate under independent management and make independent voting and investment decisions. Clal Insurance Enterprises Holdings Ltd is an Israeli public company, with a principal business address at 36 Raul Wallenberg St., Tel Aviv 66180, Israel.
- (6) Based on a Schedule 13G amendment filed on February 7, 2022, by Yelin Lapidot Holdings Management Ltd., with a principal business address at 50 Dizengoff St., Dizengoff Center, Gate 3, Top Tower, 13th floor, Tel Aviv 64332, Israel. Of the 2,149,864 Ordinary Shares held as of December 31, 2021 and reported by such shareholder (i) 1,120,864 Ordinary Shares beneficially owned by mutual funds managed by Yelin Lapidot Mutual Funds Management Ltd; and (ii) 1,029,000 Ordinary Shares beneficially owned by provident funds managed by Yelin Lapidot Provident Funds Management Ltd. The Ordinary Shares are beneficially owned by provident funds managed by Yelin Lapidot Provident Funds Management Ltd. and/or mutual funds managed by Yelin Lapidot Mutual Funds Management Ltd. (the "Subsidiaries"), each a wholly-owned subsidiary of Yelin Lapidot Holdings Management Ltd. ("Yelin Lapidot Holdings"). Messrs. Yelin and Lapidot each own 24.38% of the share capital and 25.004% of the voting rights of Yelin Lapidot Holdings, and are responsible for the day-to-day management of Yelin Lapidot Holdings. The Subsidiaries operate under independent management and make their own independent voting and investment decisions.

### **Significant Changes in the Ownership of Major Shareholders**

In the past three years, Yelin Lapidot Holdings Management Ltd. jointly with Messrs. Dov Yelin and Yair Lapidot, filed several Schedules 13G with the SEC reflecting their level of investment in our company. A Schedule 13G amendment filed with the SEC on January 27, 2020, reflected an ownership of 2,972,929, or 6.08% of our Ordinary Shares. A Schedule 13G amendment filed with the SEC on February 2, 2021, reflected ownership of 2,626,903, or 5.36% of our Ordinary Shares. A Schedule 13G amendment filed with the SEC on February 7, 2022, reflected ownership of 2,149,864, or 4.38% of our Ordinary Shares.

Based on a Schedule 13G filed on January 29, 2019, Harel Insurance Investments & Financial Services Ltd. held 2,728,908 or 5.58% of our Ordinary Shares. Based on written notification received from Harel Insurance Investments & Financial Services Ltd on March 31, 2020, subsequent to Amendment No.1 to Schedule 13G filed on January 23, 2020, Harel Insurance Investments & Financial Services Ltd. holds 4,564,903 or 9.32% of our Ordinary Shares. A Schedule 13G amendment filed with the SEC on January 27, 2021, reflected ownership of 4,835,262, or 9.86% of our Ordinary Shares. A Schedule 13G amendment filed with the SEC on January 31, 2022, reflected ownership of 4,595,281, or 9.37% of our Ordinary Shares.

Clal filed a Schedule 13G/A with the SEC on February 14, 2019, reflecting ownership of 3,630,149, or 7.43% of our Ordinary Shares. A Schedule 13G/A filed with the SEC on February 10, 2020, reflected an increase in ownership to 4,144,717, or 8.5% of our Ordinary Shares. A Schedule 13G/A filed with the SEC on February 16, 2021, reflected a decrease in ownership to 3,765,068, or 7.68% of our Ordinary Shares. A Schedule 13G/A filed with the SEC on February 10, 2022, reflected a decrease in ownership to 3,681,659, or 7.51% of our Ordinary Shares.

### **Major Shareholders Voting Rights**

Our major shareholders do not have different voting rights.

### **Record Holders**

Based on a review of the information provided to us by our U.S. transfer agent, as of May 4, 2022, there were 52 record holders, of which 41 record holders holding approximately 96.54% of our Ordinary Shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these Ordinary Shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 96.5% of our outstanding Ordinary Shares as of such date).

### **B. RELATED PARTY TRANSACTIONS**

For information about related party transactions see “Item 6C. Directors, Senior Management and Employees – Board Practices - Approval of Related Party Transactions Under Israeli Law.”

### **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

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

#### **Legal Proceedings**

Other than with respect to the below mentioned legal proceedings, we and our subsidiaries are, from time to time, subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to intellectual property, contracts, employment and other matters. Based upon the advice of counsel, we do not believe that the ultimate resolution of these matters will materially affect our consolidated financial position, results of operations or cash flows.

In September 2016, an Israeli software company, that was previously involved in an arbitration proceeding with us in 2015 and won of \$2.4 million damages from us, filed a lawsuit seeking damages of NIS 34,106,000 against us and one of our subsidiaries. This lawsuit was filed as part of an arbitration proceeding. In the lawsuit, the software company claimed that warning letters that we sent to its clients in Israel and abroad, warning those clients against the possibility that the conversion procedure offered by the software company may amount to an infringement of our copyrights (the "Warning Letters"), as well as other alleged actions, have caused the software company damages resulting from loss of potential business. The lawsuit is based on rulings given in the 2015 arbitration proceeding in which it was allegedly determined that the Warning Letters constituted a breach of a non-disclosure agreement (NDA) signed between the parties.

The arbitrator rendered his decision in July 2021 and determined that we should pay final damages in the amount of \$1.6 million (approximately NIS 5,316,000). Our financial results of operations of 2021 included a net impact of \$1.6 million resulting from the arbitration expenses.

#### **Dividend Distribution Policy**

In September 2012, our Board of Directors adopted a policy for distributing dividends, under which we will distribute a dividend of up to 50% of our annual net income attributable to our shareholders each year, subject to any applicable law. On August 2019, our Board of Directors amended our dividend distribution policy, whereas, each year we will distribute a dividend of up to 75% of our annual net income attributable to our shareholders. It is possible that our Board of Directors will decide, subject to the conditions stated above, to declare additional dividend distributions. Our Board of Directors may at its discretion and at any time, change, whether as a result of a one-time decision or a change in policy, the rate of dividend distributions or not to distribute a dividend.

According to the Israeli Companies Law, a registrant may distribute dividends out of its profits provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that such dividend distribution will prevent the company from satisfying its current and foreseeable obligations, as they become due. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deducting previous distributions that were not deducted from the surpluses.

### **B. SIGNIFICANT CHANGES**

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2020.

**ITEM 9. THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

Our ordinary shares are traded on the NASDAQ Global Select Market under the ticker symbol “MGIC”.

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Our Ordinary Shares were listed on the NASDAQ Global Market (symbol: MGIC) from our initial public offering in the United States on August 16, 1991 until January 3, 2011, at which date the listing of our Ordinary Shares was transferred to the NASDAQ Global Select Market. Since November 16, 2000, our Ordinary Shares have also traded on the TASE, and on December 15, 2011 they have been included in the TASE’s TA-125 Index.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. SHARE CAPITAL**

Not applicable.

### **B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

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

#### **Purposes and Objects of the Company**

We are a public company registered with the Israeli Companies Registry as Magic Software Enterprises Ltd., registration number 52-003674-0. Section 2 of our memorandum of association provides that we were established for the purpose of engaging in all fields of the computer business and in any other lawful activity permissible under Israeli law.

#### **The Powers of the Directors**

According to our articles of association, and under the limitations described therein, our board of directors may cause the company to borrow or secure the payment of any sum or sums of money for the purposes of the company, and set aside any amount out of our profits as a reserve for any purpose.

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

#### **Rights Attached to Shares**

#### **Annual and Extraordinary Meetings**

Under the Israeli Companies Law, a company must convene an annual meeting of shareholders at least once every calendar year and within fifteen months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as “extraordinary general meetings.” In addition, the board must convene an extraordinary general meeting upon the demand of two of the directors or 25% of the nominated directors, one or more shareholders holding at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders holding at least 5% of the voting power in the company.

**Please refer to Exhibit 2.2 for Items 10.B.3, B.4, B.6, B.7, B.8, B.9 and B.10.**

### **C. MATERIAL CONTRACTS**

While we have numerous contracts with customers, resellers, distributors and property owners, we do not deem any such individual contract to be material contracts that are not in the ordinary course of our business.

### **D. EXCHANGE CONTROLS**

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

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



## E. TAXATION

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on new tax legislation 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 discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Holders of our Ordinary Shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of Ordinary Shares, including, in particular, the effect of any foreign, state or local taxes.

### ISRAELI TAX CONSIDERATIONS

Tax regulations have a material impact on our business, particularly in Israel where we have our headquarters. The following is a summary of some of the current tax law applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of specified Israeli tax consequences to our shareholders and government programs benefiting us. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

#### General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on their taxable income. As of 2018 the corporate tax rate is 23%. However, the effective tax rate payable by a company that derives income from an AE, BE, PFE or a PTE, in each case, as defined and further discussed below, may be considerably lower. See “Law for the Encouragement of Capital Investments” in this Item 5.A below. In addition, Israeli companies are currently subject to regular corporate tax rate on their capital gains.

Besides being subject to the general corporate tax rules in Israel, certain of our Israeli subsidiaries have also, from time to time, applied for and received certain grants and tax benefits from, and participate in, programs sponsored by the Government of Israel, as described below.

#### Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 5729-1969 (the “**Industry Encouragement Law**”) provides several tax benefits for an “Industrial Company.” Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident company which was incorporated in Israel and at least 90% of its income in any tax year (other than income from certain government loans) is generated from an “Industrial Enterprise” that it owns and is located in Israel or in the “Area,” in accordance with the definition under Section 3A of the Israeli Income Tax Ordinance (New Version) 1961, or the Ordinance. An “Industrial Enterprise” is defined as an enterprise whose major activity, in a given tax year, is industrial production.

An Industrial Company is entitled to certain corporate tax benefits, including:

- Amortization of the cost of the purchases of patents, or the right to use a patent or know-how 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;
- The right to elect, under certain conditions, to file a consolidated tax return together with Israeli Industrial Companies controlled by it; and
- Expenses related to a public offering are deductible in equal amounts over three years beginning from the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that certain of our Israeli subsidiaries currently qualify as Industrial Companies within the definition under the Industry Encouragement Law. We cannot assure you that they will continue to qualify as Industrial Companies or that the benefits described above will be available in the future.

### ***Law for the Encouragement of Capital Investments, 5719-1959***

The Law for the Encouragement of Capital Investments, 5719-1959, or 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, or AE, a Benefitted Enterprise, or BE, or a Preferred Enterprise, or PFE, or a Preferred Technological Enterprise, or PTE, or a Special Preferred Technological Enterprise, or SPFE is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the geographic location in Israel of the facility in which the investment is made. In order to qualify for these incentives, an AE, BE, PFE, PTE or SPFE is required to comply with the requirements of the Investment Law.

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005 (referred to as the 2005 Amendment), as of January 1, 2011 (referred to as the 2011 Amendment) and as of January 1, 2017 (referred to as the 2017 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. However, companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and elect the benefits of the 2011 Amendment. The 2017 Amendment introduces new benefits for Technological Enterprises, alongside the existing tax benefits.

### ***Tax benefits under the 2011 Amendment became effective on January 1, 2011***

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its PFE (as such terms are defined in the Investment Law) as of January 1, 2011. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity or (ii) a limited partnership that (a) was registered under the Israeli Partnerships Ordinance and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, PFE status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income, or PFI, attributed to its PFE in 2011 and 2012, unless the PFE is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was increased to 16% and 9%, respectively, in 2014 until 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for a PFE that is located in a specified development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a Special PFE (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or 5% if the Special PFE is located in a certain development zone. As of January 1, 2017, the definition for Special PFE includes less stringent conditions.

The classification of income generated from the provision of usage rights in know-how or software that were developed in a PFE, as well as royalty income received with respect to such usage, is subject, as PFE income, to the issuance of a pre-ruling from the Israel Tax Authority that stipulates that such income is associated with the productive activity of the PFE in Israel.

Dividends paid out of PFI attributed to a PFE or to a Special PFE are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). From 2017 to 2019, dividends paid out of PFI attributed to a PFE, directly to a foreign parent company, were subject to withholding tax at source at the rate of 5% (temporary provisions).

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an AE, which chose to receive grants, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; and (ii) the terms and benefits included in any certificate of approval that was granted to an AE, that had participated in an alternative benefits program, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. We and one of our Israeli subsidiaries have elected to apply the new incentives regime under the Amendment to our industrial activity under the 2011 Amendment.

### *New Tax benefits under the 2017 Amendment that became effective on January 1, 2017*

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of Technology Enterprises, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a PTE, and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as Preferred Technology Income, or PTI, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a PTE located in development zone A. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain Benefited Intangible Assets (as defined in the Investment Law) to a related foreign company if the Benefited Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Innovation (previously known as the Israeli Office of the Chief Scientist) (referred to as IIA).

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a Special PTE (an enterprise for which, among others, total consolidated revenues of its parent company and all subsidiaries is at least NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on PTI regardless of the company's geographic location within Israel. In addition, a Special PTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefited Intangible Assets" to a related foreign company if the Benefited Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from IIA. A Special PTE that acquires Benefited Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a PTE or a Special PTE, paid out of PTI, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). If such dividends are distributed to a foreign company that holds solely or together with other foreign companies 90% or more in the Israeli company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

We examined the impact of the 2017 Amendment and the degree to which we will qualify as a PTE or Special PTE, and the amount of PTI that we may have, or other benefits that we may receive, from the 2017 Amendment. Beginning in 2017, part of the Company taxable income in Israel is entitled to a preferred 12% tax rate under the 2017 Amendment.

#### Tax Benefits for Research and Development

Israeli tax law allows, under certain 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.

## **Israeli Capital Gains Tax**

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 Ordinary 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 Ordinary Shares should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of Ordinary 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.

### **Tax Consequences Regarding Disposition of Our Ordinary Shares**

#### ***Overview***

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

#### ***Capital gain***

##### ***Israeli Resident Shareholders***

As of January 1, 2012, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares, whether or not listed on a stock exchange, is 25%, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 30%. However, if such shareholder is considered a Substantial Shareholder (i.e., a person who holds, directly or indirectly, alone or together with another person who collaborates with such person on a permanent basis, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 30%. Individual shareholders dealing in securities in Israel are taxed at their marginal tax rates applicable to business income (up to 47% in 2018 and thereafter).

Under current 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, the corporate tax rate as of 2018 and thereafter is 23%.

##### ***Non-Israeli Resident Shareholders***

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 is generally subject to tax at the corporate tax rate (23% in 2018 and thereafter) if generated by a company, or at the rate of 25% or 30%, if generated by an individual. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 47% for an individual in 2018 and thereafter).

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) are generally exempt from Israeli capital gain tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange, and (iii) with respect to shares listed on a recognized stock exchange outside of Israel, such shareholders are not subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985. However, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (a) have a controlling interest of more than 25% in such non-Israeli corporation, or (b) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, or the U.S-Israel Treaty, the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Treaty) holding the shares as a capital asset is exempt from Israeli capital gain tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting rights during any part of the 12-month period preceding such sale, exchange or disposition; (ii) the shareholder, if an individual, has been present in Israel for a period or periods of 183 days or more in the aggregate during the applicable taxable year; (iii) the capital gain arising from such sale are attributable to a permanent establishment of the shareholder which is maintained in Israel; (iv) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (v) the capital gain arising from such sale, exchange or disposition is attributed to royalties; or (vi) the shareholder is a U.S. resident (for purposes of the U.S.-Israel Treaty) and is not holding the shares as a capital asset. In each case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Treaty, a U.S. resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S-Israel Treaty does not provide such credit against any U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their Ordinary Shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

#### ***Taxes applicable to Dividends***

##### ***Israeli Resident Shareholders***

Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our Ordinary Shares (other than bonus shares or share dividends) at 25%, or 30% 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. However, dividends distributed from taxable income allocated and accrued during the benefits period of an AE are subject to withholding tax at the rate of 15% (if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period, except with respect to an FIC, in which case the 12 year limit does not apply) or 20% with respect to PFE. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/Beneficiary/ Preferred income).

Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on shares of Israeli resident corporations (like our Ordinary Shares). However, dividends distributed from taxable income accrued during the benefits period of an AE are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period.

### ***Non-Israeli Resident Shareholders***

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on our Ordinary Shares, at the rate of 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) or 15% if the dividend is distributed from income attributed to our AE or BE, or 20% with respect to PFE. Such dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares are registered with a Nominee Company (whether the recipient is a Substantial Shareholder or not), and 15% if the dividend is distributed from income attributed to an AE or BE or 20% if the dividend is distributed from income attributed to a PFE, unless a reduced rate is provided under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). For example, under the U.S.-Israel Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our Ordinary Shares who is a U.S. resident (for purposes of the U.S.-Israel Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our AE or BE, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that no more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an AE or BE are subject to a withholding tax rate of 15% for such a U.S. corporation shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. The aforementioned rates will not apply if the dividend income was generated through a permanent establishment of the U.S. resident which is maintained in Israel. If the dividend is attributable partly to income derived from an AE a BE, or a PFE, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation. A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

### ***Excess Tax***

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax for income exceeding a certain level. For 2017 and onwards, the additional tax is at a rate of 3% on annual income exceeding NIS 647,640 for 2021 (approximately \$0.2 million) which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

### ***Estate and Gift Tax***

Israeli law presently does not impose estate or gift taxes.

### **United States Federal Income Taxation**

The following is a general discussion of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our Ordinary Shares. This description addresses only the U.S. federal income tax considerations that may be relevant to U.S. Holders (as defined below) who hold our Ordinary Shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, (the "Code") Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof and the U.S.-Israel Tax Treaty (the "Treaty"), all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively or to differing interpretations. There can be no assurance that the U.S. Internal Revenue Service ("IRS") will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of our Ordinary Shares or that such a position would not be sustained. This discussion does not address all tax considerations that may be relevant to a U.S. Holder of Ordinary Shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions or financial services entities;
- certain insurance companies;

- investors liable for alternative minimum tax;
- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- retirement plans;
- S corporations:
- pension funds;
- certain former citizens or long-term residents of the United States;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold Ordinary Shares through partnerships or other pass-through entities;
- persons who acquire their Ordinary Shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- direct, indirect or constructive owners of investors that actually or constructively own at least 10% of the total combined voting power of our shares or at least 10% of our shares by value; or
- investors holding Ordinary Shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

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

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation.

For purposes of this summary the term “U.S. Holder” means a person that is eligible for the benefits of the Treaty and is a beneficial owner of Ordinary Shares who is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if the trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over the trust’s administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of the trust.

Unless otherwise indicated, it is assumed for the purposes of this discussion that the Company is not, and will not become, a “passive foreign investment company” (“PFIC”) for U.S. federal income tax purposes. See “—Passive Foreign Investment Companies” below.

## Taxation of Distributions

Subject to the discussion below under the heading “—Passive Foreign Investment Companies,” the gross amount of any distributions received with respect to our Ordinary Shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes when such distribution is actually or constructively received, to the extent such distribution is paid out of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, you should expect that the entire amount of any distribution will be taxable to you as dividend income. Dividends are included in gross income at ordinary income rates, unless such dividends constitute “qualified dividend income,” as set forth in more detail below. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your adjusted tax basis in our Ordinary Shares and any amount in excess of your tax basis would be treated as gain from the sale of Ordinary Shares. See “—Sale, Exchange or Other Disposition of Ordinary Shares” below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

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

Subject to complex limitations, some of which vary depending upon the U.S. Holder’s circumstances, any Israeli withholding tax imposed on dividends paid with respect to our Ordinary Shares, may be a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty (if any) will not be eligible for credit against a U.S. Holder’s federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends paid with respect to our common stock generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate. A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our Ordinary Shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder’s position in Ordinary Shares is hedged. An election to deduct foreign taxes instead of claiming a foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex. You should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (including the PFIC rules discussed below), “qualified dividend income” received by a non-corporate U.S. Holder may be subject to tax at the lower long-term capital gain rates (currently, a maximum rate of 20%). Distributions taxable as dividends paid on our Ordinary Shares should qualify for a reduced rate if we are a “qualified foreign corporation,” as defined in Code section 1(h)(11)(C). We will be a qualified foreign corporation if either: (i) we are entitled to benefits under the Treaty or (ii) our Ordinary Shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our Ordinary Shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that our Ordinary Shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. U.S. Holders of our Ordinary Shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

## Sale, Exchange or Other Disposition of Ordinary Shares

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



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

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

### **Passive Foreign Investment Company Considerations**

Based on the composition of our income, assets (including the value of our goodwill, going-concern value or any other unbooked intangibles, which may be determined based on the price of the ordinary shares), and operations, we believe we will not be classified as a "passive foreign investment company", or PFIC, for the 2021 taxable year. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our current taxable year or future taxable years until after the close of the applicable taxable year. Moreover, we must determine our PFIC status annually based on tests that are factual in nature, and our status in the current year and future years will depend on our income, assets and activities in each of those years and, as a result, cannot be predicted with certainty as of the date hereof.

If we were a PFIC for any taxable year during which a U.S. Holder owned Ordinary Shares, certain adverse consequences could apply to the U.S. Holder. Specifically, unless a U.S. Holder makes one of the elections mentioned below, gain recognized by the U.S. Holder on a sale or other disposition of Ordinary Shares would be allocated ratably over the U.S. Holder's holding period for the Ordinary Shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our Ordinary Shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. In addition, if we were a PFIC for a taxable year in which we pay a dividend or the immediately preceding taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS on IRS Form 8621.

If we are treated as a PFIC with respect to you for any taxable year, you will be deemed to own shares in any entities in which we own equity that are also PFICs ("lower tier PFICs"), and you may be subject to the tax consequences described above with respect to the shares of such lower tier PFIC you would be deemed to own.

#### *i. Mark-to-market elections*

If we are a PFIC for any taxable year during which you hold ordinary shares, then instead of being subject to the tax and interest charge rules discussed above, you may make an election to include gain on the ordinary shares as ordinary income under a mark-to-market method, provided that such ordinary shares are “marketable.” The ordinary shares will be marketable if they are “regularly traded” on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations, such as the New York Stock Exchange (or on a foreign stock exchange that meets certain conditions). For these purposes, the ordinary shares will be considered regularly traded during any calendar year during which they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement will be disregarded. However, because a mark-to-market election cannot be made for any lower tier PFICs that we may own, you will generally continue to be subject to the PFIC rules discussed above with respect to your indirect interest in any investments we own that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. As a result, it is possible that any mark-to-market election with respect to the ordinary shares will be of limited benefit.

If you make an effective mark-to-market election, in each year that we are a PFIC, you will include in ordinary income the excess of the fair market value of your ordinary shares at the end of the year over your adjusted tax basis in the ordinary shares. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ordinary shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC, any gain that you recognize upon the sale or other disposition of your ordinary shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

Your adjusted tax basis in the ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules discussed above. If you make an effective mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ordinary shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

#### *ii. Qualified electing fund elections*

In certain circumstances, a U.S. equity holder in a PFIC may avoid the adverse tax and interest charge regime described above by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to the ordinary shares only if we agree to furnish you annually with a PFIC annual information statement as specified in the applicable U.S. Treasury regulations. We do not intend to provide the information necessary for you to make a qualified electing fund election if we are classified as a PFIC. Therefore, you should assume that you will not receive such information from us and would therefore be unable to make a qualified electing fund election with respect to any of our ordinary shares were we to be or become a PFIC.

#### **Additional Tax on Investment Income**

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

#### **Backup Withholding and Information Reporting**

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

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

U.S. citizens and individuals taxable as resident aliens of the United States that (i) own “specified foreign financial assets” (as defined in Section 6038D of the Code and the regulations thereunder) with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and (ii) are required to file U.S. federal income tax returns generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our Ordinary Shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be “specified foreign financial assets.” Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. In addition, in the event a U.S. Holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. Holder for the related tax year may not close until three years after the date that the required information is filed. A U.S. Holder is urged to consult the U.S. Holder’s tax advisor regarding the reporting obligation.

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

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

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.

**H. DOCUMENTS ON DISPLAY**

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

The Exchange Act file number for our SEC filings is 000-19415.

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

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at Yahadut Canada 1 Street, Or Yehuda 6037501, Israel.

**I. SUBSIDIARY INFORMATION**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to a variety of market risks, primarily changes in interest rates affecting our investments in marketable securities and foreign currency fluctuations.

### **Cash Investments, Marketable Securities and Interest Rate Risk**

Our cash investment policy seeks to preserve principal and maintain adequate liquidity while maximizing the income we receive from our investments without significantly increasing the risk of loss. To minimize investment risk, we maintain a diversified portfolio across various maturities, types of investments and issuers, which may include, from time to time, money market funds, U.S. government bonds, state debt, bank deposits and certificates of deposit, and investment grade corporate debt. Our cash management policy does not allow us to purchase or hold commodity instruments, structures or “sub-prime” related holdings (such as auction rate securities and collateralized debt obligation) or other financial instruments for trading purposes.

As of December 31, 2021, we had approximately \$93.7 million in cash and cash equivalents and short term bank deposits and \$1.1 million in marketable securities. Our marketable securities include investments in commercial bonds. The performance of the capital markets affects the values of the funds we hold in marketable securities. These assets are subject to market fluctuations. In such case, the fair value of our investments may decline. We periodically monitor our investments for adverse material holdings related to the underlying financial solvency of the issuers of the marketable securities in our portfolio.

Our exposure to market risk for changes in interest rates relates primarily to our investment in marketable securities. Investments in both fixed rate and floating rate interest bearing securities carry a degree of interest rate risk. The fair market value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our future financial results may be negatively affected in the event that interest rates fluctuate.

### **Foreign Currency Exchange Risk**

Our financial results may be negatively impacted by foreign currency fluctuations. Our foreign operations are transacted through a global network of subsidiaries. These sales and related expenses are generally denominated in currencies other than the U.S. dollar. Because our financial results are reported in U.S. dollars, our results of operations may be adversely impacted by fluctuations in the rates of exchange between the U.S. dollar and such other currencies as the financial results of our foreign subsidiaries are converted into U.S. dollars in consolidation. Our earnings are predominantly affected by fluctuations in the value of the U.S. dollar as compared to the NIS, as well as the value of the U.S. dollar as compared to the euro, Japanese Yen and British Pound.

We measure and record non-monetary accounts in our balance sheet (principally fixed assets and prepaid expenses) in U.S. dollars. For this measurement, we use the U.S. dollar value in effect at the date that the asset or liability was initially recorded in our balance sheet (the date of the transaction).

Our operating expenses may be affected by fluctuations in the value of the U.S. dollar as it relates to foreign currencies, with NIS, euro and Japanese Yen having the greatest potential impact. In managing our foreign exchange risk, we periodically enter into foreign exchange hedging contracts. Our goal is to mitigate the potential exposure with these contracts. By way of example, an increase of 10% in the value of the NIS relative to the U.S. dollar in 2021 would have resulted in an increase in the U.S. dollar reporting value of our operating income of \$2.7 million for that year, while a decrease of 10% in the value of the NIS relative to the U.S. dollar in 2021 would have resulted in a decrease in the U.S. dollar reporting value of our operating income of \$2.2 million for the year. An increase of 10% in the value of the euro, the Japanese yen and the British Pound relative to the U.S. dollar in 2021 would have resulted in an increase in the U.S. dollar reporting value of our operating income of \$0.9 million, \$0.3 million and \$0.2 million, respectively, for that year, while a decrease of 10% in the value of the euro, Japanese Yen and British Pound relative to the U.S. dollar in 2021 would have resulted in a decrease in the U.S. dollar reporting value of our operating income of \$0.8 million, \$0.3 million and \$0.2 million, respectively, for that year.

### **Equity Price Risk**

As of December 31, 2021, we had no trading securities that are classified as available for sale.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Not applicable.

### ITEM 15. CONTROLS AND PROCEDURES

#### **Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer, and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2021. Based on such evaluation, the Chief Executive Officer, and the Chief Financial Officer, have concluded that, as of December 31, 2021, our disclosure controls and procedures are effective.

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report.

Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business of Menarva Ltd., 9540 Y.G. Soft I.T Ltd. and Enable IT LLC, that were acquired during 2021 and included in our 2021 consolidated financial statements and constituted 4% and 5% of total and net assets, respectively as of December 31, 2021 and 6% and 6% of revenues and net income, respectively, for the year then ended

#### **Attestation Report of the Registered Public Accounting Firm**

**The attestation report of Kost Forer Gabbay& Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management's assessment of our internal control over financial reporting as of December 31, 2021 is provided on page F-4, as included under Item 18 of this annual report.**

#### **Changes in Internal Control over Financial Reporting**

Based on the evaluation conducted by our Chief Executive Officer and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 16. RESERVED

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Mr. Ettlinger, an external director within the meaning of the Israeli Companies Law, meets the definition of an audit committee financial expert, as defined by rules of the SEC. For a brief listing of Mr. Ettlinger’s relevant experience, see Item 6A. “Directors, Senior Management and Employees -- Directors and Senior Management.”

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies to any chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar functions. Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Independent Registered Public Accounting Firm Fees**

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

Services Rendered	Year Ended December 31,	
	2021	2020
Audit <sup>(1)</sup>	\$ 376,000	\$ 365,000
Tax and other <sup>(2)</sup>	\$ 92,000	\$ 92,000
Total	\$ 468,000	\$ 457,000

- (1) Audit fees relate to audit services provided for each of the years shown in the table, including fees associated with the annual audit, the filing of a shelf registration statement, various accounting issues and audit services provided in connection with other statutory or regulatory filings.  
(2) Tax fees relate to services performed by the tax division for tax compliance, planning and advice.

**Pre-Approval Policies and Procedures**

Our Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accountants, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee’s approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services that exceed general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC, and also requires the Audit Committee to consider whether proposed services are compatible with the independence of the public accountants.

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

Not applicable.

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

None.

**ITEM 16F. CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT**

None.

## **ITEM 16G. CORPORATE GOVERNANCE**

### **NASDAQ Stock Market Rules and Home Country Practice**

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

- The Rule requiring maintaining a majority of independent directors (Rule 5605(b)(1)). Instead, under Israeli law and practice, we are required to appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors.
- The Rule requiring that our independent directors have regularly scheduled meetings at which only independent directors are present (Rule 5605(b)(2)). Instead, we follow Israeli law according to which independent directors are not required to hold executive sessions.
- The Rule regarding independent director oversight of director nominations process for directors (Rule 5605(e)). Instead, we follow Israeli law and practice according to which our board of directors recommends directors for election by our shareholders.
- The requirement to obtain shareholder approval for the establishment or amendment of certain equity based compensation plans (Rule 5635(c)), an issuance that will result in a change of control of the company (Rule 5635(b)), certain transactions other than a public offering involving issuances of a 20% or more interest in the company (Rule 5635(d)) and certain acquisitions of the stock or assets of another company (Rule 5635(a)). Instead, we follow Israeli law and practice in approving such procedures, according to which Board approval may suffice in certain circumstances.

## **ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

## **ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

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<a href="#">Consolidated Balance Sheets</a>	F-6 – F-7
<a href="#">Consolidated Statements of Income</a>	F-8
<a href="#">Consolidated Statements of Comprehensive Income</a>	F-9
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**ITEM 19. EXHIBITS****Index to Exhibits**

<b>Exhibit</b>	<b>Description</b>
1.1	<a href="#">Memorandum of Association of the Registrant<sup>1</sup></a>
1.2	<a href="#">Articles of Association of the Registrant<sup>2</sup></a>
2.1	<a href="#">Specimen of Ordinary Share Certificate<sup>3</sup></a>
2.2	<a href="#">Description of the rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934<sup>4</sup></a>
4.1	<a href="#">2000 Employee Stock Option Plan<sup>5</sup></a>
4.2	<a href="#">2007 Incentive Compensation Plan<sup>6</sup></a>
8.1	<a href="#">List of Subsidiaries of the Registrant</a>
12.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended</a>
12.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended</a>
13.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1	<a href="#">Consent of Kost Forer Gabbay &amp; Kasierer, a Member of Ernst &amp; Young Global</a>
15.2	<a href="#">Consent of KDA Audit Corporation (relating to Magic Software Japan K.K.)</a>
101.INS	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

- 
- (1) Filed as Exhibit 3.2 to the registrant's registration statement on Form F-1, registration number 33-41486, and incorporated herein by reference.
  - (2) Filed as an Item to the registrant's Form 6-K for the month of December 2011, filed on December 7, 2011, and incorporated herein by reference.
  - (3) Filed as Exhibit 4.1 to the registrant's registration statement on Form F-1, registration number 33-41486, and incorporated herein by reference.
  - (4) Filed as Exhibit 2.2 to the registrant's registration statement on Form 20-F for the year ended December 31, 2019, and incorporated herein by reference.
  - (5) Filed as Exhibit 10.2 to the registrant's annual report on Form 20-F for the year ended December 31, 2000, and incorporated herein by reference.
  - (6) Filed as Exhibit 4.3 to the registrant's annual report on Form 20-F for the year ended December 31, 2007, and incorporated herein by reference.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2021**  
**U.S. DOLLARS IN THOUSANDS**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and the Board of Directors of**

**MAGIC SOFTWARE ENTERPRISES LTD.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Magic Software Enterprises LTD. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, based on our audits and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of Magic Software Japan K.K., a wholly-owned subsidiary, which reflect total assets of constituting 1% and 1% at December 31, 2021 and 2020, respectively, and total revenues constituting 2%, 4% and 3% for the years ended December 31, 2021, 2020 and 2019, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Magic Software Japan K.K., is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 12, 2022 expressed an unqualified opinion thereon.

### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

## Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Valuation of Goodwill

#### *Description of the Matter*

At December 31, 2021, the Company had 146,803 of goodwill. As discussed in Note 2 to the consolidated financial statement, goodwill is tested annually for impairment, or more frequently if impairment indicators arise. The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. If the Company's carrying amount of a reporting unit exceeds its fair value, an impairment loss would be recognized in an amount equal to the excess of the carrying amount over the calculated fair value. The Company determines the fair value of its reporting units using the income approach, which considers a discounted future cash flow analysis using judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discount and growth rates to use in its analyses. The Company performed an annual impairment test.

Auditing the Company's goodwill test was complex and highly judgmental due to the significant estimation and assumptions required by management to estimate the fair value of the reporting units. In particular, significant assumptions, such as projected the future operating cash flows based on forecasted operating income margins, future revenues, the selection of terminal value growth rate, and discount rate. These significant assumptions are forward-looking and could be affected by future economic and market conditions.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the effectiveness of controls over goodwill impairment testing process, including those over management's assessment of the significant assumption and the projected future operating cash flows based on forecasted operating income margins, including future revenues, and the selection of the terminal value growth rate and discount rate.

Our audit procedures to evaluate the significant judgments made by management to test the estimated fair value of the Company's reporting units included, among others, evaluating the reasonableness of management's projected future operating cash flows based on forecasted EBIT margins, including future revenues by comparing to (1) historical results, (2) internal communications to management and the Board of Directors, and (3) forecasted information included in Company press releases, analyst and industry reports of the Company and companies in its peer group.

We also evaluated the appropriateness of the related disclosures included in Note 2 to the consolidated financial statements in relation to Goodwill impairment.

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

We have served as the Company's auditor since 1984.

Tel-Aviv, Israel  
May 12, 2022



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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and the Board of Directors of**

**MAGIC SOFTWARE ENTERPRISES LTD.**

### **Opinion on Internal Control over Financial Reporting**

We have audited Magic Software Enterprises Ltd.'s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Magic Software Enterprises Ltd. (the Company), based on our audit and the report of other auditors, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We did not examine the effectiveness of internal control over financial reporting of Magic Software Japan K.K, a wholly owned subsidiary, whose financial statements reflect total assets and revenues constituting 1% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021. The effectiveness of Magic Software Japan K.K.'s internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of Magic Software Japan K.K.'s internal control over financial reporting, is based solely on the report of the other auditors.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business of Menarva Ltd., 9540 Y.G. Soft I.T Ltd. and Enable IT LLC., that were acquired during 2021 and included in the 2021 consolidated financial statements of the Company and constituted 4% and 5% of total and net assets, respectively as of December 31, 2021 and 6% and 6% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the business of Menarva Ltd., 9540 Y.G. Soft I.T Ltd. and Enable IT LLC.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021 and the related notes and our report dated May 12, 2022 expressed an unqualified opinion thereon based on our audit and the report of the other auditors.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

## **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

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

Tel-Aviv, Israel  
May 12, 2022

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	December 31,	
	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 88,090	\$ 88,127
Short-term bank deposits	5,586	289
Marketable securities	1,142	1,238
Trade receivables (net of allowance of \$ 5,071 and \$ 3,967 at December 31, 2021 and 2020, respectively)	116,975	91,986
Unbilled receivables and contract assets	25,096	19,073
Other accounts receivable and prepaid expenses	9,890	10,513
Total current assets	<u>246,779</u>	<u>211,226</u>
LONG-TERM ASSETS:		
Severance pay fund	3,646	4,673
Deferred tax asset	8,091	6,397
Operating lease right-of-use assets	24,299	24,509
Other long-term receivables	5,165	5,507
PROPERTY AND EQUIPMENT, NET	5,872	5,988
INTANGIBLE ASSETS, NET	51,390	53,404
GOODWILL	<u>146,803</u>	<u>135,682</u>
Total long-term assets	<u>245,266</u>	<u>236,160</u>
Total assets	<u>\$ 492,045</u>	<u>\$ 447,386</u>

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

**MAGIC SOFTWARE ENTERPRISES LTD.  
CONSOLIDATED BALANCE SHEETS**

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

	December 31,	
	2021	2020
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short term debt	\$ 17,032	\$ 11,529
Trade payables	24,711	14,250
Accrued expenses and other accounts payable	45,173	41,846
Current maturities of operating lease liabilities	3,943	3,413
Liabilities due to acquisition activities	6,635	4,998
Deferred revenues and customer advances	10,771	8,793
Total current liabilities	<u>108,265</u>	<u>84,829</u>
LONG TERM LIABILITIES:		
Long-term debt	20,155	13,352
Long-term operating lease liabilities	20,970	21,109
Long-term liabilities due to acquisition activities	13,892	10,926
Deferred tax liability	18,112	17,639
Accrued severance pay	4,551	5,545
Total long-term liabilities	<u>77,680</u>	<u>68,571</u>
COMMITMENTS AND CONTINGENCIES, see Note 16		
REDEEMABLE NON-CONTROLLING INTEREST	<u>30,432</u>	<u>24,980</u>
EQUITY:		
Magic Software Enterprises equity:		
Share capital:		
Ordinary shares of NIS 0.1 par value - Authorized: 50,000,000 shares at December 31, 2021 and 2020; Issued and Outstanding: 49,073,055 and 49,035,055 shares at December 31, 2021 and 2020, respectively	1,165	1,164
Additional paid-in capital	211,543	211,713
Accumulated other comprehensive income	9,294	7,835
Retained earnings	43,246	39,720
Total equity attributable to Magic Software Enterprises shareholders	<u>265,248</u>	<u>260,432</u>
Non-controlling interests	<u>10,420</u>	<u>8,574</u>
Total equity	<u>275,668</u>	<u>269,006</u>
Total liabilities, redeemable non-controlling interest and equity	<u>\$ 492,045</u>	<u>\$ 447,386</u>

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



**MAGIC SOFTWARE ENTERPRISES LTD.  
CONSOLIDATED STATEMENTS OF INCOME**

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

	Year ended December 31,		
	2021	2020	2019
Revenues:			
Software	\$ 30,934	\$ 24,272	\$ 28,084
Maintenance and technical support	36,149	33,181	30,996
Consulting services	413,242	313,741	266,550
<b>Total revenues</b>	<b>480,325</b>	<b>371,194</b>	<b>325,630</b>
Cost of revenues:			
Software	12,182	10,487	10,220
Maintenance and technical support	4,144	3,598	4,167
Consulting services	331,005	247,517	209,114
<b>Total cost of revenues</b>	<b>347,331</b>	<b>261,602</b>	<b>223,501</b>
<b>Gross profit</b>	<b>132,994</b>	<b>109,592</b>	<b>102,129</b>
Operating costs and expenses:			
Research and development, net	8,995	8,789	8,239
Selling and marketing	38,147	31,160	30,454
General and administrative	32,110	27,967	29,529
Change in valuation of contingent consideration related to acquisitions	2,507	1,088	255
<b>Total operating costs and expenses</b>	<b>81,759</b>	<b>69,004</b>	<b>68,477</b>
Operating income	51,235	40,588	33,652
Financial expenses, net	(3,155)	(917)	(1,169)
Increase in valuation of consideration related to acquisitions	(2,817)	(2,268)	(11)
Income before taxes on income	45,263	37,403	32,472
Taxes on income	10,359	7,286	6,874
<b>Net income</b>	<b>34,904</b>	<b>30,117</b>	<b>25,598</b>
Net income attributable to redeemable non-controlling interests	3,517	2,526	3,111
Net income attributable to non-controlling interests	2,055	2,405	2,221
<b>Net income attributable to Magic Software Enterprises shareholders</b>	<b>\$ 29,332</b>	<b>\$ 25,186</b>	<b>\$ 20,266</b>
Net earnings per share attributable to Magic Software Enterprises' shareholders:			
Basic and Diluted earnings per share	<u>0.52</u>	<u>0.49</u>	<u>0.26</u>

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

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
Net income	\$ 34,904	\$ 30,117	\$ 25,598
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments, net	2,673	10,275	8,125
Unrealized gains (losses) from available-for-sale securities	-	(1)	95
Total other comprehensive income (loss), net of tax	2,673	10,274	8,220
Total comprehensive income	37,577	40,391	33,818
Comprehensive income attributable to redeemable non-controlling interests	4,371	4,374	5,106
Comprehensive income attributable to non-controlling interests	2,415	2,672	2,645
Comprehensive income attributable to Magic Software Enterprises' shareholders	\$ 30,791	\$ 33,345	\$ 26,067

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

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

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

	Attributable to the Company's shareholders						
	Number of Shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Non-controlling interests	Total equity
Balance as of January 1, 2019	48,861,038	1,159	218,400	(6,125)	30,522	4,413	248,369
Exercise of stock options	78,500	2	173	-	-	-	175
Stock-based compensation	-	-	74	-	-	-	74
Acquisition of redeemable non-controlling interests	-	-	-	-	(911)	-	(911)
Increase in value of put options of redeemable non-controlling interests	-	-	-	-	(6,560)	-	(6,560)
Acquisition of non-controlling interests	-	-	-	-	-	359	359
Redeemable non-controlling interests reclassification to non-controlling interests	-	-	-	-	-	9,899	9,899
Dividend	-	-	-	-	(14,963)	(457)	(15,420)
Other comprehensive income	-	-	-	5,801	-	424	6,225
Net income	-	-	-	-	20,266	2,221	22,487
Balance as of December 31, 2019	48,939,538	1,161	218,647	(324)	28,354	16,859	264,697
Exercise of stock options	95,517	3	253	-	-	-	256
Acquisition of redeemable non-controlling interests	-	-	(5,972)	-	-	-	(5,972)
Increase in value of put options of redeemable non-controlling interests	-	-	-	-	(1,317)	-	(1,317)
Acquisition of non-controlling interests	-	-	(1,215)	-	-	(3,409)	(4,624)
Non-controlling interests reclassification to Redeemable non-controlling interests	-	-	-	-	-	(6,617)	(6,617)
Dividend	-	-	-	-	(12,503)	(931)	(13,434)
Other comprehensive income	-	-	-	8,159	-	267	8,426
Net income	-	-	-	-	25,186	2,405	27,591
Balance as of December 31, 2020	49,035,055	1,164	211,713	7,835	39,720	8,574	269,006
Exercise of stock options	38,000	1	40	-	-	-	41
Stock-based compensation	-	-	956	-	-	-	956
Acquisition of redeemable non-controlling interests	-	-	(1,166)	-	-	-	(1,166)
Increase in value of put options of redeemable non-controlling interests	-	-	-	-	(4,026)	-	(4,026)
Dividend	-	-	-	-	(21,780)	(569)	(22,349)
Other comprehensive income	-	-	-	1,459	-	360	1,819
Net income	-	-	-	-	29,332	2,055	31,387
Balance as of December 31, 2021	49,073,055	1,165	211,543	9,294	43,246	10,420	275,668

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

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 34,904	\$ 30,117	\$ 25,598
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,852	13,939	14,025
Stock-based compensation	956	-	74
Change in deferred taxes, net	(2,999)	(1,650)	(1,893)
Amortization of marketable securities premium and accretion of discount	96	(70)	117
Exchange rate of loans	71	1,362	1,895
Net change in operating assets and liabilities:			
Trade receivables, net	(27,539)	(3,939)	6,550
Other long-term and short-term accounts receivable and prepaid expenses	263	3,399	9,594
Trade payables	8,771	1,899	(5,273)
Accrued expenses and other accounts payable	6,395	8,175	(7,673)
Deferred revenues	2,040	(936)	2,934
Net cash provided by operating activities	<u>37,810</u>	<u>52,296</u>	<u>45,948</u>

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

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Year ended		
	December 31,		
	2021	2020	2019
Cash flows from investing activities:			
Capitalized software development costs	(3,193)	(3,302)	(4,143)
Purchase of property and equipment	(1,439)	(2,772)	(1,379)
Cash paid in conjunction with acquisitions, net of acquired cash (a)	(6,832)	(16,534)	(22,603)
Proceeds from maturity and sale of marketable securities	-	5,429	3,356
Investment in long-term bank deposits	(93)	-	(714)
Proceeds from (investment in) short-term bank deposits	(5,297)	7,575	10,043
Net cash used in investing activities	<u>(16,854)</u>	<u>(9,604)</u>	<u>(15,440)</u>
Cash flows from financing activities:			
Proceeds from exercise of options by employees	41	256	69
Issuance of ordinary shares, net	-	-	104
Dividend paid	(21,780)	(12,503)	(14,963)
Dividend paid to non-controlling interests	(569)	(931)	(457)
Dividend paid to redeemable non-controlling interests	(3,664)	(4,174)	(3,395)
Purchase of redeemable non-controlling interest	(511)	(18,016)	(5,592)
Payments of deferred and contingent consideration related to acquisitions	(5,343)	(4,596)	-
Short-term and long-term loans received	25,558	9,686	878
Repayment of short-term and long-term loans	(14,467)	(9,369)	(13,624)
Net cash provided used in financing activities	<u>(20,735)</u>	<u>(39,647)</u>	<u>(36,980)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(258)</u>	<u>3,167</u>	<u>1,261</u>
Increase (decrease) in cash and cash equivalents	(37)	6,212	(5,211)
Cash and cash equivalents at the beginning of the year	<u>88,127</u>	<u>81,915</u>	<u>87,126</u>
Cash and cash equivalents at end of the year	<u>\$ 88,090</u>	<u>\$ 88,127</u>	<u>\$ 81,915</u>

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

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
Cash paid in conjunction with acquisitions, net of acquired cash:			
Fair value of assets acquired and liabilities assumed at the date of acquisition:			
Net assets, excluding acquired cash	506	(740)	(6,501)
Intangible assets, net of deferred taxes	(4,816)	(10,231)	(14,411)
Goodwill	(8,544)	(12,168)	(19,051)
Deferred and contingent liabilities assumed in current year business combinations	5,303	3,459	17,002
Non-controlling interests and redeemable non-controlling interests	719	3,146	358
	(6,832)	(16,534)	(22,603)
Supplementary information on investing and financing activities not involving cash flows:			
Non-cash activities:			
Operating lease, right of use assets	\$ 2,801	\$ 1,652	\$ 5,949
Supplemental disclosure of cash flow activities:			
Cash paid (received), net during the year for:			
Income taxes	\$ 13,050	\$ 7,835	\$ 6,736
Interest	\$ 544	\$ 371	\$ (152)

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

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 1:- GENERAL**

- a. MAGIC SOFTWARE ENTERPRISES LTD., an Israeli company (“the Group” or “the Company”), is a global provider of: (i) proprietary application development and business process integration platforms that accelerate the planning, development, deployment and integration of on-premise, mobile and cloud business applications (“the Magic Technology”); (ii) selected packaged vertical software solutions; and (iii) a vendor of software services and IT outsourcing software services.

Magic Technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. To complement its software products and to increase its traction with customers, the Group also offers a complete portfolio of software services in the areas of infrastructure design and delivery, application development, technology planning and implementation services, communications services and solutions, and supplemental IT professional outsourcing services. The Company reports its results on the basis of two reportable business segments: software services (which include proprietary and non-proprietary software solutions, maintenance and support and related services) and IT professional services (see Note 18 for further details).

The Company’s principal markets are the United States, Israel, Europe and Japan (see Note 18).

For information about the Company’s holdings in subsidiaries and affiliates, see Appendix to the consolidated financial statements.

- b. At the time of writing, the direct effects of the Coronavirus (COVID-19) crisis on the results of the Company’s operations are still being felt but these effects are considered insignificant. In the Company’s management opinion, during the period of the report up to the date of approval of this report, the Company’s business and financial results were not materially affected by the spread of the Coronavirus, and there were no significant developments or significant effects on any significant aspect, including liquidity, financial condition, and sources of financing.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”), applied on a consistent basis, as follows, unless otherwise stated. Certain reclassifications have been made to prior-period financial statements to conform to the current-period presentation.

**Use of estimates**

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

**Financial statements in United States dollars**

A substantial portion of the revenues and expenses of the Company and of certain subsidiaries is generated in U.S. dollars (“dollar”). The Company’s management believes that the dollar is the currency of the primary economic environment in which the Company and certain subsidiaries operate. Thus, the functional and reporting currency of the Company and certain subsidiaries is the dollar.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 830, “Foreign Currency Matters”. All transaction gains and losses of the remeasurement of monetary balance sheet items are reflected in the statements of income as financial income or expenses, as appropriate. Monetary accounts and transactions maintained in dollars are presented at their original amounts.

For those foreign subsidiaries whose functional currency is not the dollar, all balance sheet amounts have been translated using the exchange rates in effect at each balance sheet date. Statement of income amounts have been translated using the average exchange rate prevailing during each year. Such translation adjustments are reported as a component of accumulated other comprehensive income (loss) in equity.

**Principles of consolidation**

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

Changes in the Company’s ownership interest in a subsidiary with no change of control are treated as equity transactions, with any difference between the amount of consideration paid and the change in the carrying amount of the non-controlling interest, recognized in equity.

Non-controlling interests of subsidiaries represent the non-controlling shareholders’ share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of ASC 810 “Consolidation” and ASC 480-10-S99-3A, “Distinguishing Liabilities from Equity”.

The following table provides a reconciliation of the redeemable non-controlling interests for the year ended December 31, 2021:

January 1, 2021	\$	24,980
Net income attributable to redeemable non-controlling interest		3,517
Increase in value of put options of redeemable non-controlling interests		4,026
Dividend declared to redeemable non-controlling interest		(3,664)
Increase in redeemable non-controlling interest as part of acquisitions		719
Foreign currency translation adjustments		854
December 31, 2021	\$	<u>30,432</u>



**MAGIC SOFTWARE ENTERPRISES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Cash and cash equivalents**

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

Cash and cash equivalents include amounts held primarily in NIS, dollar, Euro, Japanese Yen and British Pound.

**Short-term deposits and restricted deposits**

Short-term deposits include deposits with original maturities of more than three months and less than one year. Such deposits are presented at cost (including accrued interest) which approximates their fair value. Restricted deposits are used to secure certain of the Group's ongoing projects and are classified under other long-term receivables.

**Marketable securities**

The Company accounts for all its investments in marketable securities in accordance with ASC No. 320, "Investments – Debt and Equity Securities". The Company classifies all of its marketable securities as available for sale and held for trading. Available for sale ("AFS") securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive income (loss)" in equity. Realized gains and losses on sale of investments are included in "financial income (expense), net" and are derived using the specific identification method for determining the cost of securities.

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest on securities is included in "financial expense (income), net".

The Company assessed AFS debt securities with an amortized cost basis in excess of estimated fair value to determine what amount of that difference, if any, is caused by expected credit losses in accordance with ASC 326. Allowance for credit losses on AFS debt securities are recognized as a charge of credit loss expenses (income), net, on the consolidated statements of income, and any remaining unrealized losses, net of taxes, are included in accumulated other comprehensive income (loss) in stockholders' equity.

The Company did not record credit loss allowance on its marketable securities during the years ended December 31, 2021 and 2020.

The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date and the Company's expectations of sales and redemptions in the following year.

Held for trading securities are measured at fair value through profit or loss.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Trade receivables**

Trade receivables are stated net of credit losses allowance. The Company maintains the allowance for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance represents the current estimate of lifetime expected credit losses over the remaining duration of existing accounts receivable considering current market conditions and supportable forecasts when appropriate. The estimate is a result of the Company's ongoing evaluation of collectability, customer creditworthiness, historical levels of credit losses, and future expectations. Write-off activity and recoveries for the periods presented were not material.

Estimated credit loss allowance is recorded as general and administrative expenses on the Company's consolidated statements of income.

The following table presents trade receivables net of an allowance as of December 31, 2020 and 2021:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Trade receivables	\$ 122,046	\$ 95,953
Allowance for credit losses	5,071	3,967
	<u>\$ 116,975</u>	<u>\$ 91,986</u>

**Property and equipment, net**

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

	<b>Years</b>
Computers and peripheral equipment	3 - 5
Office furniture and equipment	7 - 15 (mainly 7)
Motor vehicles	7
Software	3 - 5 (mainly 5)

Leasehold improvements are amortized using the straight-line method over the term of the lease (including option terms that are deemed to be reasonably assured) or the estimated useful life of the improvements, whichever is shorter.

**Business combinations**

The Company accounts for its business combinations in accordance with ASC No. 805, "Business Combinations". The Company uses its best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the business combination date. The total purchase price allocated to the tangible assets, liabilities assumed, non-controlling interests, redeemable non-controlling interests, contingent consideration and intangible assets acquired is assigned based on their fair values as of the date of the acquisition. Changes to the excess of the fair value of the purchase price over the fair value of these identifiable assets and liabilities is recorded as goodwill. Any subsequent changes in estimated contingent considerations are to be recorded in the statements of income. Goodwill generated from the business combinations is primarily attributable to synergies between the Company and acquired companies' respective products and services. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company accounts for a transaction that does not meet the definition of a business as an asset acquisition Under ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business ("2017-01"), while first determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the single asset or group of assets, as applicable, is not a business.

During the years ended December 31, 2019, 2020 and 2021 the Company recorded expenses of \$266, \$3,356 and \$5,324 with respect to changes in the fair value of contingent consideration liability, respectively.

**Research and development costs**

Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Certain internal and external costs incurred to develop software to be sold are capitalized after technological feasibility is established in accordance with ASC 985-20, "Software - Costs of Software to be Sold Leased or Marketed". Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design.

Costs incurred by the Company between completion of the detailed program design and the point at which the product is ready for general release, have been capitalized.

Capitalized software development costs are amortized by the straight-line method over the estimated useful life of the software products (primarily five years). Capitalized software costs are amortized on a product by product basis by the straight-line method over the estimated useful life of the software product (approximately five years, due to their high rates of acceptance, the continued reliance on these products by existing customers, and the demand for such products from prospective customers, all of which validate the Company's expectations) which provides greater amortization expense compared to the revenue-curve method.

The Company assesses the recoverability of these intangible assets on a regular basis by assessing the net realizable value of these intangible assets based on the estimated future gross revenues from each product reduced by the estimated future costs of completing and disposing of it, including the estimated costs of performing maintenance and customer support over its remaining economical useful life using internally generated projections of future revenues generated by the products, cost of completion of products and cost of delivery to customers over its remaining economical useful life. During the years ended December 31, 2019, 2020 and 2021, no such unrecoverable amounts were identified.

**Leases**

The Company determines if an arrangement is a lease at inception. The Company's assessment is based on: (1) whether the contract involves the use of an identified asset, (2) whether the Company obtains the right to substantially all of the economic benefits from the use of the asset throughout the period of use, and (3) whether the Company has the right to direct the use of the asset.

Leases are classified as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria are met: the lease transfers ownership of the asset by the end of the lease term, the lease contains an option to purchase the asset that is reasonably certain to be exercised, the lease term is for a major part of the remaining useful life of the asset, the present value of the lease payments equals or exceeds substantially all of the fair value of the asset, or the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of lease term. A lease is classified as an operating lease if it does not meet any one of these criteria. Since all of the Company's lease contracts do not meet any one of the criteria above, the Company concluded that all of its lease contracts should be classified as operating leases.

As an accounting policy, the Company elected to not recognize a lease liability and a right-of-use ("ROU") asset for leases with a term of twelve months or less.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

ROU assets and liabilities are recognized on the commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate ("IBR") based on the information available on the commencement date in determining the present value of lease payments. The Company's IBR is estimated to approximate the interest rate for collateralized borrowing with similar terms and payments and in economic environments where the leased asset is located. Certain leases include options to extend or terminate the lease. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Moreover, the ROU asset may also include initial direct costs, which are incremental costs of a lease that would not have been incurred if the lease had not been obtained. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, "Property, Plant, and Equipment - Overall," to determine whether a right-of-use asset is impaired, and if so, the amount of the impairment loss to recognize. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain that the Company will exercise that option. An option to terminate is considered unless it is reasonably certain that the Company will not exercise the option.

*Offices*

The Company leases space for offices in various locations worldwide under operating leases. These contracts are considered as operating leases presented in ROU assets.

*Motor vehicles*

The Company leases motor vehicles. Each leasing contract is generally valid for a term of three years. These contracts are considered as operating leases presented in ROU assets.

For the vast majority of the Company's motor vehicle lease agreements, the lease payments include inconsequential non-lease payments, such as license and registration fees, insurance and maintenance. As a result, the Company elected the practical expedient which enables it to not separate non-lease components from lease components, and instead, to account for each separate lease component and the non-lease component associated with that lease component as a single lease component.

**Impairment of long-lived assets, right of use assets and intangible assets subject to amortization**

The Company's long-lived assets (assets group) to be held or used, including right of use assets and intangible assets that are subject to amortization, are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

During the years ended December 31, 2019, 2020 and 2021, no impairment losses have been identified.

**MAGIC SOFTWARE ENTERPRISES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Goodwill**

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, "Intangibles - Goodwill and Other", goodwill is subject to an annual impairment test or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. As of December 31, 2021, the Company operates in four reporting units within its operating segments.

Goodwill reflects the excess of the consideration paid or transferred plus the fair value of contingent consideration and any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired.

ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If the Company elects not to use this option, or if the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then the Company prepares a quantitative analysis to determine whether the carrying value of a reporting unit exceeds its estimated fair value.

If the carrying value of a reporting unit exceeds its estimated fair value, the Company recognizes an impairment of goodwill for the amount of this excess, in accordance with the guidance in FASB Accounting Standards Update ("ASU") No. 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment.

The Company determines the fair value of each reporting unit by using the income approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discount and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

The Company performed an annual impairment test as of December 31, of each of 2019, 2020 and 2021 and did not identify any impairment losses (see Note 9).

**Intangible assets, net**

Intangible assets that are not considered to have an indefinite useful life are amortized over their economic useful life using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. Acquired technology and non-compete agreements were amortized on a straight line basis of up to 10 years (mainly up to 7 years), and customer relationships and backlog were amortized on an accelerated method basis over a period of up to 15 years based on the intangible assets identified.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Revenue recognition**

The Company implements the provisions of ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”). See Note 19 for further disclosures required under ASC 606.

Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration that the company expects to receive in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company enters into contracts that can include various combinations of products, software and professional services, as detailed below, which are generally distinct from each other and accounted for as separate performance obligations.

The Company derives its revenues from licensing the rights to use its software (proprietary and non-proprietary), provision of related professional services, maintenance and technical support as well as from other software and IT professional services (either fixed price or based on time and materials). The Company sells its products primarily through direct sales force and indirectly through distributors and value added resellers.

Under ASC 606, an entity recognizes revenue when or as it satisfies a performance obligation by transferring software license or software related services to the customer, either at a point in time or over time. When the Company enters into a contract for the sale of software license which does not require significant implementation services, and the customer receives the rights to use the perpetual or term-based software license, the Company recognizes revenue from the sale of the software license at the time of delivery, when the customer receives control of the software license. The software license is considered a distinct performance obligation recognized at a point-in-time, as the customer can benefit from the software on its own or together with other readily available resources. Revenue from long term contracts which involve significant implementation, customization, or integration of the Company’s software license to customer-specific requirements are considered as one performance obligation satisfied over-time. The underlying deliverable is owned and controlled by the customer and does not create an asset with an alternative use to the Company. The Company recognizes revenue of such contracts over time using cost inputs, which recognize revenue and gross profit as work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract, to measure progress toward completion of its performance obligations. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss for the entire contract. During the years ended December 31, 2019, 2020 and 2021, no material estimated losses were identified.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

In addition, the Company provides professional services that do not involve significant customization to customer-specific specifications. For contracts that do not involve significant customization to customer-specific specifications (typically staffing or consulting services) revenue is recognized as the services are performed, either on a straight-line basis or based on the hours of services that were provided to the customer, in accordance with the terms of the contracts.

The Company's revenues from post contract support are derived from annual maintenance contracts providing for unspecified upgrades for new versions and enhancements on a when-and-if-available basis for an annual fee, as well as technical support for software licenses previously sold. The right for an unspecified upgrade for new versions and enhancements on a when-and-if-available basis do not specify the features, functionality and release date of future product enhancements for the customer to know what will be made available and the general timeframe in which it will be delivered. The Company considers the post contract support performance obligation as a distinct performance obligation that is satisfied over time, and recognized on a straight-line basis over the contractual period.

Revenue from professional services, both related to software and IT professional services businesses consists of either fixed price or time and materials, and are considered performance obligations that are satisfied over time, and revenues are recognized as the services are provided.

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Stand-alone selling prices of software licenses are typically estimated using the residual approach. Stand-alone selling prices of services are typically estimated based on observable transactions when these services are sold on a standalone basis.

Revenue from third-party sales is recorded at a gross or net amount according to certain indicators. The application of these indicators for gross and net reporting of revenue depends on the relative facts and circumstances of each sale.

The Company pays commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales or profit goals. When sales commissions are considered incremental costs of obtaining a contract with a customer they are deferred and amortized on a systematic basis that is consistent with the transfer to the customer of the performance obligations to which the asset relates. The Company expenses sales commissions as they are incurred when the amortization period would have been less than one year. In addition, generally, sales commissions which are paid upon contract renewal are commensurate with the initial commissions as the renewal amounts are substantially identical to the initial commission costs. During the years ended December 31, 2021 and 2020, no costs have been capitalized.

The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Accrued severance pay and retirement plans**

The Company's and its Israeli subsidiaries' obligation for severance pay with respect to their Israeli employees (for the period for which the employees were not included under Section 14 of the Severance Pay Law, 1963) is calculated pursuant to the Israeli 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, and are presented on an undiscounted basis (referred to as the "Shut Down Method"). Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's obligation for all of its Israeli employees is fully provided for by monthly deposits with insurance policies and severance pay funds and by an accrual.

The carrying value of deposited funds includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligations pursuant to the Israeli Severance Pay Law or labor agreements and are recorded as an asset in the Company's consolidated balance sheet.

The Company and its Israeli subsidiaries' agreements with most of their Israeli employees are in accordance with Section 14 of the Severance Pay Law, 1963, mandating that upon termination of such employees' employment, all the amounts accrued in their insurance policies shall be released to them instead of severance compensation. Upon release of deposited amounts to the employee, no additional liability exists between the parties regarding the matter of severance pay and no additional payments are payable by the Company or its subsidiaries to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company and its subsidiaries are legally released from their obligations to employees once the deposit amounts have been paid.

The Company has a number of savings plans in the United States that qualify under Section 401(k) of the Internal Revenue Code. U.S. employees may contribute up to 100% of their pretax or post-tax salary, but not more than statutory limits. Matching contributions are discretionary and if made, are up to 3% of the participants annual contributions. When contributions are granted, they are invested in proportion to each participant's voluntary contributions in the investment options provided under the plan. Expenses pertaining to 401(k) employer match were immaterial for the years ended December 31, 2019, 2020 and 2021.

Severance expenses for the years ended December 31, 2019, 2020 and 2021 amounted to approximately \$ 4,712, \$ 5,344 and \$ 5,267, respectively.

**Advertising expenses**

Advertising expenses are charged to selling and marketing expenses, as incurred. Advertising expenses for the years ended December 31, 2019, 2020 and 2021 amounted to \$ 519, \$ 472 and \$ 1,669, respectively.



**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Income taxes**

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". ASC 740 prescribes the use of the "asset and liability" method whereby deferred tax asset 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 provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value. Deferred tax assets and liabilities are classified as non-current.

The Company utilizes a two-step approach for recognizing and measuring uncertain tax positions accounted for in accordance with an amendment of ASC 740 "Income Taxes." Under the first step the Company evaluates a tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, based on its technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes.

The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement with the tax authorities. The Company accrued interest and penalties related to unrecognized tax benefits in its provisions for income taxes.

**Basic and diluted net earnings per share**

Basic net earnings 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 dilutive potential ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share."

No portion of the outstanding stock options have been excluded from the calculation of the diluted earnings per share because of anti-dilution.

**Stock-based compensation**

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made. 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 income.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on the accelerated method over the requisite service period of each of the awards. The Company accounts for forfeitures as they occur.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company uses the Binomial option-pricing model (“the Binomial model”) to estimate the fair value for any options granted. The Binomial model takes into account variables such as volatility, dividend yield rate, and risk-free interest rate and also allows for the use of dynamic assumptions and considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

The fair value of each option granted using the Binomial model, was estimated on the date of grant with the following assumptions: expected volatility was based upon actual historical stock price movements and was calculated as of the grant dates for different periods, since the Binomial model can be used for different expected volatilities for different periods. The risk-free interest rate was based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term to the contractual term of the options. The expected term of options granted was derived from the output of the option valuation model and represented the period of time that options granted were expected to be outstanding. Estimated forfeitures were based on actual historical pre-vesting forfeitures. Since dividend payments are applied to reduce the exercise price of the option, the effect of the dividend protection was reflected by using an expected dividend assumption of zero.

For awards with performance conditions, compensation cost is recognized over the requisite service period if it is ‘probable’ that the performance conditions will be satisfied using the accelerated method.

On March 7, 2021, the Company granted one of its senior executive officers 80,000 options to purchase its shares with no exercise price. The options will vest over a four-year period and include several performance criteria related to the Company’s results of operations.

No grants were made to employees or directors in the year ended December 31, 2020 and 2019.

During the years ended December 31, 2019, 2020 and 2021 the Company recognized stock-based compensation expense related to employee stock options in the amount of \$ 74, \$0 and \$956, respectively, as follows:

	Year ended December 31,		
	2021	2020	2019
Selling and marketing	\$ 956	\$ -	\$ 74

**Concentrations of credit risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, short-term deposits, marketable securities, trade and unbilled receivables, contract assets and foreign currency derivative contracts.

The Company’s cash and cash equivalents, short-term deposits and restricted cash are invested primarily in bank deposits with major banks worldwide, mainly in the United States and Israel, however, such cash and cash equivalents and short-term deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. The Company believes that since these deposits may be redeemed upon demand and since such institutions are of high rating they bear low risk.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company's marketable securities include investments in commercial and government bonds and foreign banks. The Company's marketable securities are considered to be highly liquid and have a high credit standing (also refer to Note 4). In addition, management considered its portfolios in foreign banks to be well-diversified.

The Company's trade receivables, unbilled receivables and contract assets are derived from sales to customers located primarily in the United States, Israel, Europe and Japan. An allowance for credit losses is determined based on historical collection experience, customer creditworthiness, current and future economic condition and market condition. The expense related to credit losses pertaining to the Company's trade receivables balance for the years ended December 31, 2019, 2020 and 2021 was \$ 958, \$ 1,242 and \$ 892, respectively.

From time to time, the Company enters into foreign exchange forward contracts and option contracts intended to protect against the changes in value of forecasted non-dollar currency cash flows related to salary and related expenses. These derivative instruments are designed to offset the Company's non-dollar currency exposure.

**Fair value measurements**

The Company accounts for certain assets and liabilities at fair value under ASC 820, "Fair Value Measurements and Disclosures". Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with insufficient volume or infrequent transactions, or other inputs that are observable (model-derived valuations in which significant inputs are observable), or can be derived principally from or corroborated by observable market data;

Level 3 - Unobservable inputs which are supported by little or no market activity;

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company categorized each of its fair value measurements in one of these three levels of hierarchy. Assets and liabilities measured at fair value on a recurring basis are comprised of marketable securities, foreign currency forward contracts and contingent consideration of acquisitions (see Note 5).

The carrying amounts reported in the balance sheet for cash and cash equivalents, short term bank deposits, trade receivables, other accounts receivable, short-term bank credit, trade payables and other accounts payable approximate their fair values due to the short-term maturities of such instruments.

**MAGIC SOFTWARE ENTERPRISES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Comprehensive income (loss)**

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

**Recently issued, not yet adopted accounting pronouncement**

In October 2021, the FASB issued ASU 2021-08 "Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers", which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers. The guidance will result in the acquirer recognizing contract assets and contract liabilities at the same amounts recorded by the acquiree. The guidance should be applied prospectively to acquisitions occurring on or after the effective date. The guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted, including in interim periods, for any financial statements that have not yet been issued. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 3:- BUSINESS COMBINATIONS**

- a. On April 1, 2021, the Company acquired EnableIT, LLC (“EnableIT”), a U.S.-based services company, specializes in IT staffing and recruiting, for a total consideration of \$ 6,000 of which \$ 4,000 was paid upon closing and the remaining \$ 2,000 will be paid in two equal installments in April 1, 2022 and 2023. Acquisition related costs were immaterial. The acquisition was accounted for according to the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing April 1, 2021.

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

Net liabilities, excluding \$42 of cash acquired	\$ (34)
Customer relationships, net of deferred tax liability	1,833
Goodwill	4,101
Total assets acquired	<u>\$ 5,900</u>

The goodwill from the acquisition of EnableIT is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

- b. On April 1, 2021, the Company acquired Menarva Ltd. (“Menarva”), an Israeli-based services company which specializes in software solutions for non-profit organizations for a total consideration of \$5,595. Of which, \$3,000 was paid upon closing. The remaining amount constitutes a contingent payment depending on the future operating results achieved by Menarva. The acquisition date fair value of the contingent consideration amounted to \$2,595. On March 31, 2022, the Company paid \$1,055 to settle a portion of the aforementioned contingent consideration. Acquisition related costs were immaterial. The acquisition was accounted for according to the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing April 1, 2021.

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

Net liabilities, excluding \$90 of cash acquired	\$ (70)
Customer relationships, net of deferred tax liability	2,098
Goodwill	3,477
Total assets acquired	<u>\$ 5,505</u>

The goodwill from the acquisition of Menarva is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 3:- BUSINESS COMBINATIONS (Cont.)**

- c. On January 1, 2021, the Company, through one of its Israeli subsidiaries, acquired 60% of the shares of 9540 Y.G. Soft IT Ltd. ("Soft IT"), an Israel-based services company which specializes in outsourcing of software development services for a total consideration of up to \$1,134. \$ 367 were paid upon closing, \$256 were paid on July 4, 2021, and the remaining amount constitutes a contingent payment depending on the future operating results achieved by Soft IT. The fair value of the contingent consideration amounted to \$510 at the acquisition date. Acquisition related costs were immaterial. The acquisition was accounted for according to the purchase method. Soft IT's minority shareholder, as well as the Company, hold a mutual put and call option for the remaining 40% interest. Thus, the noncontrolling interests were classified as redeemable noncontrolling interests.

The results of operations were included in the consolidated financial statements of the Company commencing January 1, 2021.

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

Net liabilities, excluding \$402 cash acquired	\$ (402)
Customer relationships, net of deferred tax liability	886
Redeemable non-controlling interests	(719)
Goodwill	967
Total assets acquired	<u>\$ 732</u>

The goodwill from the acquisition of Soft IT is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

- d. On May 7, 2020, the Company acquired Aptonet Inc ("Aptonet"), a U.S.-based services company, which specializes in IT staffing and recruiting, for a total consideration of \$ 4,663, of which \$ 3,663 was paid upon closing and the remaining \$ 1,000 will be paid in two installments, 6 and 12 months following the closing date. During 2020 and 2021, the Company paid the remainder of the consideration in two equal installments of \$500 each. Acquisition related costs were immaterial. The acquisition was accounted for by the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing May 1, 2020.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 3:- BUSINESS COMBINATIONS (Cont.)**

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

Net assets, excluding cash acquired	\$	529
Intangible assets, net		1,556
Goodwill		1,785
Total assets acquired net of acquired cash	\$	<u>3,870</u>

The goodwill from the acquisition of Aptonet is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

- e. On September 2, 2020, the Company acquired Stockell Information Systems, Inc (“Stockell”), a U.S.-based services company, which specializes in IT staffing and recruiting, for a total consideration of \$ 7,714, of which \$ 6,265 was paid upon closing and the remaining \$ 1,449 will be paid 12 months following the closing date. In December 2021, following the discovery of a few discrepancies in the sellers’ disclosures, the Company paid as a final consideration \$760 to settle the remainder of the consideration. Acquisition related costs were immaterial. The acquisition was accounted for according to the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing September 1, 2020.

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

Net assets, excluding \$0 of cash acquired	\$	1,051
Intangible assets, net		2,616
Goodwill		4,047
Total assets acquired net of \$0 acquired cash	\$	<u>7,714</u>

The goodwill from the acquisition of Stockell is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

- f. During 2020 the Company acquired two companies which individually and in the aggregate, were not material. These entities were consolidated into the Company’s result of operations since their respective acquisition dates. The total consideration paid for these companies was \$ 11,340.

Net assets, excluding cash acquired	\$	1,069
Intangible assets, net		4,553
Goodwill		5,718
Total assets acquired net of acquired cash	\$	<u>11,340</u>

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 3:- BUSINESS COMBINATIONS (Cont.)**

- g. On July 1, 2019, the Company acquired NetEffects Inc (“NetEffects”), a U.S.-based services company, which specializes in IT staffing and recruiting, for a total consideration of \$ 12,500, of which \$ 9,400 was paid upon closing and the remaining \$ 3,100 was paid in two equal installments on the first and second closing date anniversaries.

Acquisition related costs were immaterial. The acquisition was accounted for by the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing July 1, 2019.

The following table summarizes the fair values of the assets acquired and liabilities at the date of acquisition:

Net assets, excluding cash acquired	\$	91
Intangible assets		8,716
Goodwill		3,526
Total assets acquired net of acquired cash	\$	<u>12,333</u>

The goodwill from the acquisition of NetEffects is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

- h. On April 1st, 2019 the Company acquired PowWow Inc (“PowWow”), creator of SmartUX™, A leading Low-Code Development Platform for Mobilizing and Modernizing Enterprise Apps, for a total consideration of \$8.4 million, out of which \$2 million was contingent on future performance. During 2020, the Company reversed the entire contingent amount as it became apparent that PowWow would not meet its revenue goals.

Acquisition related costs were immaterial. The acquisition was accounted for by the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing March 1, 2019.

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition

Net liabilities, excluding cash acquired	\$	(1,557)
Intangible assets		2,855
Goodwill		7,145
Total assets acquired net of acquired cash	\$	<u>8,443</u>

The goodwill from the acquisition of PowWow is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.



**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 3:- BUSINESS COMBINATIONS (Cont.)**

- i. On February 28, 2019, the Company acquired OnTarget Group Inc. (“OnTarget”), a U.S.-based services company, which specializes in outsourcing of software development services. for a total estimated consideration of \$ 12,456. Total consideration consists of \$7,000 of which \$6,000 was paid in cash upon closing with \$1,000 deferred and paid in two equal installments on the six-month and 15-month anniversary of the closing. The remaining amount constitutes a deferred payment contingent upon OnTarget meeting future operating results over four years (2019-2022). Based on OnTarget’s operating results between 2019 and 2021, the Company estimates the total purchase price is expected to amount to approximately \$19,617. Beyond the \$6,500 paid in 2019, the Company paid \$1,000 in 2020, \$1,000 in 2021 and \$2,000 in 2022. Acquisition related costs were immaterial. The acquisition was accounted for by the purchase method.

The results of operations were included in the consolidated financial statements of the Company commencing March 1, 2019.

The following table summarizes the fair values of the assets acquired and liabilities at the date of acquisition:

Net liabilities, excluding cash acquired	\$ (832)
Intangible assets	4,908
Goodwill	<u>8,380</u>
Total assets acquired net of acquired cash	<u>\$ 12,456</u>

The goodwill from the acquisition of OnTarget is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

- j. On October 1, 2019 the Company acquired a 30% interest in its subsidiary Infinigy Solutions LLC (“Infinigy”), a U.S.-based services company focused on expanding the development and implementation of technical solutions which deliver design-driven turnkey solutions, combining Architecture and Engineering, or A&E design project management and general contracting competencies, across the wireless communications industry, for a total cash consideration of approximately \$ 4,393, which was paid upon closing. Subsequent to the share purchase the Company holds 100% of Infinigy.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 4:- MARKETABLE SECURITIES**

The Company's investment in marketable securities consist primarily of trading bonds with a quoted market price that are classified as trading securities pursuant to ASC No. 320 "Investments — Debt Securities." Marketable securities are stated at fair value as determined by the closing price of each security at balance sheet date. Unrealized gains and losses on these securities are included in financial expenses, net in the consolidated statements of operations.

The Company invests in marketable debt securities, which were classified at fair value through profit or loss. The following is a summary of marketable securities:

a. Composition:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Fair value through profit or loss <sup>(1)</sup>	\$ 1,142	\$ 1,238
Available-for-sale- Corporate bonds	-	-
	<u>\$ 1,142</u>	<u>\$ 1,238</u>

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(1) The Company recognized trading losses in the amount of \$ 96 during the year ended December 31, 2021.

**NOTE 5:- FAIR VALUE MEASUREMENTS**

In accordance with ASC 820, the Company measures its investment in marketable securities at fair value. Generally equity funds are classified within Level 1, this is because these assets are valued using quoted prices in active markets. Foreign currency derivative contracts, certain corporate bonds and convertible bonds are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Contingent consideration is classified within Level 3. The Company values the Level 3 contingent consideration using discounted cash flow of the expected future payments, whose inputs include interest rate.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 5:- FAIR VALUE MEASUREMENTS (Cont.)**

The Company's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments:

	<b>December 31, 2021</b>			
	<b>Fair value measurements using input type</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Corporate bonds	\$ -	\$ -	\$ -	\$ -
Convertible bonds	-	1,142	-	1,142
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 1,142</b>	<b>\$ -</b>	<b>\$ 1,142</b>
<b>Liabilities:</b>				
Contingent consideration	\$ -	\$ -	\$ 17,771	\$ 17,771
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,771</b>	<b>\$ 17,771</b>

	<b>December 31, 2020</b>			
	<b>Fair value measurements using input type</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Corporate bonds	\$ -	\$ -	\$ -	\$ -
Convertible bonds	-	1,238	-	1,238
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 1,238</b>	<b>\$ -</b>	<b>\$ 1,238</b>
<b>Liabilities:</b>				
Contingent consideration	\$ -	\$ -	\$ 10,561	\$ 10,561
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,561</b>	<b>\$ 10,561</b>

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 5:- FAIR VALUE MEASUREMENTS (Cont.)**

Fair value measurements using significant unobservable inputs (Level 3):

	December 31,	
	2021	2020
Opening balance	\$ 10,561	\$ 5,964
Increase in contingent consideration due to acquisitions	3,098	2,222
Payment of contingent consideration	(1,816)	(728)
Increase in fair value of contingent consideration	3,476	3,812
Decrease in fair value of contingent consideration	(244)	(2,040)
Foreign currency translation adjustments	35	(683)
Amortization of interest and exchange rate	2,661	2,014
Closing balance	\$ 17,771	\$ 10,561

**NOTE 6:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	December 31,	
	2021	2020
Prepaid expenses	\$ 4,578	\$ 3,581
Government authorities	3,601	3,005
Related parties	29	615
Other	1,682	3,312
	\$ 9,890	\$ 10,513

**MAGIC SOFTWARE ENTERPRISES LTD.**  
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**NOTE 7:- PROPERTY AND EQUIPMENT, NET**

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Cost:		
Leasehold improvements	\$ 3,725	\$ 3,611
Computers and peripheral equipment	8,106	7,021
Office furniture and equipment	3,839	3,627
Motor vehicles	1,444	1,411
Software	1,623	1,621
	<u>18,737</u>	<u>17,291</u>
Accumulated depreciation:		
Leasehold improvements	1,041	753
Computers and peripheral equipment	6,594	5,886
Office furniture and equipment	2,480	2,340
Motor vehicles	1,240	866
Software	1,510	1,458
	<u>12,865</u>	<u>11,303</u>
Depreciated cost	<u>\$ 5,872</u>	<u>\$ 5,988</u>

Depreciation expenses amounted to \$ 1,261, \$ 1,335 and \$ 1,796 for the years ended December 31, 2019, 2020 and 2021, respectively.

**MAGIC SOFTWARE ENTERPRISES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 8:- INTANGIBLE ASSETS, NET**

a. Intangible assets:

	Weighted average remaining useful life (years)	December 31,	
		2021	2020
Original amounts:			
Capitalized software development costs	3.49	90,101	86,240
Customer relationships	9.16	85,737	78,750
Acquired technology	6.07	18,231	18,052
Other	10.55	629	616
		<u>194,698</u>	<u>183,658</u>
Accumulated amortization:			
Capitalized software development costs		79,354	74,841
Customer relationships		53,583	46,621
Acquired technology		10,188	8,720
Other		183	72
		<u>143,308</u>	<u>130,254</u>
Intangible assets, net		<u>\$ 51,390</u>	<u>\$ 53,404</u>

b. Amortization expenses amounted to \$ 12,764, \$ 12,604 and \$ 13,056 for the years ended December 31, 2019, 2020 and 2021, respectively.

c. The estimated future amortization expense of intangible assets as of December 31, 2021 is as follows:

2022	\$ 11,691
2023	9,951
2024	8,406
2025	6,616
2026	4,863
2027 and thereafter	9,863
	<u>\$ 51,390</u>

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 9:- GOODWILL**

Changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2021 according to the Company's reportable segments are as follows (see also Note 18):

	IT professional services	Software services	Total
As of January 1, 2020	\$ 60,346	\$ 57,397	\$ 117,743
Business combinations	5,832	5,718	11,550
Measurement period adjustments	1,443	618	2,061
Foreign currency translation adjustments	1,725	2,603	4,328
As of December 31, 2020	\$ 69,346	\$ 66,336	\$ 135,682
Business combinations	5,068	3,477	8,545
Measurement period adjustments	321	558	879
Foreign currency translation adjustments	868	829	1,697
As of December 31, 2021	\$ 75,603	\$ 71,200	\$ 146,803

The Company performed annual impairment tests as of December 31, 2019, 2020 and 2021 and did not identify any impairment losses (see Note 2).

**NOTE 10:- SHORT TERM DEBT**

	Linkage basis	Interest rate %	December 31,	
			2021	2020
Short-term credit from banks	NIS	1.8% - 2.3%	4,644	1,259
Current maturities of long-term loans from financial institutions and banks	NIS	1.7% - 3.14%	8,638	10,270
Current maturities of long-term loans from financial institutions and banks	USD	LIBOR + 2.1%	3,750	-
			\$ 17,032	\$ 11,529

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11:- ACCRUED EXPENSES AND OTHER ACCOUNTS PAYABLE**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Employees and payroll accruals	\$ 27,826	\$ 28,562
Accrued expenses	8,955	7,086
Government authorities	8,160	5,559
Other	232	639
	<u>\$ 45,173</u>	<u>\$ 41,846</u>

**NOTE 12:- LONG TERM DEBT**

	<b>Linkage basis</b>	<b>Interest rate</b>	<b>December 31,</b>	
			<b>2021</b>	<b>2020</b>
Loans from banks and other <sup>(1)</sup>	NIS	1.7% – 5%	\$ 17,475	\$ 23,534
Bank loan <sup>(2)</sup>	USD	LIBOR + 2.1%	15,000	-
Other long term debt	JPY	1.9%	68	88
			<u>\$ 32,543</u>	<u>\$ 23,622</u>
Current maturities	NIS, USD		<u>(12,388)</u>	<u>(10,270)</u>
			<u>\$ 20,155</u>	<u>\$ 13,352</u>

(1) This is mainly comprised of a bank loan obtained by the Company on November 2016 in the amount of \$ 31,356. The loan is linked to the New Israel Shekel, and was obtained from an Israeli financial institution. The principal amount of the loan is payable in seven equal annual installments with the final payment due on November 2, 2023 and bears a fixed interest rate of 2.60% per annum, payable in two semi-annual payments.

Under the terms of the loan with the Israeli financial institution, the Company has undertaken to maintain the following financial covenants, as they will be expressed in its consolidated financial statements, as described:

- a. Total equity attributable to Magic Software Enterprises shareholders shall not be lower than \$ 100,000 at all times;
- b. The Company's consolidated cash and cash equivalent and marketable securities available for sales shall not be less than \$ 10,000;
- c. The ratio of the Company's consolidated total financial debts to consolidated total assets will not exceed 50%;
- d. The ratio of the Company's total financial debts less cash, short-term deposits and short-term marketable securities to the annual EBITDA will not exceed 3.25 to 1; and
- e. The Company shall not create any pledge on all of its property and assets in favor of any third party without the financial institution's consent.

As of December 31, 2021, the Company was in compliance with the financial covenants.

(2) On June 1, 2021, the Company obtained a loan in the amount of \$ 15,000 from an Israeli bank. The principal amount of the loan is payable in eight equal annual installments with the final payment due on December 1, 2025 and bears a fixed interest rate of LIBOR + 2.1% per annum, payable in two semi-annual payments.



**NOTE 13:- TAXES ON INCOME**

a. Israeli taxation:

1. Corporate tax rate in Israel:

Taxable income of Israeli companies was generally subject to corporate tax at the rate of was 23% in 2021 and 2020. Some of the Israeli subsidiaries are eligible for tax benefits as described below.

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

Amendment 73 to the law:

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years) 2016, which includes Amendment 73 to the Law for the Encouragement of Capital Investments (“the 2017 Amendment”) was published and was pending the publication of regulations, in May 2017 regulations were promulgated by the Finance Ministry to implement the “Nexus Principles” based on OECD guidelines published as part of the Base Erosion and Profit Shifting (BEPS) project. Following the publication of the regulations the 2017 Amendment became fully effective. According to the 2017 Amendment, a Preferred Technological Enterprise, as defined in the 2017 Amendment, with total consolidated revenues of the group companies is less than NIS 10 billion, shall be subject to 12% tax rate on income derived from intellectual property (in development area A—a tax rate of 7.5%). In order to qualify as a Preferred technological enterprise certain criterion must be met, such as a minimum ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual revenues derived from exports. A PTE that acquires Benefited Intangible Assets from a foreign company for more than NIS 200 million after January 1, 2017, will be eligible for 12% reduce tax rate on capital gain upon sale of the Benefited Intangible Assets.

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a Special Preferred Technology Enterprise (“SPTE”) (an enterprise for which, among others, total consolidated revenues of its parent company and all subsidiaries is at least NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on PTI regardless of the Company’s geographic location within Israel. In addition, a SPTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefited Intangible Assets” to a related foreign company if the Benefited Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017.

Starting from 2017 under Amendment 73 to the Investment Law, part of the Company’s taxable income in Israel were entitled to a preferred 12% tax rate. Since 2019, under SPTE the tax rate for part of the Company’s taxable income in Israel has been reduced to a 6% corporate tax rate.

One of its Israeli subsidiaries have elected to apply the new incentives regime under the Amendment to their industrial activity in Israel, subject to meeting its requirements, starting in 2011.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 13:- TAXES ON INCOME (Cont.)**

In 2015, the Company transitioned to the preferred enterprise track entitling it to a preferred 16% tax rate under Amendment 73 to the Investment Law.

The Company has received final tax assessments through the year 2016. The Company subsidiaries have received final tax assessments (or assessments that are deemed final) through the tax year 2014.

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

The Company qualifies 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. Under the Industrial Encouragement Law, the Company is entitled to amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes as well as accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industrial Encouragement Law is not subject to receipt of prior approval from any governmental authority.

5. Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, the Company and one of its Israeli subsidiaries calculate their tax liability in U.S. dollars according to certain orders. The tax liability, as calculated in U.S. dollars is translated into NIS according to the exchange rate as of December 31 of each year.

b. Income tax on non-Israeli subsidiaries:

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

Neither Israeli income taxes, foreign withholding taxes nor deferred income taxes were provided in relation to undistributed earnings of the non-Israeli subsidiaries. This is because the Company intends to permanently reinvest undistributed earnings in the foreign subsidiaries in which those earnings arose. If these earnings were distributed in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and non-Israeli withholding taxes.

As of December 31, 2021, the Company had \$11,321 of cash and cash equivalents that are currently held outside of Israel that would be subject to income taxes if distributed as dividends. However, a determination of the amount of the unrecognized deferred tax liability for temporary difference related to those undistributed earnings of foreign subsidiaries is not practicable due to the complexity of the structure of our group of subsidiaries for tax purposes and the difficulty of projecting the amount of future tax liability.

**MAGIC SOFTWARE ENTERPRISES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 13:- TAXES ON INCOME (Cont.)**

c. Net operating loss carryforwards:

As of December 31, 2021, two Israeli subsidiaries of the Company had operating loss carryforwards of \$ 11,762 (mainly F.T.S Formula Telecom Solutions, Ltd. which accounts for \$ 10,376), which can be carried forward to offset against taxable income in the future for an indefinite period.

One of the Company's subsidiaries in England had estimated total available tax loss carryforwards of \$ 3,392 as of December 31, 2021, which can be carried forward to offset against future taxable income.

Two of the Company's subsidiaries in U.S. had estimated total available tax loss carryforwards of \$ 7,950 as of December 31, 2021, which can be carried forward to offset against future taxable income.

d. Income before taxes on income:

	Year ended December 31,		
	2021	2020	2019
Domestic	\$ 32,714	\$ 25,423	\$ 17,806
Foreign	12,550	11,980	14,666
	<u>\$ 42,264</u>	<u>\$ 37,403</u>	<u>\$ 32,472</u>

e. Taxes on income:

Taxes on income (tax benefit) consist of the following:

	Year ended December 31,		
	2021	2020	2019
Current:			
Domestic	\$ 7,847	\$ 7,867	\$ 7,266
Foreign	6,123	1,069	1,636
	<u>13,970</u>	<u>8,936</u>	<u>8,902</u>
Deferred taxes:			
Domestic	(1,124)	(1,687)	(1,001)
Foreign	(2,487)	37	(1,027)
	<u>(3,611)</u>	<u>(1,650)</u>	<u>(2,028)</u>
Taxes on income	<u>\$ 10,359</u>	<u>\$ 7,286</u>	<u>\$ 6,874</u>

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 13:- TAXES ON INCOME (Cont.)**

f. Deferred tax assets and liabilities:

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

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net operating loss carryforwards	\$ 5,481	\$ 5,557
Allowances, reserves and intangible assets	7,779	6,228
Deferred tax assets before valuation allowance	13,260	11,785
Less - valuation allowance	(5,169)	(5,388)
Deferred tax assets, net	<u>\$ 8,091</u>	<u>\$ 6,397</u>

  

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Deferred tax assets	\$ 8,091	\$ 6,397
Deferred tax liabilities	(18,112)	(17,639)
Net deferred tax liabilities	<u>\$ (10,021)</u>	<u>\$ (11,242)</u>

Deferred tax liabilities are mainly in respect of acquired intangibles, certain property and equipment, and capitalized software costs.

The Company has provided valuation allowances in respect of certain deferred tax assets resulting from operating losses carry forwards and other reserves and allowances due to uncertainty concerning realization of these deferred tax assets.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 13:- TAXES ON INCOME (Cont.)**

- g. Reconciliation of the theoretical tax expense to the actual tax expense:

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income for an Israeli company (corporate tax rate as of 2018 and thereafter is 23%), and the actual tax expense as reported in the statements of income is as follows:

	Year ended December 31,		
	2021	2020	2019
Income before taxes, as reported in the consolidated statements of income	\$ 45,264	\$ 37,403	\$ 32,472
Statutory tax rate	23%	23%	23%
Theoretical tax expenses on the above amount at the Israeli statutory tax rate	\$ 10,411	\$ 8,603	\$ 7,468
Tax adjustment in respect of different tax rates	283	(1,169)	465
Deferred taxes on losses for which full valuation allowance was provided in the past	(80)	(326)	(227)
Tax-deductible costs, not included in the accounting costs	(1,041)	(679)	-
Tax expenses in respect of prior years, net	(481)	(71)	(37)
Non-deductible expenses	1,482	1,398	-
Uncertain tax position and other differences	(215)	(470)	(795)
Income tax	\$ 10,359	\$ 7,286	\$ 6,874

- h. The Company applies ASC 740, "Income Taxes" with regards to tax uncertainties. During the years ended December 31, 2020, and 2021 the Company recorded income of \$ 1,103 and \$0 as a result of this application.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 13:- TAXES ON INCOME (Cont.)**

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

Gross unrecognized tax benefits at January 1, 2019	\$ 2,175
Increase in tax positions taken in prior years	-
Decrease in tax positions taken in prior years	<u>-</u>
Gross unrecognized tax benefits at December 31, 2019	2,175
Increase in tax positions taken in prior years	-
Decrease in tax positions taken in prior years	<u>(1,103)</u>
Gross unrecognized tax benefits at December 31, 2020	1,072
Increase in tax positions taken in prior years	162
Decrease in tax positions taken in prior years	<u>-</u>
Gross unrecognized tax benefits at December 31, 2021	<u>\$ 1,234</u>

Although the Company believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement, there is no assurance that the final tax outcome of its tax audits will not be different from that which is reflected in the Company's income tax provisions. Such differences could have a material effect on the Company's income tax provision, cash flow from operating activities and net income in the period in which such determination is made.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
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**NOTE 14:- EQUITY**

a. The Ordinary shares of the Company are listed on the NASDAQ Global Select Market in the United States and are traded on the Tel-Aviv Stock Exchange in Israel.

b. Stock Option Plans:

Under the Company’s 2007 Stock Option Plan, as amended (“the 2007 Plan”), options may be granted to employees, officers, directors and consultants of the Company and its subsidiaries. Pursuant to the original 2007 Stock Option Plan, the Company reserved 1,500,000 Ordinary shares for issuance. In 2012, the Company increased the number of Ordinary shares reserved for issuance under the 2007 Plan by additional 1,000,000 Ordinary shares.

On December 31, 2015, the Company’s Board of Directors increased the amount of Ordinary shares reserved for issuance under the 2007 Plan by additional 250,000 Ordinary shares and extended the 2007 Plan by 10 years whereas it will expire on August 1, 2027. As of December 31, 2020, an aggregate of 932,500 Ordinary shares of the Company are available for future grants under the 2007 Plan. Each option granted under the 2007 Plan is exercisable for a period of ten years from the date of the grant of the option.

The exercise price for each option is determined by the Board of Directors and set forth in the Company’s award agreement. Unless determined otherwise by the Board of Directors, the option exercise price shall be equal to or higher than the share market price at the grant date. The options generally vest over 3-4 years. Any option that is forfeited or canceled before expiration becomes available for future grants under the 2007 Plan.

On March 7, 2021, the Company granted to one of its senior executive officers 80,000 options to purchase its shares with no exercise price. The options will vest over a four-year period, and include several performance criteria related to the Company’s results of operations.

No grants were made to employees or directors in 2020.

A summary of employee option activity under the 2007 Plan as of December 31, 2021 and changes during the year ended December 31, 2021 are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2021	24,250	\$ 3.45	1.24	\$ 380
Granted	80,000	-		
Exercised	(38,000)	1.12		
Forfeited	-			
Outstanding at December 31, 2021	<u>66,250</u>	<u>\$ 0.45</u>	<u>7.96</u>	<u>\$ 1,360</u>
Exercisable at December 31, 2021	<u>26,250</u>	<u>\$ 1.03</u>	<u>6.95</u>	<u>\$ 522</u>

**MAGIC SOFTWARE ENTERPRISES LTD.**  
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**NOTE 14:- EQUITY (Cont.)**

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 December 31, 2021. This amount is changed based on the market value of the Company's Ordinary shares. Total intrinsic value of options exercised during the years ended December 31, 2019, 2020 and 2021 was \$537, \$765 and \$628, respectively. As of December 31, 2020, there was \$393 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a weighted-average period of 1.29 years.

The options outstanding as of December 31, 2021, have been separated into exercise price categories, as follows:

<u>Exercise price</u>	<u>Options outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Options exercisable</u>	<u>Weighted average exercise price of exercisable options</u>
In \$				
0	60,000	1.60	20,000	\$ 0
4.32	6,250	8.62	6,250	\$ 4.32
	<u>66,250</u>	<u>7.96</u>	<u>26,250</u>	<u>\$ 1.03</u>

c. Accumulated other comprehensive income (loss):

	<u>December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Accumulated realized and unrealized gain (loss) on available-for-sale securities, net	\$ -	\$ -	\$ 1
Accumulated foreign currency translation adjustments	9,268	7,809	(351)
Accumulated unrealized gain on derivative instruments, net	26	26	26
Total other comprehensive income (loss)	<u>\$ 9,294</u>	<u>\$ 7,835</u>	<u>\$ (324)</u>



**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 14:- EQUITY (Cont.)**

d. Dividend distribution policy

On August 9, 2017, the Company's Board of Directors decided to amend the dividend distribution policy announced in 2012. According to the Company's amended policy, each year the Company will distribute a dividend of up to 75% of its annual distributable profits. The Company's Board of Directors may at its discretion and at any time, change, whether as a result of a one-time decision or a change in policy, the rate of dividend distributions and/or decide not to distribute a dividend, all at its discretion.

On March 4, 2019, the Company declared a dividend distribution of \$ 0.15 per share (\$ 7,335 in the aggregate) which was paid on March 25, 2019. On August 13, 2019, the Company declared a dividend distribution of \$ 0.156 per share (\$ 7,628 in the aggregate) which was paid on September 12, 2019. On May 26, 2020, the Company declared a dividend distribution of \$ 0.08 per share (\$ 3,918 in the aggregate) which was paid on June 25, 2020. On August 13, 2020, the Company declared a dividend distribution of \$ 0.175 per share (\$ 8,585 in the aggregate) which was paid on September 10, 2020. On March 8, 2021, the Company declared a dividend distribution of \$ 0.21 per share (\$ 10,297 in the aggregate) which was paid on April 7, 2021. On August 12, 2021, the Company declared a dividend distribution of \$ 0.23 per share (\$ 11,480 in the aggregate) which was paid on September 14, 2021.

**NOTE 15:- RELATED PARTIES TRANSACTIONS**

Agreements with controlling shareholder and its affiliates:

The Company has in effect agreements with affiliated companies pursuant to which the Company has rendered services amounting to approximately \$ 4,300, \$ 3,000, and \$ 5,615, in aggregate for the years ended December 31, 2019, 2020 and 2021, respectively and acquired services amounting to approximately \$ 224, \$ 788 and \$ 2,639 for the years ended December 31, 2019, 2020 and 2021, respectively.

As of December 31, 2020 and 2021, the Company had trade and other receivables balances due to its related parties in amount of approximately \$ 763 and \$ 3,380, respectively. In addition, as of December 31, 2020 and 2021, the Company had trade payables balances due from its related parties in amount of approximately \$ 130 and \$ 708, respectively.

**NOTE 16:- COMMITMENTS AND CONTINGENCIES**

a. Guarantees and Collaterals:

As of December 31, 2021, the Company has provided performance bank guarantees as security for the performance of various contracts with customers as well as to secure future payments in respect of lease agreements in the amount of \$3,100 and \$992, respectively. As of December 31, 2021, the Company has restricted bank deposits of \$ 295 in favor of the issuing banks.

b. From time to time, the Company and/or its subsidiaries are subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to intellectual property, contracts, employment and other matters. The Company accrues a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter.

Lawsuits have been brought against the Company in the ordinary course of business. The Company intends to defend itself vigorously against those lawsuits.

In September 2016, an Israeli software company, that was previously involved in an arbitration proceeding with us in 2015 and won damages from us of \$2.4 million, filed a lawsuit seeking damages of NIS 34,106 against the Company and one its subsidiaries. This lawsuit was filed as part of an arbitration proceeding. In the lawsuit, the software company claimed that warning letters that the Company sent to its clients in Israel and abroad, warning those clients against the possibility that the conversion procedure offered by the software company may amount to an infringement of the Company's copyrights (the "Warning Letters"), as well as other alleged actions, have caused the software company damages resulting from loss of potential business. The lawsuit is based on rulings given in the 2015 arbitration proceeding in which it was allegedly ruled that the Warning Letters constituted a breach of a non-disclosure agreement (NDA) signed between the parties.

The Company rejected the claims by the Israeli software company and moved to dismiss the lawsuit entirely. In July 2021, an arbitrator assigned to the case rendered his decision and determined that the Company should pay the plaintiffs damages in the amount of \$1.6 million, which was paid in August 2021 and included in the Company's results of operations for the year ended December 31, 2021.

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**NOTE 17:- NET EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted net earnings per share:

	Year ended December 31,		
	2021	2020	2019
Net income attributable to Magic shareholders	\$ 29,322	\$ 25,186	\$ 20,266
Accretion of redeemable non-controlling interests	\$ (4,026)	\$ (1,317)	\$ (7,471)
Net income attributable to Magic shareholders after accretion of redeemable non-controlling interests	<u>\$ 25,296</u>	<u>\$ 23,869</u>	<u>\$ 12,795</u>
Weighted average Ordinary shares outstanding:			
Denominator for basic net earnings per share	49,055,082	49,028,975	48,896,163
Effect of dilutive securities	<u>44,972</u>	<u>18,682</u>	<u>97,920</u>
Denominator for diluted net earnings per share	<u>49,100,054</u>	<u>49,047,657</u>	<u>48,994,083</u>
Basic and Diluted earnings per share	<u>\$ 0.52</u>	<u>\$ 0.49</u>	<u>\$ 0.26</u>

**NOTE 18:- SEGMENT GEOGRAPHICAL INFORMATION AND MAJOR CUSTOMERS**

- a. The Company reports its results on the basis of two reportable business segments: software services (which include proprietary and none proprietary software technology) and IT professional services.

The Company evaluates segment performance based on revenues and operating income of each segment. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. This data is presented in accordance with ASC 280, "Segment Reporting."

Headquarters' general and administrative costs have not been allocated between the different segments.

**Software services**

The Company develops markets, sells and supports a proprietary and none proprietary application platform, software applications, business and process integration solutions and related services.

**IT professional services**

The Company offers advanced and flexible IT services in the areas of infrastructure design and delivery, application development, technology planning and implementation services, communications services and solutions, as well as supplemental outsourcing services.

There are no significant transactions between the two segments.

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**NOTE 18:- SEGMENT GEOGRAPHICAL INFORMATION AND MAJOR CUSTOMERS (Cont.)**

b. The following is information about reported segment results of operation:

	<u>Software services</u>	<u>IT professional services</u>	<u>Unallocated expense</u>	<u>Total</u>
<b>2019</b>				
Total revenues	\$ 86,140	\$ 239,490	\$ -	\$ 325,630
Expenses	<u>71,825</u>	<u>216,842</u>	<u>3,311</u>	<u>291,978</u>
Segment operating income (loss)	<u>\$ 14,315</u>	<u>\$ 22,648</u>	<u>\$ (3,311)</u>	<u>\$ 33,652</u>
Depreciation and amortization	<u>\$ 8,799</u>	<u>\$ 5,059</u>	<u>\$ 167</u>	<u>\$ 14,025</u>
<b>2020</b>				
Total revenues	\$ 86,025	\$ 285,169	\$ -	\$ 371,194
Expenses	<u>64,498</u>	<u>258,907</u>	<u>7,201</u>	<u>330,606</u>
Segment operating income (loss)	<u>\$ 21,527</u>	<u>\$ 26,262</u>	<u>\$ (7,201)</u>	<u>\$ 40,588</u>
Depreciation and amortization	<u>\$ 10,329</u>	<u>\$ 3,347</u>	<u>\$ 263</u>	<u>\$ 13,939</u>
<b>2021</b>				
Total revenues	\$ 95,589	384,736	-	480,325
Expenses	<u>74,863</u>	<u>347,712</u>	<u>6,514</u>	<u>429,089</u>
Segment operating income (loss)	<u>\$ 20,726</u>	<u>37,024</u>	<u>(6,514)</u>	<u>51,236</u>
Depreciation and amortization	<u>\$ 9,261</u>	<u>5,220</u>	<u>371</u>	<u>14,852</u>

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 18:- SEGMENT GEOGRAPHICAL INFORMATION AND MAJOR CUSTOMERS (Cont.)**

- c. The Company's business is divided into the following geographic areas: United States, Israel, Europe, Japan and other regions. Total revenues are attributed to geographic areas based on the location of the customers.

The following table presents total revenues classified according to geographical destination for the years ended December 31, 2019, 2020 and 2021:

	Year ended December 31,		
	2021	2020	2019
United States	\$ 254,342	\$ 177,882	\$ 158,095
Israel	180,462	149,094	124,523
Europe	30,085	26,947	25,788
Japan	11,443	12,643	12,499
Other	3,993	4,628	4,725
	<u>\$ 480,325</u>	<u>\$ 371,194</u>	<u>\$ 325,630</u>

- d. The Company's long-lived assets are located as follows:

	December 31,	
	2021	2020
Israel	\$ 138,995	\$ 130,326
United States	76,448	74,637
Japan	5,521	6,404
Other	2,950	3,013
Europe	4,450	5,191
	<u>\$ 228,364</u>	<u>\$ 219,571</u>

- e. The Company does not allocate its assets to its reportable segments; accordingly, asset information by reportable segments is not presented.
- f. In 2019, 2020 and 2021, the Company had one major customer, included in the IT professional services segment, which accounted for 9%, 10% and 14% of the group revenues, respectively.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 19:- REVENUE RECOGNITION**

Remaining performance obligations represent contract revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. The aggregate amount of consideration allocated to performance obligations either not satisfied or partially unsatisfied was approximately \$78 million as of December 31, 2021. The Company expects to recognize approximately 52% in 2022 from remaining performance obligations as of December 31, 2021, and the remainder thereafter. Remaining performance obligations include the remaining non-cancelable, committed and fixed portion of these contracts for their entire duration; the remaining performance obligations related to professional services contracts that are on a time and materials basis were excluded, as the Company elected to apply the practical expedient in accordance with ASC 606.

Contract balances:

The following table provides information about trade receivables, unbilled receivables, contract assets, and contract liabilities (deferred revenues) from contracts with customers (in thousands):

	December 31,	
	2021	2020
Trade receivables (net of allowance for credit losses of \$5,071 and \$3,967 at December 31, 2020 and 2021, respectively)	\$ 116,974	\$ 91,986
Unbilled receivables	19,614	14,842
Contract assets	5,482	4,231
Long-term trade receivables	1,318	1,410
Deferred revenues (short-term contract liabilities)	\$ 10,771	\$ 8,793

Trade receivable are recorded when the right to consideration becomes unconditional, and an invoice is issued to the customer.

Billing terms and conditions generally vary by contract type. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly or quarterly) or upon achievement of contractual milestones.

Unbilled receivables relate to revenue recognized in excess of amounts invoiced as the Company has an unconditional right to invoice and receive payment in the future related to its fulfilled obligations.

Contract assets relate to unbilled receivables, which represent revenue recognized on arrangements for which billings have not yet been presented to customers because the amounts were earned but not contractually billable as of the balance sheet date, and the right to consideration is generally subject to milestone completion, client acceptance or factors other than the passage of time.

Deferred revenues represent contract liabilities, and include unearned amounts received under contracts with customers and not yet recognized as revenues.

During the year ended December 31, 2021, the Company recognized \$8,793 that was included in deferred revenues (short-term contract liability) balance at January 1, 2021.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 20:- SELECTED STATEMENTS OF INCOME DATA**

a. Research and development costs, net:

	Year ended December 31,		
	2021	2020	2019
Total costs	\$ 12,188	\$ 12,091	\$ 12,382
Less - capitalized software costs	(3,193)	(3,302)	(4,143)
Research and development, net	<u>\$ 8,995</u>	<u>\$ 8,789</u>	<u>\$ 8,239</u>

b. Financial expenses, net:

Bank charges and interest on loans offset by interest from short term deposits	\$ (844)	\$ (614)	\$ (374)
Interest income from marketable securities, net of amortization of premium on marketable securities	-	100	212
Loss arising from foreign currency translation and other	(2,311)	(403)	(1,007)
Financial expenses, net	<u>\$ (3,155)</u>	<u>\$ (917)</u>	<u>\$ (1,169)</u>

**NOTE 21:- LEASES**

The Company leases substantially all of its office space and vehicles under operating leases. The Company's leases have original lease periods expiring between 2022 and 2033. Some leases include an option to renew. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably certain at lease commencement. Lease payments included in the measurement of the lease liability comprise the following: the fixed non-cancellable lease payments, payments for optional renewal periods where it is reasonably certain the renewal period will be exercised, and payments for early termination options unless it is reasonably certain the lease will not be terminated early.

In July 2020, the Company entered into a lease agreement for new corporate offices for the company in Or Yehuda, Israel. The lease expires in June 2033, with an option by the Company to extend for an additional 10-years term. The Company deemed this option as reasonably certain to be renewed.

The Company has several leased offices in the United States, with expiry dates varying between 2022 and 2024, with renewal options varying between 2022 and 2029.

Furthermore, In November 2021, one of the Company's subsidiaries in Israel entered into a lease agreement for new corporate offices. As a result of this agreement, the Company had an additional operating lease that had not yet commenced as of December 31, 2021 in the amount of \$4,352. This operating lease is expected to commence in the third quarter of 2022 with a lease term through 2029, with an option to terminate the lease after a 4-year term following a 12-month notice in advance, and an option to renew the lease to an additional 5-year term, through 2034. The Company deemed this option as reasonably certain to be renewed.

**MAGIC SOFTWARE ENTERPRISES LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 21:- LEASES (Cont.)**

Under Topic 842, all leases with durations greater than 12 months, including non-cancellable operating leases, are now recognized on the balance sheet. The aggregated present value of lease agreements is recorded as a long-term asset titled ROU asset. As an accounting policy, expenses pertaining to leases with duration under 12 months were recognized on a straight-line basis in the consolidated statements of income, with no corresponding ROU and lease liability in the consolidated balance sheets.

The corresponding lease liabilities are classified between operating lease liabilities which are current and long-term.

The components of operating lease costs were as follows:

	Year ended December 31,	
	2020	2021
Operating lease cost	\$ 3,247	\$ 3,124
Variable lease cost	2,028	2,192
Short-term lease cost	-	57
<b>Total lease costs</b>	<b>\$ 5,275</b>	<b>\$ 5,373</b>

The following is a summary of weighted average remaining lease terms and discount rates for all of the Company's operating leases:

	December 31, 2021
Weighted average remaining lease term (years)	13.9
Weighted average discount rate	2.35%

Cash paid for amounts included in the measurement of operating lease liabilities was \$5,269 and \$5,470 for the years ended December 31, 2021 and 2020, respectively (included in cash flows from operating activities).

Maturities of lease liabilities are as follows:

2022	\$ 4,405
2023	3,630
2024	2,514
2025	2,402
2026	1,622
2027 and thereafter	16,505
<b>Total undiscounted cash flows</b>	<b>\$ 31,078</b>
Less imputed interest	(6,165)
<b>Present value of lease liabilities</b>	<b>\$ 24,913</b>



**MAGIC SOFTWARE ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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U.S. dollars in thousands

**NOTE 22:- SUBSEQUENT EVENTS**

On March 22, 2022, the Company declared a dividend distribution of \$ 0.216 per share (\$ 10.6 million in the aggregate) which was paid on April 7, 2022. The dividend distribution relates to the Company's earnings in the second half of 2021.

On December 2, 2021, the Company entered into a Share Purchase Agreement ("the Agreement") to acquire 50.1% of the outstanding share capital of Vidstart Ltd. ("Vidstart"). Vidstart is a provider of a video advertising platform that offers personalized automated methods and real-time smart optimization, helping its clients achieve high yields in the competitive digital ecosystem. The final closing and execution of the Agreement occurred on January 27, 2022. The total purchase price was approximately \$11 million in cash. Furthermore, according to the Agreement, the Company is obliged to purchase the remainder of Vidstart's shares (30% on December 31, 2022 and 19.9% on December 31, 2023) for a price to be determined based on Vidstart's future operating results during 2022 and 2023.

On March 31, 2022, the Company entered into a secured credit agreement, or the Credit Agreement, with an Israeli bank (or the "Lender"). Pursuant to the Credit Agreement, the Company borrowed \$25 million, or the Bank Loan, for a five-year term. The Bank Loan will mature on March 31, 2027, and will be repaid in 5 equal annual installments, whereas the interest will be paid and calculated on a quarterly basis. The Bank Loan bears interest at the rate SOFR + 2.25%.

**MAGIC SOFTWARE ENTERPRISES LTD.**  
**APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS**

**DETAILS OF SUBSIDIARIES AND AFFILIATE**

Details of the percentage of control of the share capital and voting rights of subsidiaries and an affiliate as of December 31, 2021:

<b>Subsidiary Name</b>	<b>Country of Incorporation</b>	<b>Ownership Percentage</b>
Magic Software Japan K.K	Japan	100%
Magic Software Enterprises Inc.	Delaware	100%
Magic Software Enterprises (UK) Ltd (shares held by Magic Software Enterprises Netherlands B.V.)	United Kingdom	100%
Hermes Logistics Technologies Limited (shares held by Magic Software Enterprises (UK) Ltd)	United Kingdom	100%
Magic Software Enterprises Spain Ltd (shares held by Magic Software Enterprises Netherlands B.V.)	Spain	100%
Coretech Consulting Group, Inc. (shares held by Magic Software Enterprises Inc)	Pennsylvania	100%
Coretech Consulting Group LLC (shares held by Magic Software Enterprises Inc)	Delaware	100%
Fusion Solutions LLC. (shares held by Coretech Consulting Group LLC)	Delaware	100%
Fusion Technical Solutions LLC. (shares held by Fusion Solutions LLC)	Delaware	49%
Xsell Resources Inc. (shares held by Coretech Consulting Group LLC)	Pennsylvania	100%
Magic Software Enterprises (Israel) Ltd	Israel	100%
Magic Software Enterprises Netherlands B.V.	Netherlands	100%
Magic Software Enterprises France (shares held by Magic Software Enterprises Netherlands B.V.)	France	100%
Magic Beheer B.V. (shares held by Magic Software Enterprises Netherlands B.V.)	Netherlands	100%
Magic Benelux B.V. (shares held by Magic Beheer B.V.)	Netherlands	100%
Magic Software Enterprises GMBH (shares held by Magic Software Enterprises Netherlands B.V.)	Germany	100%
Magic Software Enterprises India Pvt. Ltd	India	100%
Onyx Magyarorszag Szsoftverhaz (shares held by Magic Software Enterprises Netherlands B.V.)	Hungary	100%
Magix Integration (Proprietary) Ltd	South Africa	100%
AppBuilder Solutions Ltd	United Kingdom	100%
Complete Business Solutions Ltd	Israel	100%
Datamind Technologies Ltd (shares held by Complete Business Solutions Ltd)	Israel	100%
CommIT Technology Solutions Ltd	Israel	78.0%
CommIT Software Ltd (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
CommIT Embedded Ltd (shares held by Comm-IT Technology Solutions Ltd.)	Israel	75%
Valinor Ltd. (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
Dario Solutions IT Ltd (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
Quickcode Ltd (shares held by Comm-IT Technology Solutions Ltd.)	Israel	100%
Twingo Ltd (shares held by Comm-IT Technology Solutions Ltd.)	Israel	60%
9540 Y.G. Soft I.T Ltd. (shares held by CommIT Software Ltd.)	Israel	60%
Pilat Europe Ltd.	United Kingdom	100%
Pilat (North America), Inc.	New Jersey	100%
Roshtov Software Industries Ltd	Israel	80.05%
BridgeQuest Labs, Inc. (shares held by BridgeQuest, Inc.)	North Carolina	100%
BridgeQuest, Inc. (shares held by Magic Software Enterprises Inc.)	North Carolina	100%
Allstates Consulting Services LLC (shares held by Magic Software Enterprises Inc.)	Delaware	100%
F.T.S. - Formula Telecom Solutions Ltd.	Israel	100%
FTS Bulgaria Ltd. (FTS Global Ltd.) (shares held by F.T.S. - Formula Telecom Solutions Ltd.)	Bulgaria	100%
Comblack IT Ltd	Israel	80.1%
Yes-IT Ltd. (shares held by Comblack IT Ltd)	Israel	100%
Shavit Software (2009) Ltd. (shares held by Comblack Ltd)	Israel	100%
Infinigy (UK) Holdings Limited	United Kingdom	100%
Infinigy (US) Holding Inc (shares held by Infinigy (UK) Holdings Limited)	Georgia	100%
Infinigy Solutions LLC. (shares held by Infinigy (US) Holding Inc)	Georgia	100%
Infinigy Engineering LLP (shares held by Infinigy Solutions LLC.)	Georgia	99.9%
Skysoft Solutions Ltd. (shares held by CommIT Embedded Ltd.)	Israel	75%
Futurewave Systems, Inc. (shares held by Fusion Solutions LLC.)	Georgia	100%
OnTarget Group, Inc	North Carolina	100%
NetEffects, Inc. (shares held by Coretech Consulting Group LLC)	Missouri	100%
Menarva Ltd.	Israel	100%
Enable IT LLC. (shares held by Coretech Consulting Group LLC)	Delaware	100%
Enable IT Consulting Services Canada Inc. (shares held by Enable IT LLC.)	Canada	100%
Vidstart Ltd.	Israel	50.1%
Appush Inc. (Shares held by Vidstart Ltd.)	Delaware	100%

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Magic Software Japan K. K.

**Opinion on the Financial Statements**

We have audited the accompanying statements of financial position of Magic Software Japan K.K. (the “Company”) as of December 31, 2020 and 2021, and the related statements of comprehensive income and cash flows for each of the three years in the period ended December 31, 2020. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2021, and the related statements of comprehensive income and cash flows for each of the three years in the period ended December 31, 2020 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), (PCAOB), the Company’s internal control over financial reporting as of December 31, 2021, based on Section 404 of the Sarbanes-Oxley Act (“SOA”) and our report dated February 15, 2022 expressed an unqualified opinion thereon.

**Basis for Opinion**

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

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

Tokyo, Japan  
February 15, 2022

/s/ KDA Audit Corporation  
KDA Audit Corporation

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Magic Software Japan K. K.

### **Opinion on Internal Control over Financial Reporting**

We have audited Magic Software Japan K.K.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on Section 404 of the Sarbanes-Oxley Act ("SOA"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on Section 404 of the Sarbanes-Oxley Act ("SOA").

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statements of financial position of the Company as of December 31, 2019 and 2020, and the related statements of comprehensive income and cash flows for each of the three years in the period ended December 31, 2021 and our report dated February 15, 2022 expressed unqualified opinion.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

Tokyo, Japan  
February 15, 2022

/s/ KDA Audit Corporation  
KDA Audit Corporation

**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.

MAGIC SOFTWARE ENTERPRISES LTD.

By: /s/ Guy Bernstein

Name: Guy Bernstein

Title: Chief Executive Officer

Dated: May 12, 2022

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.**

I, Guy Bernstein, certify that:

1. I have reviewed this annual report on Form 20-F of Magic Software Enterprises Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 12, 2022

/s/ Guy Bernstein

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Guy Bernstein\*

Chief Executive Officer

(Principal Executive Officer)

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.**

I, Asaf Berenstin, certify that:

1. I have reviewed this annual report on Form 20-F of Magic Software Enterprises Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated Subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting

Date: May 12, 2022

/s/ Asaf Berenstin

Asaf Berenstin\*  
Chief Financial Officer  
(Principal Financial Officer)

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Magic Software Enterprises Ltd. (the "Company") on Form 20-F for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Guy Bernstein, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Guy Bernstein  
Guy Bernstein\*  
Chief Executive Officer  
(Principal Executive Officer)

May 12, 2022

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Magic Software Enterprises Ltd. (the "Company") on Form 20-F for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Asaf Berenstin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Asaf Berenstin  
Asaf Berenstin\*  
Chief Financial Officer  
(Principal Financial Officer)

May 12, 2022

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements:

- (1) Registration Statements (Form S-8 No. 333-113552) pertaining to the 2007 Stock Option plan of Magic Software Enterprises Ltd.,
- (2) Registration Statements (Form S-8 No. 333-132221) pertaining to the 2007 Stock Option plan of Magic Software Enterprises Ltd.,
- (3) Registration Statements (Form S-8 No. 333-149553) pertaining to the 2007 Stock Option plan of Magic Software Enterprises Ltd.;

of our reports dated May 11, 2022 with respect to the consolidated financial statements of Magic Software Enterprises Ltd., and the effectiveness of the internal control over financial reporting of Magic Software Enterprises Ltd. included in this Annual Report on Form 20-F for the year ended December 31, 2021.

/s/ KOST FORER GABBAY & KASIERER

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel Aviv, Israel

May 12, 2022

**CONSENT OF INDEPENDENT AUDITORS  
OF  
Magic Software Japan K.K**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-113552, 333-132221 and 333-149553) of Magic Software Enterprises Ltd., of our report dated February 15, 2022, with respect to the financial statements of Magic Software Japan K.K. as of December 31, 2021, which report appears in the Annual Report on Form 20-F of Magic Software Enterprises Ltd. for the year ended December 31, 2021.

/s/ KDA Audit Corporation

KDA Audit Corporation

Registered Auditors

Tokyo, Japan  
May 9, 2022